XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Board Meeting Agenda

Thursday 10 September 2020 by videoconference

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
PBE Items for Approval					
9.50 am	**3**	**Tier 3 and Tier 4 PIR**	(LK/JC)		
	3.1	Cover memo	Note	Paper	
	3.2	Draft RFI	Approve	Paper	
	3.3	Draft Summary of the RFI – NFP	Approve	Paper	
	3.4	Draft Summary of the RFI – Public Sector	Approve	Paper	
10.35 am		*Morning tea*			
10.50 am	**4**	**IPSASB Revenue and Transfer Expenses**	(JS/VSF)		
	4.1	Cover memo	Note	Paper	
	4.2	Draft comment letter	Approve	Paper	
For-profit and PBE Items for Approval					
11.50 am	**5**	**Interest Rate Benchmark Reform Phase 2**	(JS/TC)		
		For-profit amendments			
	5.1	Cover memo	Note	Paper	
	5.2	*Interest Rate Benchmark Reform Phase 2*	Approve	Paper	
	5.3	Draft signing memorandum	Approve	Paper	
	5.4	Application of PBE Policy Approach	Consider	Paper	
		PBE amendments			
	5.5	Cover memo	Note	Paper	
	5.6	Draft ITC PBE IBOR Phase 2	Approve	Paper	
	5.7	Draft ED PBE IBOR Phase 2	Approve	Paper	
12.20 pm		*Lunch*			
D: PUBLIC SESSION					
For-profit Item for Approval					
1.50 pm	**7**	**Primary Financial Statements**	(LK)		
	7.1	Cover memo	Note	Paper	
	7.2	Draft comment letter	Approve	Paper	

Est Time	Item	Topic	Objective		Page
Standards for Noting					
2.50 pm	**8**	**Standards Approved**	(VSF)		
	8.1	Approval 122 *Amendments to NZ IFRS 17*	Note	Paper	
	8.2	Approval 123 *Extension of the Temporary Exemption from Applying NZ IFRS 9*	Note	Paper	
	8.3	Approval 124 *Amendments to PBE IFRS 17*	Note	Paper	
	8.4	Approval 125 *Going Concern Disclosures* (Amendments to FRS-44)	Note	Paper	
	8.5	Approval 126 *Going Concern Disclosures* (Amendments to PBE IPSAS 1)	Note	Paper	
	8.6	Approval 127 *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*	Note	Paper	
	8.7	Approval 128 *2020 Amendments to PBE FRS 48*	Note	Paper	

Next NZASB meetings:

Thursday 15 October 2020, 10.00 to 11.30am (to finalise comment letter on IPSASB EDs 70–72)

Wednesday 4 November 2020

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 August 2020
To:	NZASB Members
From:	Lisa Kelsey and Jamie Cattell
Subject:	**PIR of Tier 3 and Tier 4 Standards**

Recommendations

1. We recommend the Board CONSIDER and APPROVE for issue:

   (a) the draft request for information (RFI) for the post-implementation review (PIR) of the Tier 3 and Tier 4 standards at agenda item 3.2; and

   (b) the draft one-page summaries for the PIR of the Tier 3 and Tier 4 standards at agenda items 3.3 and 3.4.

2. We also recommend the Board APPROVE our plan to develop and publish an online survey based on the questions for respondents in the RFI.

Background

3. At its meeting in December 2019 the Board noted that it has committed to undertake a PIR of the Tier 3 and Tier 4 standards (as per Action 1.9 of the NZASB's Strategic Action Plan for 2019–2024). The objective of the PIR is to assess whether the standards, guidance and templates are working as intended and achieving their objectives.

4. The Board agreed that we should commence work on the PIR of the Tier 3 and Tier 4 standards, as resources permit.

5. The Board noted that the PIR will consist of the following steps.

   (a) Step 1: Initial assessment of issues

   (b) Step 2: Outreach with consultative network

   (c) Step 3: Request for Information and outreach plan

   (d) Step 4: Analysis of comments

   (e) Step 5: Determine next steps

   (f) Step 6: Feedback statement

6. We anticipate that standard-setting activity (including amending guidance and templates) will be required in relation to some issues. At the completion of the PIR the Board will need to decide which issues should be addressed in a standard-setting project.

7. At its meeting in May 2020 the Board considered the draft RFI and agreed to seek feedback from key stakeholders on the draft RFI, proposed project timeline, and outreach plan.

Feedback Received

8. During the months of June to August we have held one-one-one meetings with Charities Services, CA ANZ, and Audit New Zealand to receive their feedback. We have also received feedback from the TRG at their July meeting. All feedback received and corresponding changes we made to the draft RFI have been summarised in Appendix 1.

Draft RFI

9. While all stakeholders generally approved of the RFI and considered that it was appropriate for issue, some suggestions for improving the document were made. The more significant suggestions included:
   (a) reorganising the RFI to present information on the scope of the PIR and the questions for respondents at the beginning of the document;
   (b) addition of a question seeking feedback on the parts of the Tier 3 and Tier 4 standards that are working well; and
   (c) rephrasing the questions to remove some of the formal language. It was considered that the way the questions were formulated could discourage some constituents from commenting.

10. Agenda item 3.2 contains the draft RFI incorporating the changes made in response to feedback received.

One-page Summaries

11. Charities Services strongly emphasised that many constituents using the Tier 3 and Tier 4 standards do not possess high levels of financial literacy. They considered that while there would be some entities in Tier 3 happy to engage with the full RFI, many would find the document too complex.

12. It was suggested that we supplement the full RFI with a one to two-page summary that sets out what the PIR is about, what information we are looking for, and reinforcing that all comments received will be considered by the Board.

13. When we discussed these comments with Audit New Zealand, they also considered that presenting a one-page summary with this information for smaller public sector entities would be helpful.

14. In response to these comments, we have drafted one-page summaries aimed at smaller Tier 3 and Tier 4 entities. Charities Services and Audit New Zealand have reviewed and are comfortable with the summaries. We intend to issue the summaries alongside the full RFI, subject to the Board's approval. Agenda items 3.3 and 3.4 contain the draft one-page summaries.

Online Survey

15. All key stakeholders suggested that we supplement the written feedback we would receive on the RFI with an online survey. There were however, differing views as to how complex the survey questions should be. Views ranged from a simplified version of the questions in the RFI to a detailed set of questions focused on individual parts of the standards.

16. In the interest of ensuring we receive a wide range of feedback, we agree that the creation of an online survey would be helpful. After consideration of the feedback received, we recommend that this survey be primarily based on the questions in the RFI. While there may be some useful information received from a more detailed survey, we consider that the primary benefit of the survey is to encourage those who would not otherwise comment to do so. For this reason, we recommend that the survey is developed to be as approachable as possible.

17. Subject to the Board's approval, we intend to publish an online survey based on the RFI questions alongside the RFI.

Timeline and Outreach Plan

18. Most feedback received on the proposed timeline for the PIR indicated that it was appropriate. While some concerns were raised about the availability of staff to comment over the Christmas break, it was considered that the length of the comment period was sufficient to mitigate these concerns. Conversely, it was also raised that the Christmas period may provide an opportunity for some to comment where they may not otherwise have time.

19. We queried with stakeholders whether it would be preferable to delay the PIR. While it was noted that COVID-19 may impact the availability of some entities to comment, it was not considered that this presented sufficient reason to delay the PIR. It was also noted by Charities Services that registered charities are very interested in the PIR and would prefer to have the opportunity to comment as soon as possible.

20. Feedback received on the proposed outreach plan previously considered by the Board was unanimously favourable. All stakeholders expressed interest in assisting us with outreach activities as appropriate.

21. In response to the feedback received we intend to proceed with the proposed timeline and outreach plan for the PIR included in Appendices 2 and 3.

Next steps

22. Our planned next steps are to:

    (a) issue the RFI and publish the one-page summary and online survey;

    (b) advise constituents and begin other general outreach activities;

    (c) during the months of September and October, liaise with Audit New Zealand, CA ANZ and Charities Services to identify and plan for outreach opportunities;

(d) begin targeted outreach activities including organising roundtable events and seeking feedback from the TRG and XRAP.

Attachments

Agenda item 3.2: Draft request for information

Agenda item 3.3: Draft one-page summary for not-for-profit entities

Agenda item 3.4: Draft one-page summary for public sector entities

Appendix 1: Summary of feedback from key stakeholders

Q1. Do you consider that overall the draft RFI is appropriate/fit for purpose? If not, why not?

Charities Services	TRG	CA ANZ	Audit NZ	Response

• Pleasantly surprised the RFI was not a 70 page document. Acknowledged the formal RFI process as necessary.
• The document is suitable for those with higher levels of financial literacy and may be too complex for most Tier 3 and Tier 4 charities.
• Need to make it digestible for Tier 3 and Tier 4 charities that really do not have a great deal of resources or time.
• Suggested rearranging the document to put the critical information at the front. For example:
  ○ Why are you talking to me?
  ○ What does this mean for me?
  ○ What do I need to know?
  ○ What do you want me to do?
  ○ Why is this relevant?
  ○ Why are you asking me about it?
• Discussed the different levels of sophistication in Tier 3 and how some may be quite happy to engage with the 'formal' RFI. Discussed developing a one to two-page summary that sits above the RFI (incorporating questions above)
	• Considered that the draft RFI was fit for purpose, both in terms of length and style.
	• Agreed with the NZASB's decision not to include a list of issues raised in the RFI on the basis that it could bias the comments received.
		• The document reads well.
		• Includes everything expected.
		• Provides a good amount background.
		• Appendices included are useful.
		• Good use of plain language.
			• Overall the RFI seems to be in the right space.
			• Agreed with our suggestion that Public Sector entities would likely find a one-page summary useful.
				• In response to the comments from Charities Services and Audit NZ, we have developed one-page summaries (see agenda item 3.3).

Q2. Do you consider that the draft RFI adequately explains:

(a) the objective and purpose of the PIR;

(b) the background to the development of the Tier 3 and 4 standards; and

(c) the scope of the PIR? If not, why not?

Charities Services	TRG	CA ANZ	Audit NZ	Response
• While they thought the document adequately explains those factors, it's important to keep in mind who we are explaining it to. • It's unlikely that many charities will read the whole document if it's not immediately clear why it should matter to them. • In addition to echoing the rearranging comment, it was suggested to reinforce that what they tell us can have an impact (just because you are small, does not mean your feedback is not important).	• Agreed that the document included sufficient detail on the relevant aspects of the PIR. • However, they considered the information on the scope of the PIR was less obvious than other information. • Suggested that scope information be highlighted in the document to ensure constituents understood what the PIR is able to consider (these comments were made in relation to making sure constituents understood that any possible amendments to the Tier 3 and 4 criteria, for example, to include an asset test would be out of scope of the PIR).	• Agreed with our reasoning for not providing detail on specific issues we are aware of. • Suggested that we make clear somewhere in the document (could just be under question 1) that financial reporting is for end-users. Do they find performance reports to useful and understandable?	• Suggested that we could be clearer in section 1.2 about the intention and objectives of the standards as question 1 refers to meeting the objectives. • Introduction as a whole is quite long. Suggested that we attempt to make it more succinct. If we think that all of the content is critical to the document, suggested we move some of it to the appendices. • Noted that in their view, one of the reasons the standards were developed was to provide entities with simple accounting, contained in a separate standalone standard.	• In response to the comments from Charities Services and Audit NZ, we have developed one-page summaries (see agenda item 3.3). • In response to comments from the TRG we have moved information about the scope to the beginning of the document. • In response to comments from CA ANZ, we have reworded question 1 to ask whether performance reports are providing the right information. • In response to comments from Audit NZ question 1 has been rephased. • In response to comments from Audit NZ, we have moved into an appendix the section detailing the changes to the standards since issue.

Q3. Do you consider the questions for respondents on pages 8 and 9 of the draft RFI are appropriate? If not, why not?

Charities Services	TRG	CA ANZ	Audit NZ	Response
• Suggested moving the questions to the front of the document. • We are asking the right questions but not necessarily in the right way. Most charities will not have read the standard and therefore won't be able to identify specific paragraphs. • The way we have written the questions uses quite complex language and is likely to put them off. For example, wording like "prevalence of issues". • Strongly approved of our request for entities to send us any in-house guidance. It was noted that this could highlight areas where improvement is needed but this is not made clear in written feedback. • Suggested that we also add in a specific question about what charities think is working well. Noted that positive feedback is also useful.	• Considered the questions for respondents were appropriate, noting they expected having broad questions would lead to a diverse range of feedback. • Noted they thought the NZASB would want to receive feedback on what was working well and queried whether the questions would achieve this. Members suggested the NZASB review the document to ensure that it presented a balanced view of the standards and solicited feedback on what was working well. • Suggested the creation of a simple online survey to obtain feedback. • Differing views were expressed about the level of detail to present in the survey. Some suggested that it would be beneficial to be more specific about the areas where feedback is sought, while others thought that more detail would be unappealing to the constituents the NZASB is targeting.	• Suggest that the questions are moved to the front of the document. • Question 1 asks respondents to consider whether the standards are working as intended, but it's not quite clear what that means. Suggested we clarify for respondents what you mean by 'the requirements are performing as intended". • Question 1 asks respondents to consider whether compliance costs are consistent with expectations. The question is whether the benefits exceed the costs. • Suggested separating questions about the standards from questions about guidance and the templates as standards are authoritative and guidance and templates are not. • Given the challenges some entities have faced implementing service performance reporting requirements, suggested we consider whether a separate question about this is needed.	• Overall the questions are ok. • Queried whether question 1(b) and 1(c) overlap with question 2. • Liked that the questions did not try to point respondents in a particular direction. • Agreed with other stakeholders that seeking feedback on what is working well would be useful. • Suggested in the information about respondents, we request entities to tell us what standard they are applying (just in case it is not obvious from the response).	• In response to comments from Charities Services and CA ANZ we have moved questions to the front of the RFI. • In response to comments from Charities Services we have simplified the language in the questions. • In response to comments from Charities Services and the TRG we have added a question on what is working well. • In response to comments from the TRG we have reviewed the RFI to ensure it presents a balanced view. • In response to TRG comments (and also comment made by Charities Services above) we plan to develop a survey based on the RFI questions. • In response to comments from CA ANZ we have: ○ Redrafted question 1. We appreciate the distinction between asking whether the standards require the right information and whether the way they are being applied is generating the right information. However, we consider that we are asking about both which we believe is now appropriately captured by the question. ○ We note that paragraphs 11 and 28 of the RFI discuss costs

Charities Services	TRG	CA ANZ	Audit NZ	Response
				versus benefits. We need respondents to provide information on compliance costs to inform the Boards discussion which we consider is appropriately covered within question 1. ◦ Simplified language from compliance costs to “the costs of applying the standards” ◦ We do not consider that separating the questions into standards and guidance/template specific questions will provide significant benefit. We expect we will receive comments on both either way. ◦ We do not consider a separate question about service performance reporting would be beneficial. We are also concerned that asking about it specifically could give set up a false expectation that we are looking at removing those requirements. ◦ In response to comments from Audit NZ we have asked respondents to provide information on the standard applied and which version.

Q4. Are there any other matters relevant to the PIR of the Tier 3 and Tier 4 standards that should be included in the RFI?

Charities Services	TRG	CA ANZ	Audit NZ	Response
No comments made.	No comments made.	No comments made.	No comments made.	

Q5. Do you have any other feedback on the RFI?

Charities Services	TRG	CA ANZ	Audit NZ	Response
No comments made	No comments made	• Suggest using the following categories when collecting feedback: o preparers/directors (i.e. those in charge of governance) o auditors, external providers, accountants o regulators (charities services, OAG) o funders/donors (users)	No comments made.	• In response to the comment from CA ANZ we intend to collect data on this from respondents as part of our survey.

Q6. Do you consider that the proposed timeline is appropriate? If not, which parts of the timeline should be changed and why?

Charities Services	TRG	CA ANZ	Audit NZ	Response
• Noted that charities are very interested in the review. During the roadshows for the review of the Charities Act, the reporting standards was one of the most frequent subjects raised. • Makes sense to roll on. This is a good opportunity to sell the review as a way of trying to make things easier for charities. • There's never going to be a 'perfect' time for the review and people will be happy the review is happening sooner rather than later.	• Raised some concerns about the timeline for the review, noting that COVID-19 may have had an impact on the availability of volunteers to comment on the RFI. Some also noted that the comment period spanning over the Christmas break could reduce the number of comments received (in response to this, a member noted that possible downtime during the Christmas break may be a good opportunity for constituents to	• Timeline is fine • Noted that there may be some lost weeks over the Christmas period but the proposed six-month comment period should be sufficient to mitigate that. • Noted that it would not be a good idea to extend the period into April due to the large number of entities with March year-ends. • While some CA ANZ members may feel that this is "another thing for them to think about" it can be presented as an opportunity to	• Makes sense to follow the timeline we have proposed. • Considered that we are allowing for plenty of time to comment. • Expect that they should be able to prepare their own response to the RFI in that timeframe. • Did not think it was a good idea to push the timeline past March due to the number of March year-ends.	• In response to the favourable response received we are proceeding with proposed timeline for the PIR.

Charities Services	TRG	CA ANZ	Audit NZ	Response
• Stressed the importance of setting up clear expectations for the timeline. Make sure people understand that, as legislative instruments, the standards won't change overnight.	consider and provide comments on the RFI). • However, it was also noted that a survey to collect responses could negate some of these concerns.	address other things COVID-19 has brought to their attention which may not have been identified before.		

Q7. Do you have any suggestions for activities we should undertake or parties we should target as part of the public consultation?

Charities Services	TRG	CA ANZ	Audit NZ	Response
• Do not think there is a need to do roadshows around the country as we did for the initial development of the standards. • Noted that while umbrella bodies are a good group to target, it is important to hear from members of the group as well. Often the umbrella bodies are not very familiar with the day-to-day work of their member organisations. • Targeted workshops for smaller charities could be a good way to get this feedback. • Discussed also getting feedback from the SUG (charities sector user group). Work currently underway to make this group more representational. • Suggested joint webinars as an opportunity to collect feedback and publicise the review. • Also noted that we need to make sure we are getting a broad view across the different types of organisations in the sector. Seeking	• Suggested that the NZASB should secure a speaking spot at the Charity Law, Accounting and Regulation conference. This would be a good opportunity to raise awareness of the PIR and seek feedback. • Suggested that the NZASB target the smaller accounting firms who would have more Tier 3 and Tier 4 entities as clients and would be more familiar with the standards.	• Questioned whether there was anything being done in other jurisdictions that would be useful to consider or include? • Make sure we are getting an appropriate amount of feedback from both Tier 4 and Tier 3 entities. • Very happy to assist us with outreach activities.	• Made the following suggestions of parties to contact: ○ Public Sector central bodies ○ Local government finance forum working group ○ New Zealand Society of Local Government Managers • Suggested we look at the Audit NZ Tier 4 templates. • Noted in our conversation that most public sector entities in Tiers 3 and 4 will likely be using Tier 3.	• Our general response is that we intend to work closely with our key stakeholders during the RFI stage. • In response to comments made by Charities services, we note the following: ○ Our intention to leverage off the contacts that the policy team developed last year. • In response to comments made by the TRG, we note the following: ○ We have secured a speaking spot at the Charity Law, Accounting and Regulation conference. ○ We already have several smaller accounting firms on our targeted outreach list. • In response to comments made by CA ANZ, we note the following: ○ AASB are currently drafting NFP reporting requirements based on our Tier 3 and Tier 4 standards. We intend to revisit the requirements of other jurisdictions for small charities,

Charities Services	TRG	CA ANZ	Audit NZ	Response
feedback from Māori organisations is a key consideration. • We could attend the Charities Services annual meeting to collect some feedback and publicise the review. They are still planning the event and will let us know when the have more information on the date and location. • Can talk to policy team to share contacts from their engagement last year on modernising the Charities Act. • Discussed the potential to capture feedback as part of the annual return process (link to a survey).				it may make sense to do this work later in the project. o The one-page summary we have developed will assist with getting feedback from Tier 4 entities.

Appendix 2: Post-implementation review timeline

23. Table 1 sets out the timeline for the PIR of the Tier 3 and Tier 4 standards. We are currently at the beginning of Step 3.

Table 1 Proposed timeline

Activity	Timing
Step 1: Initial assessment of issues	
Preparation • Analyse queries received and issues raised, but not yet addressed (information gathering) • Identify key issues (to inform discussions with consultative network and to draft RFI)	December 2019 – February 2020
Step 2: Consult with consultative network	
The consultative network will be made up of representatives from key stakeholder groups. We propose that it consist of Charities Services, Audit New Zealand, the TRG and CA ANZ.[1] We are planning to use a draft RFI as the basis for discussion with the consultative network.	
Preparation • Draft RFI, including drafting descriptions of key issues identified in step 1 above • Seek feedback from NZASB subcommittee on draft RFI • Monitor Incorporated Societies Bill[2] • Monitor the Department of Internal Affairs project on Modernising the Charities Act[3]	February 2020 – April 2020
Board engagement • Feedback from NZASB on draft RFI • Seek approval to use the draft RFI in discussions with the NZASB's consultative network	7 May 2020 NZASB meeting
Consult with consultative network • Organise one-on-one meetings with Charities Services, Audit NZ, CA ANZ on issues encountered, the draft RFI and proposed outreach • Seek feedback from TRG on issues encountered, the draft RFI and proposed outreach • If needed, contact additional stakeholders (taking account of feedback from consultative network)	June 2020 – August 2020

[1] We plan to consult with the TRG as part of both steps 2 and 3. We think this is appropriate as TRG members have previously raised issues about the standards. We will also consult with XRAP and the NZAuASB as part of step 3.

[2] As at August 2020 a draft bill has not yet been signed off by cabinet for introduction to parliament due to competing legislative priorities arising from the COVID-19 pandemic.

Source: Ministry of Business Innovation and Employment website, accessed 21 August 2020.

https://www.mbie.govt.nz/business-and-employment/business/regulating-entities/incorporated-societies-act-review/

[3] At this stage there is no target date for Cabinet approval or the drafting of legislation to amend the Charities Act. Source: Department of Internal Affairs website, accessed 21 August 2020.
https://www.dia.govt.nz/charitiesact#Background-to-review

<table>
<tr><th>Activity</th><th>Timing</th></tr>
<tr><td colspan="2">Step 3: Issue the RFI</td></tr>
<tr><td>Board engagement
• Update on feedback from consultative network
• Update on modernising the Charities Act and Incorporated Societies Bill
• Update on proposed outreach
• Seek approval to issue the RFI</td><td>10 September 2020
NZASB meeting</td></tr>
<tr><td>• Issue the RFI
• Appropriate communications</td><td>September 2020</td></tr>
<tr><td>Public consultation
• 6-month comment period
• Proposed outreach is discussed later in this memo</td><td>September 2020 – March 2021</td></tr>
<tr><td colspan="2">Step 4: Analysis of public comments and feedback from outreach activities</td></tr>
<tr><td>Preparation
• Analyse comments and feedback
Board engagement
• Consider comments and feedback</td><td>H1 2021</td></tr>
<tr><td colspan="2">Step 5: Determine next steps</td></tr>
<tr><td>Preparation
• Identify possible next steps
  o No action
  o Standard setting/guidance
  o Education
Board engagement
• Seek NZASB feedback on next steps
• Update NZASB on Incorporated Societies Bill and modernising the Charities Act</td><td>H1 2021</td></tr>
<tr><td colspan="2">Step 6: Issue feedback statement</td></tr>
<tr><td>Preparation
• Draft feedback statement</td><td>H2 2021</td></tr>
<tr><td>Board engagement
• Seek approval to issue feedback statement</td><td>H2 2021</td></tr>
<tr><td>Conclusion of PIR
• Issue feedback statement
• Report back to consultative network</td><td>H2 2021</td></tr>
</table>

Appendix 3: Summary of public consultation outreach activities

1. Our planned outreach activities for public consultation have been grouped into three categories: awareness raising, general outreach and targeted outreach.

Awareness raising

2. Awareness raising before the RFI is issued will likely be limited to indicating that the PIR will be occurring. Awareness raising after the RFI is issued will include more detail such as where to find the RFI and how to make a submission.

3. We have identified several appropriate channels through which this may be done including public presentations, PBE sector specific newsletters, and meetings with sector peak bodies.

General outreach

4. Once the RFI has been issued we plan to:

   (a) advise constituents using our normal channels (NZASB Updates, website and social media);

   (b) hold a webinar;

   (c) work with Charities Services to identify the best way to seek feedback from registered charities, work with Audit New Zealand to identify the best way to seek feedback from public sector PBEs, and work with CA ANZ and CPA to identify the best way to seek feedback from their members;

   (d) publish an online survey; and

   (e) hold roundtables in major locations (Auckland, Wellington, Christchurch). Invite a selection of users, preparers, auditors and advisors.

Targeted outreach

5. We see targeted outreach as an important way of gathering feedback from groups and individuals that have a good understanding of Tier 3 and Tier 4 entities and the issues that they encounter in reporting in accordance with XRB standards. Targeted outreach could range from emails and phone calls to one-on-one meetings.

6. We consider appropriate groups to target include:

   (a) Accounting and auditing providers;

   (b) Funders such as community trusts and foundations (i.e. users that see a lot of reports);

   (c) NFP entities and representative bodies. We plan to both use the Charities Register and discussions with Charities Services to identify specific organisations;

   (d) Public sector entities; and

   (e) Previous contributors and submitters on the development and maintenance of the Tier 3 and Tier 4 standards. We would also include those who have raised issues with staff or the NZASB.

7. Targeted outreach will include seeking feedback from the TRG and XRAP. We will also consult with NZAuASB staff in the first instance and, depending on their feedback, may seek feedback from NZAuASB members.

NZ ACCOUNTING STANDARDS BOARD

Request for Information

Simple Format Reporting Standards – Post-implementation Review

DRAFT

Issued: [Month] 2020[1]

Comments due: [Month 2021][2]

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1 September 2020 is the target issue date

2 Six-month comment period

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DRAFT

Information for respondents

Request for Information

The New Zealand Accounting Standards Board (NZASB)[1] is conducting a post-implementation review of the Simple Format Reporting Standards applied by Tier 3 and Tier 4 public benefit entities (PBEs). As part of this review the NZASB is seeking feedback on the questions in this Request for Information.

Your comments are important to help the NZASB assess how well the standards are working and decide whether any changes are needed.

The closing date for comments is **XX Month 20XX**.

Are you a Tier 3 or Tier 4 PBE?

Tier 3 Criteria	• does not have public accountability;[2] • has total expenses ≤$2 million; and • elects to be in Tier 3.
Tier 4 Criteria	• does not have public accountability; • is allowed by law to use the cash basis of accounting; • has total operating payments ≤$125,000; and • elects to be in Tier 4.

How to comment

You may comment on any or all of the questions. Please indicate who the comments are from (for example, you as an individual, a group of people, an entity or a number of entities).

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

Electronically	Visit our 'Open for comment' page at: https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/
By email	Send comments to submissions@xrb.govt.nz with Simple Format Reporting Standards in the subject line
By post	External Reporting Board PO Box 11250 Manners St Central Wellington 6142 NEW ZEALAND

Publishing comments

We will publish all comments on the XRB website, unless they may be defamatory. If you have any objection to publication, we will not publish your comments on the internet. However, your comments will remain subject to the Official Information Act 1982 and, therefore, may be released in part or in full. The Privacy Act 1993 also applies.

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

What happens next?

After the consultation period ends the NZASB will consider all comments and the appropriate courses of action. This could include proposing amendments to the Simple Format Reporting Standards, changing guidance and templates or providing additional support. The NZASB would seek feedback on any proposals to amend the standards.

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting accounting standards.

[2] An entity is usually considered to have public accountability if it sells debt or equity (such as bonds and shares) on a public market like the New Zealand Exchange. Entities are also publicly accountable if they hold assets in a fiduciary capacity (for example banks and insurance companies).

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1. Request for Information

1.1 Objectives and scope of the review

1. The New Zealand Accounting Standards Board (NZASB) is carrying out a post-implementation review (PIR) of the Simple Format Reporting Standards and has issued this Request for Information to seek feedback from constituents on how well the Simple Format Reporting Standards applied by Tier 3 and Tier 4 public benefit entities (which includes registered charities, and other not-for-profits) are working.

2. In New Zealand, legislation sets out **who** is required to report using XRB standards. The XRB is responsible for accounting standards themselves, which set out **what** information entities are required to report and **how** it should be presented.

3. The scope of this review includes the standards, guidance, and templates issued by the NZASB and available on the XRB website. There are four Simple Format Reporting Standards (see Table 1). The public sector and not-for-profit versions of each standard are almost identical. Each standard is accompanied by optional performance report templates and associated guidance material.

Table 1 The Simple Format Reporting Standards

Tier 3	PBE Simple Format Reporting – Accrual • PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) • PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)
Tier 4	PBE Simple Format Reporting – Cash • PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector) • PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)

4. The Tier 3 standards include accrual-based reporting requirements. This is the smallest Tier of “traditional” accounting rules and is designed to be a much simpler version of the Tier 1 and 2 requirements applied by larger entities. For example, Tier 3 entities include a “Balance Sheet” in their performance reports.

5. The Tier 4 standards include cash-based reporting requirements. These standards don’t follow the same kind of accounting rules as the other Tiers, presenting receipts and payments rather than revenue and expenses. Tier 4 has been designed to be used by only the smallest entities.

6. We are not seeking feedback on the resources developed by Charities Services to assist registered charities to complete their performance reports and submit their annual returns. However, if you consider that there is a need for more guidance on a topic, please let us know.

1.2 What we’ve heard

7. Over the past five years we have received feedback from our constituents regarding the implementation of the standards. Some constituents have raised specific issues while others, particularly Tier 4 entities, have voiced more general concerns about the ability of volunteers to apply the requirements in the standards.

8. Some of the initial implementation issues (for example, applying the minimum categories) have been largely resolved as people become more familiar with the requirements in the

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standards and the information they need to collect. Guidance issued by Charities Services and others has been helpful in dealing with these initial implementation issues.

9. Some Tier 3 entities have indicated a desire for the standards to cover a broader range of transactions and allow more options, such as allowing revaluation of investments as an accounting policy choice. There have also been some issues raised in relation to accounting for multi-year grants and donations, both from the perspective of the donor/grantor and recipient.

10. We are interested in hearing your views on any issues or other matters that should be considered as part of this review.

1.3 Feedback sought

11. Your feedback is essential to help the NZASB to carry out this review. We are interested in all feedback including from:

    (a) preparers, auditors, funders and other users;

    (b) public sector entities as well as registered charities; and

    (c) entities required to apply the standards, as well as those voluntarily applying the standards.

12. To obtain feedback from a wide range of people we will be contacting several umbrella organisations. You may therefore receive requests from any collective bodies that you belong to. We will also be contacting professionals that prepare and audit performance reports. You are welcome to comment individually or as part of a group.

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1.4 Questions for respondents

1. What is your overall view on how the standards are working? To help you answer this question you might want to consider whether:
   (a) performance reports prepared using the standards provide the right kind of information;
   (b) any new issues have emerged since the standards were issued;
   (c) there is anything we did not think about or anything we did not get right; and
   (d) the costs of applying the standards are consistent with expectations.
2. What about the standards, guidance or templates has been working well? Are there any parts that have been particularly useful?
3. Are there any specific issues that you have encountered in applying the standards, guidance, or templates? If you can, please outline:
   (a) the specific part of the standard, guidance, or templates that you are commenting on (where relevant);
   (b) the types of entities affected, how many entities are affected (if you know) and the impact the issue has on them; and
   (c) how the issue should be addressed.
4. Have you developed any custom guidance to help people applying the standards? If yes, please tell us what the guidance covers and whether you think it could be useful to others? We would love to see a copy of it (by separate email to name@xrb.govt,nz). Any guidance you send us will remain confidential and will not form part of your formal comments.
5. Do you have any other comments you would like to raise about the standards, guidance, or templates?

1.5 Information about respondents

Please tell us:

- Your name
- Whether the comments are from you in a personal capacity, or on behalf of an entity or a number of entities
- Whether you are commenting on the Tier 3 or Tier 4 Standard
- Whether you are commenting on the not-for-profit or public sector version of the standards
- How we can contact you if we need further information

Information about how to respond can be found on page 3 of this document and on our website.

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2. Background Information

2.1 Overview of the post-implementation review.

13. The objective of a post-implementation review is to assess whether standards are working as intended and achieving their objectives. PIRs are a regular part of standard setting and are usually carried out once a new standard has been applied for a few years. They help ensure that standards remain current and operational. The NZASB relies on extensive outreach to make the best decisions when developing new standards. However, it is not until the standards are applied that any unforeseen issues become apparent.

14. A PIR looks at:

    (a) whether the standards are performing as intended;

    (b) whether any new issues have emerged since the standards were issued; and

    (c) whether the cost of applying the standards is consistent with expectations.

15. Understandably, the requirement to comply with the Simple Format Reporting Standards has imposed costs on individual entities. These costs need to be weighed up against the benefits to a wide range of users (including funders, donors, members, managers, and the general public), of having access to reliable and comparable information.

16. On the positive side, feedback indicates that the standards have led to improved accountability and more consistent information which has been beneficial to users. Greater disclosure of service delivery outcomes and outputs has also enabled entities to tell a more complete story of the year's performance.

17. However, the NZASB is aware that some entities are experiencing challenges in applying the standards. The NZASB is interested in whether refinements to the standard are required or more guidance is needed to assist smaller entities in applying these standards.

18. The standards were issued at the end of 2013 and have been applied for five years.[1] It is therefore an appropriate time to review whether they are working as intended and achieving their objectives.

19. The Request for Information is seeking feedback on the standards, guidance and templates issued by the NZASB. It is not seeking feedback on guidance issued by any other bodies or filing requirements such as the annual return required by Charities Services.

2.2 Simple Format Reporting Standards

20. Registered charities and many public sector entities are required by legislation to prepare financial statements in accordance with accounting standards issued by the XRB. In the case of registered charities this requirement was introduced to the Charities Act in 2013.[2] Prior to this registered charities were required to file annual returns with the Registrar of Charities, but there were no specific requirements for the content and format of financial statements. Not surprisingly, the content and format varied, and comparisons between the financial statements of registered charities were difficult.

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1 The standards were effective for public sector PBEs from 1 July 2014 and NFP PBEs from 1 April 2015.

2 Introduced by the Financial Reporting (Amendments to Other Enactments) Act 2013

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21. The Simple Format Reporting Standards were developed to set out the reporting requirements for Tier 3 and Tier 4 public benefit entities (PBEs) when preparing reports to meet the accountability and decision-making needs of a wide range of users. The standards were intended to improve the quality and consistency of the information reported, and to facilitate comparability between entities, and between years for the reporting entity. Non-financial information was seen as an important component of these reports.

22. The NZASB aimed to develop a single short and relatively simple standard for each group of entities, written in less technical language than is normally found in accounting standards (see tables 2 and 3 below for a full list of standards, guidance, and templates). The standards focussed on transactions expected to be common in that tier.[3] This reflected a desire to meet the needs of the majority of entities in a tier without unnecessarily complicating the standards. The standards were based on extensive consultation and research (see Appendix 1 for more details).

Table 2 NFP Standards, Guidance and Templates

Standards

- PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)
- PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)

Guidance and templates

- EG A5 *Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)*
- EG A6 *Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)*
- EG A8 *Financial Reporting by Not-for-profit Entities: The Reporting Entity*
- EG A9 *Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes*

Templates: XLSX and PDF versions Links

Table 3 Public Sector Standards, Guidance and Templates

Standards

- PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)
- PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)

Guidance and templates

- EG A3 *Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*
- EG A4 *Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*

Templates: XLSX and PDF versions Links

23. The Tier 3 standards establish accrual-based reporting requirements. Although some of the recognition and measurement requirements are similar to the Tier 1 and 2 requirements in PBE Standards, the Tier 3 standards are much simpler and do not have the options available in the Tier 1 and 2 PBE Standards (such as the option to measure property, plant and equipment using the revaluation model). Entities applying the Tier 3 standards have the option of applying the requirements in PBE Standards for a specific type of transaction (including any

[3] For example, the accrual standards did not contain guidance on financial instruments, other than payables, receivables and term deposits.

disclosure concessions for Tier 2 entities), as long as the entity applies those requirements to all transactions of that type. This is referred to as 'opting up'.

24. The Tier 4 standards establish cash-based reporting requirements for entities permitted by legislation to use a cash accounting standard (referred to in legislation as a non-GAAP standard). These standards are fundamentally different to the accrual standards. For example, entities applying the cash standards are required to provide some information about assets and obligations but they do not prepare a balance sheet. However, the categories of receipts and payments have been aligned with the categories of revenue and expenses in the Tier 3 accrual standards to the extent possible.

2.3 Other reviews and developments

25. This Request for Information is seeking feedback on the Simple Format Reporting Standards at this point in time. However, the financial reporting landscape continues to evolve and there are other developments or reviews that could change the number or type of entities required to apply the standards. Appendix 2 outlines the following reviews and reforms that have recently occurred or are still in progress.
    (a) Targeted Review of the Accounting Standards Framework
    (b) Review of the Charities Act 2005
    (c) Incorporated Societies Act Reform

2.4 Limited changes since issue

26. To allow time for entities to become familiar with the requirements and reduce the cost of complying for smaller entities, the NZASB has not made significant changes to the standards since issue. There have however been some small changes needed. These are outlined in Appendix 3.

3. Next steps

27. After the consultation period ends the NZASB will consider all the comments it receives, along with other information it gathers through outreach. On the basis of that information, the NZASB will form its views about what actions it should take. This could include proposing amendments to the standards (and guidance and templates), education or developing more guidance.

28. Before proposing any changes to the standards the NZASB would need to weigh up the costs and benefits of changes on all entities and users, bearing in mind the original objectives of the standards and the desire to maintain a relatively stable platform. Any proposals to change the standards would require careful consideration. For example, requests to include requirements for a wider range of transactions and events could make the standards longer, more detailed and less understandable for some preparers.

29. The NZASB will also liaise with Charities Services, the Office of the Auditor-General and Audit New Zealand in considering appropriate courses of action.

30. If the NZASB subsequently proposes any changes to the standards it would issue an exposure draft and seek your feedback on the proposals.

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Appendix 1 How the standards were developed

In 2011 a not-for-profit working group, including experienced preparers and users of financial reports from across the not-for-profit sector, was established to consider options for simple format reporting for NFPs. The working group's report, *Simple Format Reporting for NFP Entities* (November 2011),[4] was carefully considered when developing the standards. The working group focused on two main issues: what statements should be included in the simple format financial reports of NFP entities; and what specific items should be disclosed in those statements.

Both the working group and the NZASB were of the view that non-financial information is crucial to an understanding of an NFP's performance. This led to the requirements to prepare performance reports that include both financial and non-financial information. The working group was also of the view that the presentation requirements of the Tier 4 cash standards should be aligned as much as possible with the Tier 3 accrual standards.

The NZASB also used research to assist it in identifying transactions which did not need to be addressed in the standards because they were infrequently undertaken by small and medium charities. The research report, *Typical transactions in charities* (2012),[5] pulled together information from a sample of charities, together with feedback from telephone interviews and one-on-one meetings.

The public sector standards were developed in consultation with the Office of the Auditor-General. Research was also undertaken into the types of transactions entered into by public sector entities eligible to apply the standards.

The NZASB sought public feedback on the proposals before finalising the standards. The NZASB joined with Charities Services to promote awareness of the new Accounting Standards Framework and outlined the proposals in a series of seminars held throughout the country.

The NZASB and Charities Services also ran seminars explaining the new standards.

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4 https://www.xrb.govt.nz/reporting-requirements/history/

5 https://www.xrb.govt.nz/reporting-requirements/history/

Appendix 2 Other reviews and developments

Targeted Review of the ASF

The XRB recently carried out a targeted review of the Accounting Standards Framework (ASF).[6] The ASF sets out New Zealand's financial reporting strategy and establishes which standards apply to which entities.

The purpose of the Targeted Review was to 'check in' with constituents on whether the ASF is functioning as anticipated and achieving its original objectives. As part of this review the XRB sought feedback on whether the PBE tier size criteria need to be revisited. The majority of respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.

Review of the Charities Act 2005

In February 2019 the Department of Internal Affairs issued the Discussion Document *Modernising the Charities Act 2005*. One of the proposals in that document was the establishment of a new 'micro entity' tier for charities with less than $10,000 operating expenditure and the suggestion that such entities should not be required to comply with XRB accounting standards. Following widespread public consultation the Department released a summary of submissions.[7]

Of the submitters that commented on obligations of charities, 211 specifically commented on reporting requirements. More than two thirds of these submitters favoured reducing reporting requirements for small charities. Suggestions for achieving this included: increasing the maximum expenditure of a Tier 4 charity, introducing a 'micro entity' or 'Tier 5' reporting tier and simplifying the current reporting forms. The Department has indicated that it will provide advice on the issues to the Minister for the Community and Voluntary Sector and that there will be further consultation before any legislative changes.

If the Government decides to act on the proposals to change the requirements for small charities it would reduce the number of small charities required to apply the Tier 4 cash standard. However, there would still be a large number of charities required to report in accordance with the Tier 3 and Tier 4 standards. In addition, any legislative changes would take time. The NZASB therefore considers that it is appropriate to carry out this review of the Simple Format Reporting Standards as planned.

Incorporated Societies Act Reform

The Government has indicated its intention to replace the Incorporated Societies Act 1908. The Exposure Draft of the Incorporated Societies Bill was released in November 2015. In May 2019, the Government considered feedback on that Exposure Draft and agreed to make a number of changes to the reform Bill before introducing it to Parliament.

[6] Discussion Paper *Targeted Review of the Accounting Standards Framework* (July 2019)

[7] https://www.dia.govt.nz/charitiesact

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In respect of incorporated societies that are not registered as charities the Government has agreed (as per the Cabinet decisions, May 2019)[8] that the requirement to use XRB standards in annual financial statements will be limited to those societies that have one or more of the following:

(a) annual payments of $10,000 or more; and/or

(b) assets of $30,000 of more; and/or

(c) donee status under the Income Tax Act 2007.

It will be some time until requirements for incorporated societies that are not registered charities have been finalised. At that point the NZASB will consider the appropriateness of the standards for such entities. However, any incorporated societies currently applying the Simple Format Reporting Standards are welcome to respond to this request for information.

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8 https://www.mbie.govt.nz/assets/6f974df044/reform-of-the-incorporated-societies-act-1908-minute-of-decision.pdf

Appendix 3 Changes made to the standards since issue

When the standards were first issued the NZASB had a clear view that they should be amended as infrequently as possible. The NZASB wanted to allow time for entities, particularly charities, to become familiar with the requirements and was aware that changes to the standards could impose undue costs on smaller entities. In addition, the large number of entities applying the standards and the reliance on volunteers makes it more difficult to communicate changes.

Despite this objective, a few changes have been required.

(a) September 2014: *Interests in Other Entities*
When the Tier 3 standards were first issued they were silent as to the treatment of interests in other entities. Subsequently Tier 3 entities were required to account for interests in other entities by applying the requirements in the Tier 1 and 2 PBE Standards. In January 2017 the relevant paragraphs were updated to refer to new PBE Standards dealing with interests in other entities (being PBE IPSASs 34–38).

(b) December 2015: *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*
These amendments aligned the wording in the standards with the revised wording in XRB A1.

(c) July 2018: *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*
These amendments were relatively minor. They aligned wording with other new pronouncements such as the PBE Conceptual Framework, clarified existing requirements and made editorial amendments. In response to feedback received from a range of stakeholders, a requirement to date and sign the performance report was added.

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List of abbreviations and terms

The following abbreviations and terms are used in this Request for Information.

NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE Accounting Requirements	The accounting requirements for each tier of PBEs required to apply standards issued by the XRB (or the NZASB). XRB A1 *Application of the Accounting Standards Framework* specifies the tier criteria and the standards that comprise each tier of PBE Accounting Requirements.
PBE Standards	PBE Standards are standards issued by the XRB or the NZASB. They comprise: • PBE IPSASs; • PBE IFRSs, including PBE IASs; and • PBE FRSs.
PBE Standards RDR	PBE Standards with disclosure concessions for Tier 2 public benefit entities.
Simple Format Reporting Standards	There are four Simple Format Reporting Standards. PBE Simple Format Reporting – Accrual • PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) • PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) PBE Simple Format Reporting – Cash • PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit) • PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)
Tier criteria	The criteria for PBEs to be eligible to report in accordance with a particular tier of PBE Accounting Requirements.
XRB	External Reporting Board
XRB A1	XRB A1 *Application of the Accounting Standards Framework*

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XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

Calling all Tier 3 and Tier 4 Charities

We want to hear from you

We are the New Zealand Accounting Standards Board and we want to talk to you about the Tier 3 and Tier 4 simple format reporting standards.

Why do we want to talk to you?

You have all been busy using the Tier 3 and Tier 4 standards over the last five years or so and we want to know how you're finding it.

We want to make sure the Tier 3 and Tier 4 standards we created are working for you. That's why we are starting a post-implementation review of the Tier 3 and Tier 4 standards.

It's important that we talk to the people that have been using the standards (yes that means you!).

What do we want to talk to you about?

We have come up with some questions that we would like you to answer. But more importantly, we want you to tell us what is working well and what is not working so well. This can be anything from the broad application of the standards to a specific transaction that has been troubling.

Do we need to talk to all of you?

We may not be able to talk to everyone but it's important that we get as much feedback as we can.

The more of you we hear from the better informed we will be when we are thinking about what we do next

How are we going to talk to you?

- We have developed a short survey that you can complete.
- We will be holding some events for you to talk to us (whether virtually or in person).
- You can also write to us and email us.
- We'll be working closely with Charities Services.
- We'll be talking to umbrella organisations (so you may also receive requests from any collective bodies you belong to).

Who else are we going to talk to?

- Accountants and auditors.
- People who frequently read performance reports. (e.g. funders such as community trusts and foundations)

What can I do to help?

When you prepare your performance report this year, make a note of anything that works well, anything you find difficult, and any areas where you think more guidance would be helpful.

Then, we have a few questions we would like you to answer. You don't even have to answer them all if they don't apply to you.

Where are the questions?

You can find a survey with the questions here .

We also have a PDF version and a word version of the questions on our website.

When do I have to do it by?

We are giving you lots of time (6 months). Closing date is 31 March 2021.

Where can I find more information?

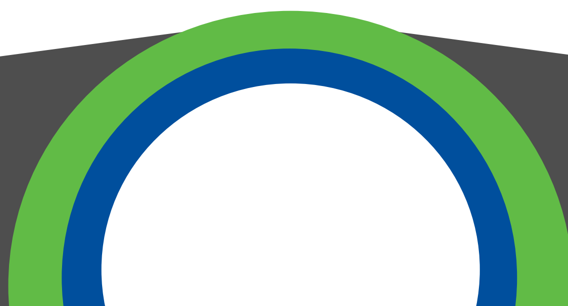
We have a page on our website with lots more information, this is where you will find the formal request for information. This document includes information about how the standards were developed in the first place.

What happens next?

Your feedback will help us decide what we need to do. This could include amending the standards (and guidance and templates), increasing education or developing more guidance.

If we decide to amend the standards, because the standards are law, unfortunately that will take time. But we will keep you updated as we go.

We have put together an estimated timeline here if you are interested.



XRB
EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Calling all Tier 3 and Tier 4 Public Sector Entities

We want to hear from you

We are the New Zealand Accounting Standards Board and we want to talk to you about the Tier 3 and Tier 4 simple format reporting standards.

Why do we want to talk to you?

You have all been busy using the Tier 3 and Tier 4 standards over the last five years or so and we want to know how you're finding it.

We want to make sure the Tier 3 and Tier 4 standards we created are working for you. That's why we are starting a post-implementation review of the Tier 3 and Tier 4 standards.

It's important that we talk to the people that have been using the standards (yes that means you!).

What do we want to talk to you about?

We have come up with some questions that we would like you to answer. But more importantly, we want you to tell us what is working well and what is not working so well. This can be anything from the broad application of the standards to a specific transaction that has been troubling.

How are we going to talk to you?

- We have developed a short survey that you can complete.
- We will be holding some events for you to talk to us (whether virtually or in person).
- You can also write to us and email us.
- We'll be talking to umbrella organisations (so you may also receive requests from any collective bodies you belong to).

Who else are we going to talk to?

- Accountants and auditors.
- People who frequently read performance reports. (e.g. funders such as community trusts and foundations)

What can I do to help?

Reflect on preparing your most recent performance report and make a note of anything that works well, anything you find difficult, and any areas where you think more guidance would be helpful.

Then, we have a few questions we would like you to answer. You don't even have to answer them all if they don't apply to you.

Where are the questions?

You can find a survey with the questions here .

We also have a PDF version and a word version of the questions on our website.

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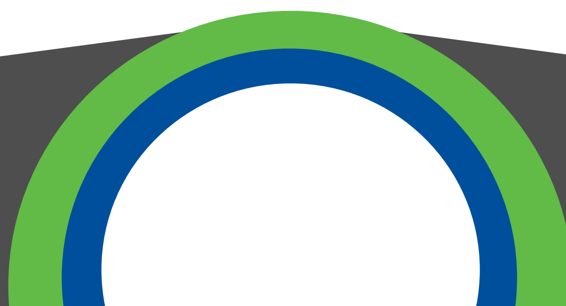

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 August 2020
To:	NZASB Members
From:	Joanne Scott and Vanessa Sealy-Fisher
Subject:	**Cover memo: IPSASB Revenue and Transfer Expenses**

Purpose

1. The purpose of this item is to seek feedback on the draft comment letter on the three IPSASB EDs (see agenda item 4.2).

Background

2. The IPSASB issued the EDs in February. Comments are due to the NZASB by 23 September and the IPSASB by 1 November. In August the Board provided feedback on a partial draft of the comments on ED 70 and ED 71 and the disclosure proposals across all three EDs. Following the August meeting we circulated a revised draft to a few Board members but, given the tight turnaround for these agenda papers, Board members might have further comments as to whether the draft comment letter reflects all the points raised in August.

Terms

3. For ease of reference the following table lists terms used in the EDs.

ED 70 Revenue with Performance Obligations	ED 71 Revenue without Performance Obligations	ED 72 Transfer Expenses
Revenue from transactions with performance obligations (to deliver goods and services to the purchaser or third-party beneficiaries). There must be a binding arrangement.[1]	Revenue from transactions with present obligations. There must be a binding arrangement.	Transfer expenses with performance obligations to deliver goods and services to *third-party beneficiaries*. There must be a binding arrangement.
	Revenue from transactions without present obligations. There may or may not be a binding arrangement. *Can be split further*	Transfer expenses without performance obligations. There may or may not be a binding arrangement. *Can be split further*
	Revenue from taxes, including other compulsory contributions and levies.	

[1] ED 70 defines a *binding arrangement* as an arrangement that confers both enforceable rights and obligations on both parties to the arrangement.

Feedback sought

4. We are seeking feedback on the draft comment letter, including any changes or further work required. We plan to discuss ED 70, ED 71, ED 72 and then the draft comment letter. As the Board has already considered draft comments on ED 70 and ED 71 we anticipate that the discussion will focus on ED 72, and possibly ED 71 SMC 7.

Next steps

5. There will be a short meeting on 15 October (10.00am until 11.30am) to consider submissions from New Zealand constituents and finalise the letter. We will circulate any submissions received and a revised comment letter before that meeting.

Attachments

Agenda item 4.2: Draft comment letter

Copies of the EDs were distributed earlier this year

[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. We have summarised our key points about each of the EDs below.

The following comments have been added since the August meeting. We will seek feedback from the Board on the cover letter once we have gone through the detailed comments in the Appendices.

In addition to these comments we have a general concern about the ability of preparers and auditors to understand and apply the proposed requirements in these EDs. The EDs are long and complex, as is the terminology used in the EDs. We think the benefits of alignment with IFRS 15 make this an acceptable trade-off for ED 70. However, we have struggled to understand some parts of ED 71 and ED 72. We also think that some of the judgements required by ED 71 are subjective and could result in different people coming to different conclusions.

We think that the EDs need further work to ensure that the requirements are expressed as clearly as possible, both to aid understanding, and to lead to consistent application.

ED 70 Revenue with Performance Obligations

We support the IPSASB developing a standard based on IFRS 15 *Contracts with Customers* and most of the proposals in the ED. We also support the proposed disclosure requirements in ED 70, despite our comments about the proposed disclosure requirements in the other EDs.

ED 70 Scope

The relationship between this ED and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* needs to be clarified. It appears that the IPSASB's intention was to establish linkages equivalent to those between IFRS 15 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, the scope of IFRS 15 does not exclude transactions within the scope of IAS 37 while ED 70 appears to exclude transactions within the scope of IPSAS 19 (see paragraph 3(e)).

The links between the scope of ED 70, ED 71 and IPSAS 41 *Financial Instruments* also need to be clarified.

ED 71 Revenue without Performance Obligations

ED 71 Concerns with the proposals

We disagree with the proposals in ED 71. We have both conceptual and practical concerns with the proposals.

From a conceptual perspective we disagree with the IPSASB's conclusion that, in the absence of a performance obligation, an entity's obligations arising from binding arrangements represent an outflow of resources as discussed in the Conceptual Framework. We are also concerned about the implications of the proposals in ED 71 for the existing understanding of when liabilities should be recognised.

From a practical perspective we are concerned that the proposals in ED 71 would require new and subjective judgements compared to the judgements required in applying IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. We do not want to move from one set of arguments (about IPSAS 23 requirements) to a new set of arguments (about ED 71 requirements).

Our response to SMC 1 expands upon these points and concludes by looking at possible ways forward, one of which would be to mount arguments for the deferral of revenue based on user needs.

ED 71 Scope

We have raised some scope issues regarding the interaction between this ED and other standards, particularly those dealing with financial instruments and provisions.

ED 71 Disclosures

We disagree with the disclosure proposals in ED 71. Overall, we think that the proposed disclosures are excessive. We suggest that the disclosure requirements be restructured to reflect the structure of the recognition and measurement requirements in the ED. We also suggest that some of the

disclosures carried over from IPSAS 23 should be reconsidered to determine whether they are still relevant.

ED 72 Transfer Expenses

ED 72 Scope

As previously noted in our comments about social benefits and collective and individual services, we would have preferred that the IPSASB address non-exchange expenses in a single project to ensure consistent requirements for transactions with similar characteristics. We are particularly concerned about the interaction between this ED and IPSAS 19 which, in the absence of a standard on transfer expenses, would have been a source of guidance for transfer expenses and the associated liabilities. We found it difficult to identify when an entity would still apply IPSAS 19.

ED 72 recognition and measurement

In general we support the overall recognition and measurement proposals in ED 72, including the lack of symmetry with ED 71. However, as outlined in our detailed responses, there are a number of areas where we think that the proposals need further work.

ED 72 Disclosures

We disagree with the disclosure proposals in ED 72. Overall, we think that the proposed disclosures are excessive. We are not aware of any other category of expenses that is required to be disclosed in such detail and do not think that this level of detail is appropriate.

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 Response to SMCs on ED 70 *Revenue with Performance Obligations*

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?

NOTE: This response is new. It was not in the August agenda papers.

We generally agree with the scope of the ED. However, there are two aspects which we think should be clarified.

Provisions

We think that the relationship between this ED and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* should be clarified. Based on our reading of the ED, it appears that the IPSASB's intention was to establish linkages equivalent to those between IFRS 15 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*[1] However, there is a conflict between ED 70 paragraph 3(e), which excludes rights and obligations arising from binding arrangements within the scope of IPSAS 19, and the proposed amendment to IPSAS 19 paragraph 13(c) which states that IPSAS 19 applies to binding arrangements with purchasers that are, or have become, onerous. We agree with the proposed amendments to IPSAS 19 paragraph 13(c) (which are equivalent to IAS 37 paragraph 5(g)), but not with the reference to IPSAS 19 in ED 70 paragraph 3(c). The scope of IFRS 15 does not exclude transactions within the scope of IAS 37.

Financial instruments

We also think that the links between the scope of ED 70, ED 71 and IPSAS 41 *Financial Instruments* should be clarified. Please refer to our comments on ED 71 SMC 5 about the subsequent measurement of receivables and binding arrangement assets.

[1] This statement is based on the fact that ED 70 (i) contains equivalent guidance to that in IFRS 15 on service type warranties, assurance type warranties and compensation for damages and (ii) does not contain any explicit guidance on onerous contracts.

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?

NOTE: This response was in the August agenda papers.

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?

NOTE: This response was in the August agenda papers. It has been revised.

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 and should be included in the application guidance in ED 70. 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?

NOTE: This response was in the August agenda papers.

We agree that the disclosure requirements in ED 70 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?

NOTE: This response was in the August agenda papers.

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

ED 70 Other comments

NOTE: This response was in the August agenda papers. The first point has been reworded.

Receivables and binding arrangement assets

We think that the proposed requirements for receivables and binding arrangement assets in ED 70 and ED 71 could be clarified. Please see our comments on ED 71 SMC 5 about the subsequent measurement of receivables and binding arrangement assets.

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 shaded words 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 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?

NOTE: The August agenda papers included a draft response. The response has been revised to reflect feedback from the August meeting.

Notes from August

The Board thought the draft was a good starting point and made a number of suggestions for improving it. We have tried to incorporate the following comments in this version.

- When discussing 'an outflow of resources', be clear that we are thinking of a new reduction in an entity's net assets (created by this binding arrangement – not an outflow that relates to something the entity was going to do anyway).
- Strengthen the comments about the difficulties of applying the ED by noting that the proposals would result in new and subjective judgements – it is not helpful for users if entities end up making different judgement calls. We do not want to move from one set of arguments to a new set of arguments.
- When discussing obligations that would not be enforceable, add in the point that an obligation would not be enforceable if an entity never had to spend the funds.
- We are worried about the implications of the proposals in ED 71 for the existing understanding of when liabilities should be recognised.
- The rationale for allowing for the deferral of revenue for certain transactions within the scope of ED 71 should be based on users' needs, rather than arguing that the transactions give rise to liabilities. This has implications for presentation – if they are not liabilities they should not be presented as such.

We do not agree with the IPSASB's proposals, as outlined in 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.

From a conceptual perspective we disagree with the IPSASB's conclusion that, in the absence of a performance obligation, an entity's obligations arising from binding arrangements represent an outflow of resources as discussed in the Conceptual Framework. We are also concerned about the implications of the proposals in ED 71 for the existing understanding of when liabilities should be recognised.

From a practical perspective we are concerned that the proposals in ED 71 would require new and subjective judgements compared to the judgements required in applying IPSAS 23. It is not helpful for users if entities make different judgement calls. Nor is it helpful for preparers and auditors to debate what requirements mean and how they apply to particular transactions. We do not want to move from one set of arguments (about IPSAS 23 requirements) to a new set of arguments (about ED 71 requirements). We acknowledge that there may also be implementation issues associated

with ED 70 (as with IFRS 15) but consider that they are likely to relate to more detailed matters than our concerns about ED 71 and will be informed by the extensive IFRS 15 guidance available.

This response expands upon these points and concludes by looking at possible ways forward, one of which would be to mount arguments for the deferral of revenue based on user needs.

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 of present obligations 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 is meant 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, over and above what the entity planned to do before entering into that transaction. That is, the outflow must be a new outflow arising from the binding arrangement. We do not think that revenue transactions that create obligations to carry out activities or purchase items give rise to liabilities because the second transaction involves an equivalent transfer of resources between the entity and another party.

More general implications for liability recognition

ED 71 brings in new ideas and terms that could lead to the recognition of liabilities in circumstances where liabilities would not currently be recognised or where entities might have applied IPSAS 19. Although ED 71 is a revenue standard, we are concerned about the potential implications of a new set of requirements (with a different view of what is meant by an outflow of resources) for more general discussions about the recognition of liabilities. In the absence of a general standard on liabilities, IPSAS 19 is the main point of reference for liability discussions. Unless the requirements and guidance in ED 71 and IPSAS 19 are consistent, the circumstances in which ED 71 requires the recognition of liabilities would need to be tightly circumscribed. Otherwise there is a risk that people will look to two different sets of requirements to justify the recognition of liabilities.

Looking at the flowchart in SMC 2 also prompted us to consider the interaction between ED 71 and IPSAS 19 in more detail. See SMC 2 for further comments.

Need for clear requirements

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 issues associated with IPSAS 23 might be replaced with a new set of problems.

To illustrate this, we have identified some 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 two-year grant, made as part of a binding arrangement, 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,[2] 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. To avoid unhelpful debates clearer boundaries are required.

- *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 be 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 funds in a particular period (time requirements) and open-ended obligations without a specified cut-off date for satisfaction would not be enforceable.

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." We think it 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

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

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.

The way forward – a user-needs rationale?

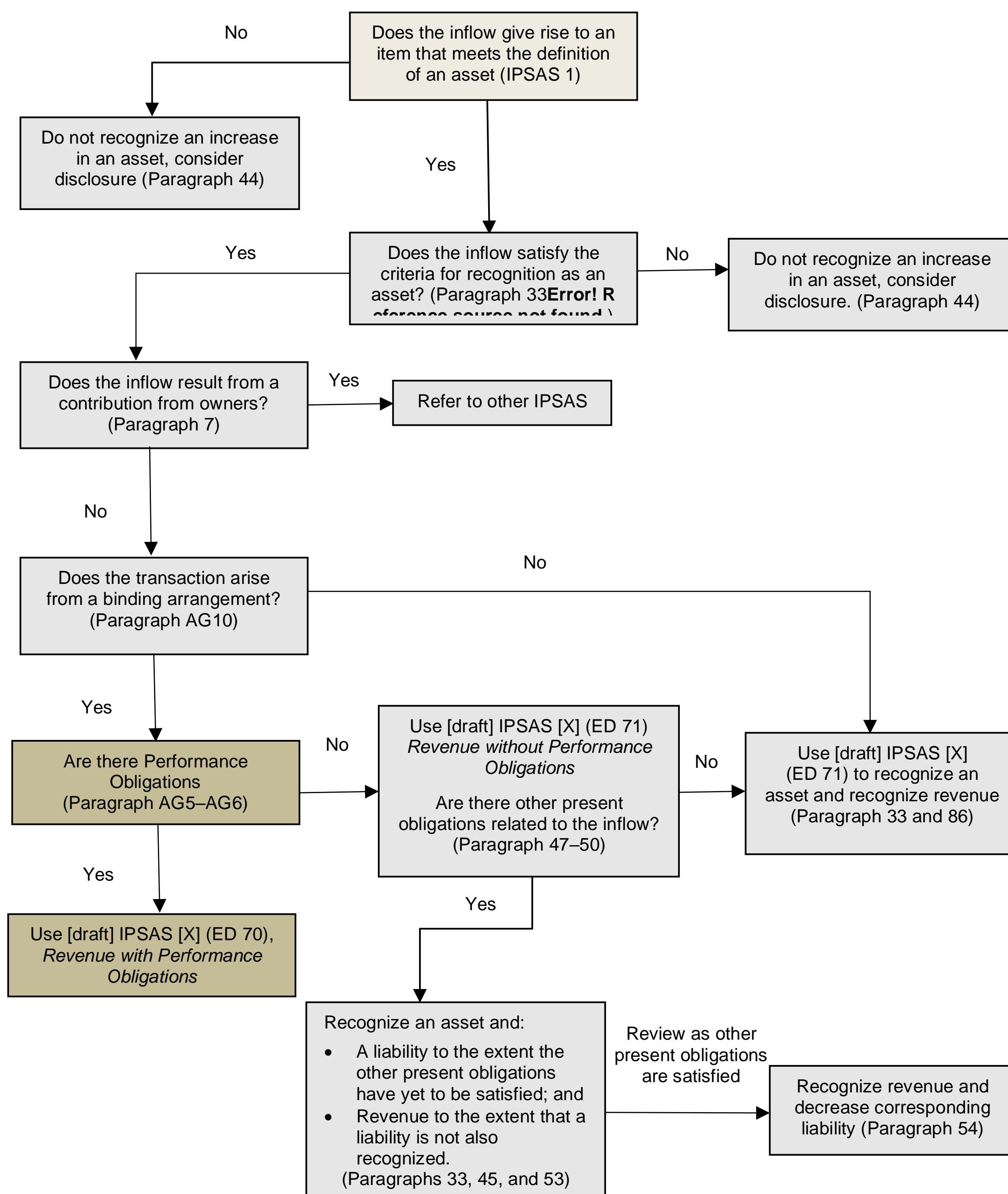
As outlined above, we disagree with the IPSASB's conceptual arguments for the proposals in ED 71. We see two possible ways forward. One option would be to align more closely with our view of what is meant by the definition of a liability and an outflow of resources in the Conceptual Framework. This would result in more upfront recognition of revenue. Another option would be to develop a rationale for the deferral of revenue based on users' needs (and to explore the use of other obligations).

Transactions that fall within the scope of ED 71 differ in nature from those that fall within the scope of ED 70; they are more likely to be large, involve upfront payment and be paid less frequently. We acknowledge that upfront revenue recognition for transactions with these characteristics can make it difficult for users to form views about an entity's financial performance. We would be open to the IPSASB mounting arguments for the deferral of revenue based on user needs. If the IPSASB takes this route, the circumstances under which deferral is permitted would need to be clearly specified. This option would also have implications for presentation – only those items that are liabilities should be presented as such.

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?

NOTE: This response was not in the August agenda papers. We have used this SMC to identify some concerns about provisions. We have included the flowchart for context.

Diagram 2: Flowchart from ED 71



* The flowchart is illustrative only. It does not take place of this [draft] Standard and is provided as an aid to interpreting this [draft] Standard.

* In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

* In determining whether the entity has satisfied all of the present obligations, the application of the definitions of specified activity or eligible expenditure, and the criteria for recognizing a liability, are considered.

Other SMCs outline our views on the proposals in the ED. This response begins by commenting on the flowchart and then makes some additional comments about the interaction of ED 71 and IPSAS 19, prompted by looking at the flowchart.

We agree that the flowchart depicts most of the proposals in the ED. However, we do not think it accurately depicts the scope of the ED because it starts with assets, rather than *assets that fall within the scope of the ED*. The flowchart illustrates that contributions from owners are outside the scope of the ED, but apart from contributions from owners it does not address other transactions, such as provisions, that are outside the scope of the ED. This comment could be addressed by reworking the flowchart. However, it prompted us to consider how an entity applying ED 71 would decide when it should also apply IPSAS 19.[3]

We found this exercise quite difficult and think the interaction between the two standards needs to be clearer. We have outlined how we think an entity would work through these steps.

ED 71 paragraph 3(h) says that ED 71 does not apply to rights or obligations arising from binding arrangements within the scope of IPSAS 19. An entity will apply ED 71 because it has a revenue transaction. It will then consider whether it is required to recognise liabilities in accordance with ED 71 or any liabilities in accordance with other standards.

Taking constructive obligations as an example, an entity that has revenue from a transaction without performance obligations would consider whether it has to recognise a liability for present obligations to carry out specified activities or incur eligible expenses. Assuming the answer is no, the entity might then seek to argue that it has a constructive obligation to spend the funds as required. We are not sure what the scope exclusion in ED 71 paragraph 3(h) means. Does it mean that once an entity has decided it has revenue that falls within the scope of ED 71 it cannot also apply IPSAS 19 when considering whether it has a constructive obligation? Or does it mean that an entity first applies ED 71 and then considers whether it has a constructive obligation under IPSAS 19?

We found one mention of constructive obligations in ED 71 (paragraph AG23 is shown below). However, it is not about an entity deciding whether it has to recognise a provision for a constructive obligation. It is guidance about whether the entity is entitled to revenue or not. Regardless of how this interaction is addressed in the scope section of ED 71 we think entities need more guidance in ED 71 about whether or not they are required to apply, or are prohibited from applying, the requirements in IPSAS 19 about constructive obligations. Example 32 in ED 71, which discusses contingent assets, would suggest that an entity is also required to apply IPSAS 19.

Extract from ED 71

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, 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 transfer provider and a transfer recipient. A transfer recipient 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*.

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[3] We have recommended that the scope of ED 70 be aligned with the scope of IFRS 15 in relation to onerous contracts. That comment was made in the context of ED 70 and alignment with IFRS 15. We have considered ED 71 separately.

Extracts from IPSAS 19 (as proposed to be amended by ED 71)

107. The disclosure requirement in paragraph 105 encompass contingent assets from both ~~exchange and non-exchange~~ transactions with performance obligations and those without performance obligations. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are ~~to be dealt with as a part of a separate project on non-exchange~~ addressed in [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*.

…

Example 32—Disclosure of a Transfer Subject to Appropriations

IE83. The facts are the same as in Case A of Example 30. The local government does not recognize an asset for the CU5 million to be transferred in 20X3 as at December 31, 20X2. Rather, the local government considers whether it should disclose a contingent asset, in accordance with paragraph 105 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

…

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?

NOTE: This response was not in the August agenda papers.

In light of our response to SMC 1 we have not answered this question.

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?

NOTE: This response was not in the August agenda papers.

In light of our response to SMC 1 we have not answered this question.

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?

NOTE: This response was in the August agenda papers. We have added the first two sentences.

We have answered this question based on the proposals in ED 70 and ED 71. If the IPSASB were to change those proposals it would need to reconsider the interaction between the scope of the revenue standards and IPSAS 41 *Financial Instruments*.

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 as follows.

- 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 there would be no need for ED 71 paragraph 84(a)). 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?

NOTE: This response was in the August agenda papers. The order of the response has been changed and some of the disagreements have been strengthened.

Quantum of disclosures

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. We note that the disclosure requirements in ED 71 relating to binding arrangements with present obligations have been aligned with the disclosure requirements in ED 70, amended as necessary for consistency with the terminology used in ED 71. We question whether this is an appropriate way to determine the disclosures for revenue from transactions with present obligations, bearing in mind that a number of the disclosure requirements in IFRS 15 were developed with complex long-term contracts like construction contracts in mind. Aligning the equivalent disclosures in ED 70 and ED 71 could result in the disclosure requirements in ED 71 for binding arrangements with present obligations being more detailed than is necessary.

Furthermore, we question whether sufficient consideration has been given to the disclosure requirements in ED 71 in light of the scope of the standard and user information needs.

Lack of rationale for the disclosure requirements

We note that the Basis for Conclusions on ED 71 is silent regarding the IPSASB's rationale for the disclosure requirements in ED 71. It is broadly accepted by national and international standard setters that the purpose of issuing an ED is to obtain stakeholder feedback on the proposed standard. Consequently, the Basis for Conclusions which accompanies the ED should be well-articulated and sufficiently comprehensive for stakeholders to understand the rationale for the IPSASB's proposals. This lack of rationale in the Basis for Conclusions (i) is not helpful for stakeholders in deciding whether or not they agree with the IPSASB's proposals, and (ii) puts the onus on stakeholders to undertake a detailed analysis of the disclosures without the benefit of the IPSASB's rationale for requiring the disclosures in the first place. The decision regarding what disclosures to propose in an ED should be taken by the IPSASB after due consideration and robust discussion at IPSASB meetings (of which we have not found evidence when looking at meeting papers). Lack of due consideration and discussion of the proposals in an ED is likely to result in a diverse range of views about the disclosure requirements. This could result in the IPSASB having to spend time considering and discussing those diverse views, and possibly issuing another ED for comment.

Structure of disclosure requirements

We recommend that the disclosures be reorganised to reflect the structure of the recognition and measurement requirements in ED 71. 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.

Some entities may derive their revenue from only one type of transaction within the scope of ED 71. These entities want to be able to find the relevant disclosure requirements as easily as possible, rather than having to read through all the disclosures to identify which ones are relevant for them. Structuring the disclosure requirements (with appropriate headings) to align with the structure of the recognition and measurement requirements in the ED would help preparers of financial statements to locate the relevant disclosures more easily.

We also note that the heading above paragraph 140 refers to binding arrangements. Binding arrangements 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.

Disclosures carried over from IPSAS 23

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.

Descriptors for revenue disclosures

We acknowledge that ED 71 establishes the principles for an entity to apply to report useful information about revenue derived from a variety of transactions. These transactions are labelled using the terms 'revenue from transfers with present obligations', 'revenue from transfers without present obligations' and 'taxes'. Our concern is that these terms will then be used by preparers of financial statements as labels in the financial statements to disaggregate and present revenue from different types of transactions (as is currently done for exchange revenue and non-exchange revenue). There is currently considerable debate in practice about whether a transaction is an exchange transaction or a non-exchange transaction, and this flows on to the disclosure of revenue in the statement of financial performance.

We suggest that the IPSASB revisits the terms used to categorise the revenue streams within the scope of ED 71 and tries to use terminology that would be more easily understood by both preparers and users of financial statements. Alternatively, the ED could include a paragraph similar to paragraph 22 of IPSAS 1 (regarding the use of alternative titles for the financial statements) so that entities have the option of using alternative terms that users would understand for revenue from different types of transactions.

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?

NOTE: Feedback in August suggested a lack of support for the comments about substance over form (see struck-through text below). Members noted that recent IFRS Standards do not refer to substance over form. We are seeking confirmation that the struck-through text should be deleted.

~~*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.~~

NOTE: The draft response in the August agenda papers focused on our concerns about the IPSASB's proposals. At that meeting we heard that levies vary in nature and that treating them all as taxes does not work. We also heard that there have been debates in NZ about whether to classify some levies as exchange or non-exchange, particularly where ongoing services are required.

As a result of that feedback we've done more work (see the table below) and revised the response to SMC 7. First we comment on the proposals in ED 71 (which treat compulsory contributions and levies as taxes) and suggest a cleaner way of doing it. Then we express some concerns about those proposals – namely that ED 71 does not appear to allow for the recognition of liabilities for compulsory contributions and levies after the taxable event has occurred.

IPSAS 23 paragraph 64 (see below) acknowledges that there could be conditions attached to levy revenue that gives rise to a liability. We cannot find an equivalent paragraph in ED 71.

IPSAS 23	**ED 71**
Categories of revenue • Non-exchange revenue with conditions • Non-exchange revenue with restrictions • Taxes 64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions.	Categories of revenue • Revenue from transactions with present obligations • Revenue from transactions without present obligations • Revenue from taxes, including other compulsory contributions and levies Taxes include compulsory contributions and levies (para 27) Taxes come from use of sovereign powers (para 27) Non-compulsory transfers …. such as donations and the payment of fees are not taxes (para 27) Taxes do not give rise to performance obligations (para 93) Taxes do not create binding arrangements (para 29) If there is no binding arrangement *there cannot be a present obligation under ED 71* [our comment] Recognise revenue when the taxable event occurs (para 89) There can be liabilities for advance taxes (but that is before the taxable event) (para 96) There is no mention of possible liabilities for having to do things after the taxable event has occurred.

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 (i) taxes; (ii) other compulsory contributions and levies; and (iii) 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.

We note that ED 71 paragraph 27 says that compulsory contributions and levies are a subset of taxes and the proposed recognition and measurement requirements are the same for both taxes and compulsory contributions and levies. Given that the IPSASB is effectively treating compulsory contributions and levies as taxes, we think ED 71 would be clearer if compulsory contributions and levies (i) were not a defined term and (ii) were explicitly included in the definition of taxes. This would lead to the proposed disclosures for taxes and compulsory contributions and levies in paragraph 131(a)(i) and (ii) being combined.

NOTE: The next part of this response is new.

The first part of our response to this SMC has suggested some redrafting of ED 71, based on the IPSASB's view that compulsory contributions and levies are a subset of taxes. However, we do not agree that all compulsory contributions and levies can be classified as a subset of taxes. They vary in nature and some, such as development contributions which are levied by a council on a developer, may be refundable if a council does not complete land development works within a certain period. In contrast to IPSAS 23, ED 71 does not appear to allow for the recognition of liabilities for compulsory contributions and levies after the taxable event has occurred (unless they are received in advance).

IPSAS 23, paragraph 64, (shown below) acknowledges that a government might recognise a liability for conditions relating to specific purpose tax levies.

Extract from IPSAS 23

64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions.

However, ED 71, paragraph 93, states that taxes do not give rise to performance obligations and paragraph 29 states that taxes do not create binding arrangements (which means that they cannot give rise to present obligations in accordance with ED 71). This appears to preclude the recognition of liabilities for obligations associated with compulsory contributions and levies. Although compulsory contributions and levies are imposed through the use of sovereign powers, we think that they can be accompanied by obligations that should be recognised as liabilities and that ED 71 should allow for this.

ED 71 Other comments

NOTE: This response was in the August agenda papers.

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 disclosure section) if the term 'transfers' excludes taxes, but the term 'transfer recipients' includes recipients of taxes.

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 Response to SMCs on ED 72 *Transfer Expenses*

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?

NOTE: This response was not in the August agenda papers.

We do not think that the interaction between this ED and IPSAS 19 is clear. Our comments on SMC 4 and SMC 6 expand on this point.

We have previously expressed concern about dealing with transfer expenses as a separate project. This reflects our preference for consistent requirements for the recognition of liabilities and expenses in relation to non-exchange expense transactions with similar characteristics. Consistent requirements help avoid debates about whether a transaction falls within the scope of one standard or another. Given the recent wave of government subsidies we considered whether entities would be able to decide whether to apply IPSAS 42 *Social Benefits* or ED 72 *Transfer Expenses*. Differing views on whether the predominant intent of a subsidy is to support the income of households or the employer could lead to scope debates.

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?

NOTE: This response was not in the August agenda papers.

We agree with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations.

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?

NOTE: This response was not in the August agenda papers.

We agree with the principle 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.

However, we question whether 'monitor' is the appropriate word. This word implies continuous assessment of the recipient's performance obligations, but an entity may be able to satisfy the proposed requirements in ED 72 by periodic assessment. A continuous assessment is also likely to be more costly to undertake than a 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?

NOTE: This response was not in the August agenda papers. It is based on the issues raised in the June agenda papers and feedback from the Board.

We broadly agree with the proposed measurement requirements for transfer expenses with performance obligations, as outlined in SMC 4. However, we think that the proposals require more work. Our comments follow.

Liabilities of uncertain timing and amount and onerous contracts

We are not clear about the interaction between ED 72 and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. We have identified some circumstances in which an entity might think that IPSAS 19 would be relevant and outlined our understanding of the IPSASB's intentions about when an entity applying ED 72 should or should not also consider the requirements in IPSAS 19. We have raised these issues partly to make sure that we have understood the IPSASB's intentions. More importantly however, preparers and auditors need to understand this interaction. In addition, we consider that the requirements for liabilities of uncertain timing and amount and onerous contracts need to be consistent with the requirements for provisions, which are applied to a range of other transactions and events.

IPSAS 19 defines a provision as a liability of uncertain timing or amount and explains the distinction between provisions and other liabilities. It also defines onerous contracts and requires that an entity recognise a provision for onerous contracts. Relevant extracts from IPSAS 19 are shown below.

Extracts from IPSAS 19

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

A provision is a liability of uncertain timing or amount.

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

    (a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

    (b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

    Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Onerous Contracts

76. **If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision.**

We have posed the following questions about transfer expenses with performance obligations and looked to ED 72 for guidance.

(i) If a transfer provider has a binding arrangement with liabilities that are of uncertain timing or amount, what would it do?

(ii) If a transfer provider has a binding arrangement with a liability that extends over more than one year, would it need to discount the liability?

(iii) If a transfer provider has a binding arrangement that become onerous, what would it do?

(i) Liabilities of uncertain timing or amount

ED 72 sets out the criteria that must be met before an entity can apply the Public Sector Performance Obligation Approach (PSPOA) to transfer expenses. Paragraph 13 requires that the transfer provider must be able to identify each party's rights and the payment terms. We would expect that these criteria will lead to liabilities of certain timing and amount.

We have thought about what a transfer provider would do if a transfer were contingent upon the recipient doing something else, such as obtaining funding from another party. Paragraphs 51 to 59 deal with variable consideration but the examples in paragraph 52 do not indicate whether they are intended to apply to transactions where the whole, or a substantial portion, of the consideration is

contingent upon another event. An entity applying ED 72 might decide that such transactions did not satisfy the requirements in paragraph 13 of ED 72. However, it would be helpful if this were clear.

An entity might also wonder if it had a contingent liability that should be disclosed in accordance with IPSAS 19. We are not sure (after looking at the scope of ED 72) whether the IPSASB intended an entity to apply IPSAS 19 in such situations or not.

We note that the requirement in paragraph 51 of ED 72 (to estimate variable consideration) is similar to the best estimate requirement in IPSAS 19.

(ii) Liabilities that extend over a year

IPSAS 19 (paragraph 44) requires that, when the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditure expected to be required to settle the obligation.

ED 72 (paragraphs 60 to 68) would require discounting if a transaction involves a significant financing component. Although these requirements are different from those in IPSAS 19 we acknowledge that they are similar to the requirements in ED 70 and agree that they are appropriate for transfer expenses with performance obligations.

(iii) Onerous arrangements

ED 72 does not mention how to account for binding arrangements that become onerous. ED 72 excludes provisions, as defined in IPSAS 19, from its scope. We read that as meaning that a transfer provider should not apply IPSAS 19 in assessing whether an arrangement for the provision of goods and services to third party beneficiaries has become onerous in deciding how to account for such an arrangement. If this is the IPSASB's intention then we think it should be made clearer in the ED, and that the ED should explain how to deal with arrangements that become onerous.

Proposed subsequent measurement requirements are not complete

In our view the proposed requirements for subsequent measurement of binding arrangement liabilities associated with transfer expenses with present obligations (as set out in paragraph 124, shown below) are not complete.

ED 72 paragraph 124

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.

We have identified the aspects which we think require more work in the following table.

Types of liabilities	**ED 72 subsequent measurement proposals and comments**
Contractual conditional obligation	The ED does not appear to discuss the subsequent measurement of such liabilities.
Non-contractual conditional obligation	The ED does not appear to discuss the subsequent measurement of such liabilities.
Contractual unconditional payable (financial instrument)	ED 72 paragraph 124 says to account for payables in accordance with IPSAS 41. We agree with this requirement.
Non-contractual unconditional payable	ED 72 paragraph 124 says to account for payables in accordance with IPSAS 41. However, not all payables will be financial liabilities that fall within the scope of IPSAS 41. We think that the subsequent measurement requirements for PSPOA payables that are not financial liabilities need to be identified in this ED.

Location of measurement requirements

ED 72 proposes to create three sets of measurement requirements. We mention these three sets of requirements because they illustrate our concerns that the requirements for transfer expenses are not located in one section.

(a) Transfer expenses with performance obligations (initial measurement in paragraph 47 *and subsequent measurement in paragraphs 121–125*).

(b) Transfer expenses without performance obligations (initial measurement in paragraphs 102–104 and subsequent measurement in paragraphs 116–19).

(c) Non-contractual payables that are not transfer expenses (paragraph 120).

In our view the requirements for subsequent measurement of balances associated with transfer expenses with performance obligations should be located in the section dealing with the initial measurement of such balances (paragraphs 47 to 89), not in the section on presentation. We acknowledge that the location of these subsequent measurement requirements reflects the location of similar requirements in IFRS 15 and ED 70. However, this location does not work in ED 72 because the initial and subsequent measurement of these balances is interrupted by the section dealing with transfer expenses without performance obligations. The Presentation section will still need to discuss the separate presentation of payables from other binding arrangement liabilities.

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.

NOTE: This response was not in the August agenda papers. It is based on a comment made during discussions with the NZAuASB.

We have heard some concerns that transfer providers and auditors might have differing views about whether a provider has sufficient information (about the satisfaction of obligations by the recipient) to apply the PSPOA. Entities applying ED 72 will first look at paragraph 13 which sets out the criteria that must be met in order to apply the PSPOA. Paragraph 13(d) requires that the transfer provider can monitor satisfaction of performance obligations. We expect that entities will have no difficulty in determining whether they meet the criteria in paragraph 13(a)–(c). However, we think that entities could benefit from some additional guidance about what to consider in deciding that they meet the criterion in paragraph 13(d).

The ED states that paragraphs AG26 and AG27 (shown below) provide additional guidance. However, an entity reading these AG paragraphs will find an explanation of why monitoring is a requirement, rather than any guidance on what to consider when making this assessment.

Extract from ED 72

Identifying the Binding Arrangement (Step 1) (see paragraphs 13–23)

AG26. The criteria a transfer provider considers in determining when to account for a transfer expense with performance obligations are similar to those an entity would consider in determining when to account for revenue in accordance with [draft] IPSAS [X] (ED 70). However, in determining when to account for a transfer expense with performance obligations, a transfer provider does not need to consider whether the binding arrangement has economic substance. A transfer expense is the transfer of a good or service by the transfer provider without the transfer provider directly receiving a good or service in return, and consequently all transfer expenses have economic substance.

AG27. In accordance with paragraph 13(d), a transfer provider may account for a transfer expense as a transfer expense with performance obligations only if it monitors the transfer recipient's satisfaction of its performance obligations. This is because, without such monitoring, the transfer provider would not have reliable information about when a transfer expense arises. Without such information, the recognition of an expense could be inappropriately delayed. Consequently, where the transfer provider does not monitor the transfer recipient's satisfaction of its performance obligations, a transfer provider shall account for the transfer expense as a transfer expense without performance obligations.

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?

NOTE: This response was not in the August agenda papers.

We broadly agree with the proposed measurement requirements for transfer expenses with performance obligations, as outlined in SMC 6. However, we think that the proposals require more work. Our comments follow.

Paragraphs 91–94

We think there are some drafting issues in paragraphs 91–94 of ED 72 which have made them difficult to follow. ED 72 needs to focus on the present obligations of the *transfer provider*. As drafted, paragraphs 91–94 appear to be focusing on the present obligations of the *recipient*.

We agree with the requirement (in paragraph 91) for a transfer provider to recognise a transfer expense when the transfer provider has a present obligation. We also agree that a present obligation should be enforceable.

However, paragraph 92 then goes on to link the concept of a present obligation of the transfer provider with present obligations *on the transfer recipient*. Paragraph 92 says that, in order for a transfer provider to have a present obligation there must be a binding arrangement. A binding arrangement (as defined in ED 70) creates *both enforceable rights and obligations on both parties to the arrangement*. We think that a transfer provider could have a present obligation to transfer resources to a transfer recipient (that could be enforced by the recipient) without there being both enforceable rights and obligations on both parties. We think that paragraph 92 is confusing the concept of a present obligation of the transfer provider with a present obligation of the recipient. We think that you can have one without the other.

With regard to paragraph 93, we do not think it is correct to say that "transfers to be made outside of a binding arrangement are not enforceable." We do not think that deeds would meet the definition of a binding arrangement in ED 70, but deeds are enforceable. In New Zealand a range of legal documents (contracts, agreements and deeds), not all of which establish obligations on the other party, might be used as the basis for an agreement to make a grant. A promise (made verbally or in writing) is legally enforceable if the other party is giving something in return, or the promise is recorded in a deed. Unlike a contract, a promise in a deed is enforceable whether or not there is any payment or consideration given for it.

We have also noted what we think is a drafting error in paragraph 94. We think that the IPSASB intended to say that a transfer provider does not have a present obligation in these circumstances. As written, the sentence says that the transfer expense does not exist.

NOTE: The following extract from ED 72 is for context. We do not plan to include this extract in the final comment letter.

Recognition

91. **A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:**

    (a) **When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and**

    (b) **When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.**

92. For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the transfer provider, i.e., there must be a binding arrangement that imposes present obligations on the transfer recipient. For a binding arrangement to exist, the following conditions must be met:

    (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;

    (b) The transfer provider can identify each party's rights regarding the obligations to be performed; and

    (c) The transfer provider can identify the payment terms for the contribution to be transferred.

93. Transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources. Paragraphs AG15–AG23 provide additional guidance on enforceability.

94. For the purpose of applying this [draft] Standard, where a transfer expense without performance obligations is to be made under a binding arrangement, the transfer expense without performance obligations does not exist if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unperformed if both of the following criteria are met:

    (a) The transfer provider has not yet transferred, and is not yet obligated to transfer, any resources to the transfer recipient; and

    (b) The transfer recipient has not yet performed any activities that it agreed to perform as part of the binding arrangement.

…

Transfer Expenses without Performance Obligations Made as a Series of Transfers

97. Transfer expenses without performance obligations may be made as a series of transfers of resources, for example where the transfer provider enters into a binding arrangement to provide annual funding over a three-year period. A transfer provider applies the requirements of paragraphs 91–94 to each transfer of resources to determine whether an expense is to be recognized.

Multi-year grants

We have found it difficult to form a view about the treatment of multi-year grants under ED 72 because paragraphs 91–94 are not clear. We do not think there is enough guidance to lead to consistent treatment of multi-year grants. Example 34 *Agreement for a Series of Transfers* (paragraphs IE180–IE84) indicates that a transfer provider would recognise an upfront liability for all payments within a multi-year agreement if there is an unconditional obligation. However, we think that this needs to be clearer within the ED itself.

Liabilities of uncertain timing and amount and onerous contracts

As per our response to SMC 4, we are not clear about the interaction between ED 72 and IPSAS 19 and, to the extent that ED 72 establishes requirements for liabilities that would otherwise be recognised and measured in accordance with IPSAS 19, think that any differences in requirements should be immediately apparent and justified by differing circumstances.

We have posed the same questions (as per SMC 4) to transfer expenses *without* performance obligations and looked to ED 72 for guidance.

(i) If a transfer provider has a binding arrangement with liabilities that are of uncertain timing or amount, what would it do?

(ii) If a transfer provider has a binding arrangement with a liability that extends over more than one year, would it need to discount the liability?

(iii) If a transfer provider has a binding arrangement that becomes onerous, what would it do?

In addition, we have considered how a transfer provider would decide whether it needs to recognise a provision for a constructive obligation.

<u>(i) Liabilities of uncertain timing or amount</u>

Paragraphs 102 to 115 of ED 72 deal with initial measurement of liabilities for transfer expenses without performance obligations. We agree with the requirement in paragraph 103 to measure a liability at the best estimate of the costs that the transfer provider will incur in settling the liability and note that this is consistent with the requirement in IPSAS 19 to measure a provision at the best estimate of the expenditure required to settle the liability.

Paragraph 108 addresses variable consideration, but only in very specific circumstances (that is, only in the context of a transfer provider funding a recipient for the recipient's expected costs). We think that transfer expenses could be contingent on other factors, such as the transfer recipient raising funds from elsewhere. We cannot see where ED 72 deals with these other types of contingencies or how a transfer provider would know whether it has a contingent liability that should be disclosed in accordance with IPSAS 19.

<u>(ii) Liabilities that extend over a year</u>

IPSAS 19 requires that, when the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

ED 72 (paragraphs 109 to 113) would require discounting if a transaction involves a significant financing component. We agree with the proposal to require an entity to take account of the time value of money, but are not sure how an entity making a transfer would determine that a transaction has a significant financing component (as per paragraphs 109 and 110) or the rate that would be used in a separate financing transaction between the parties (as per paragraph 111). We are also not sure that a transfer provider would be likely to provide any collateral. We wonder if it would be better to have a general requirement, similar to that in IPSAS 19, to discount a liability if the effect of the time value of money is material. We are aware that our comments here differ from what we said in SMC 4, but these are different types of transactions.

(iii) Onerous arrangements

This comment is similar to that made in relation to SMC 4.

ED 72 does not mention how to account for binding arrangements that become onerous. ED 72 excludes provisions, as defined in IPSAS 19, from its scope. We read that as meaning that a transfer provider should not apply IPSAS 19 in assessing whether a binding arrangement has become onerous and deciding how to account for such an arrangement. If this is the IPSASB's intention then we think it should be made clearer in the ED, and that the ED should explain how to deal with arrangements that become onerous.

(iv) Constructive obligations

A transfer provider might not have an enforceable obligation to make a transfer but nevertheless it might be concerned about whether it has to recognise a provision for a constructive obligation. ED 72 excludes provisions, as defined in IPSAS 19, from its scope. We read that as meaning that a transfer provider should not apply IPSAS 19 in assessing whether it needs to recognise a provision for a constructive obligation. However, paragraph AG23 (shown below) says that a transfer provider should apply IPSAS 19 in deciding whether it has a constructive obligation.

Extract from ED 72

AG23. A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, 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 transfer provider and a transfer recipient under which both parties have rights and obligations. A transfer provider considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19¸ *Provisions, Contingent Liabilities and Contingent Assets*.

Subsequent measurement of non-contractual payables that are not transfer expenses

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. We do not object to the IPSASB establishing requirements for such payables but consider that these requirements should be moved to 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?

NOTE: This response was not in the August agenda papers.

We agree with the proposal that a transfer provider should recognise 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.

As explained in our comment letter on the 2017 CP, the key issues relating to the recognition of non-exchange expenses are primarily concerned with determining when the resource provider has incurred a liability to transfer resources to another party. This involves identifying when the resource provider has a present obligation arising from a past event. In certain circumstances, the timing of expense recognition would be impacted by whether a payment is made before or after an obligating event has occurred. Expenses may be recognised earlier when prepaid (when the resource provider no longer has control over the resources transferred).

We acknowledge that asymmetry between the recognition of revenue by a resource recipient and recognition of the corresponding transfer expense creates issues for consolidation when the resource recipient and the transfer provider are part of the same economic entity. These sorts of consolidation issues exist currently and are relevant only to the extent that they affect compliance costs – they should not, however, 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?

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?

NOTE: The response in the August agenda papers has been expanded. The first paragraph about too many disclosures has been added and the subsection on descriptors has been added.

Quantum of disclosures

Consistent with our views on the disclosure requirements in ED 71, we think there are too many disclosure requirements in ED 72 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.

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 such 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.

Descriptors for transfer expense disclosures

Consistent with our views expressed in response to SMC 6 of ED 71, we suggest that the IPSASB revisits the terms used to categorise transfer expenses within the scope of ED 72 and tries to use terminology that would be more easily understood by users of financial statements.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	2 September 2020
To:	NZASB Members
From:	Tracey Crookston
Subject:	***Interest Rate Benchmark Reform—Phase 2***

Recommendations[1]

1. We recommend that the Board:

   (a) APPROVES for issue *Interest Rate Benchmark Reform—Phase 2*, which amends NZ IFRS 9 *Financial Instruments,* NZ IAS 39 *Financial Instruments: Recognition and Measurement;* NZ IFRS 7 *Financial Instruments: Disclosures*, NZ IFRS 4 *Insurance Contracts* and NZ IFRS 16 *Leases*; 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 amending standard.

Introduction

2. The IASB has now completed the second phase[2] of its work on interest rate benchmark reform (IBOR). ED/2020/1 *Interest Rate Benchmark Reform—Phase 2* was issued on 9 April 2020 with a 45-day comment period ending on 25 May 2020.

3. The proposals in the ED were intended to address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships due to interest rate benchmarks being replaced with alternative benchmark rates.

4. The Phase 2 amendments relate to:

   - changes to contractual cash flows — an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to an alternative benchmark rate;

   - hedge accounting — an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and

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

[2] The first phase culminated with *Interest Rate Benchmark Reform* which was issued in December 2019.

- disclosures — an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

5. For further details of the amendments refer to **Appendix A**.

6. The IASB considered feedback from respondents at its June and July 2020 meetings. Most respondents indicated support for the proposed amendments, and support for them being finalised as quickly as possible. As a result of considering feedback, the IASB made some minor changes and clarifications to the proposals. More information about issues raised by respondents and the changes made by the IASB are set out in **Appendix B** to this memo.

RDR concessions

7. The amending standard establishes some new disclosure requirements to enable users to understand the nature and extent of risks arising from interest rate benchmark reform and how those risks are managed. The additional disclosures also provide information about an entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates and how it is managing the transition.

8. We do not propose any RDR concessions in respect of the new disclosure requirements. This might seem inconsistent with the fact that there are a number of existing disclosure concessions in NZ IFRS 7. However, the Phase 2 disclosures are focused on interest rate benchmark reform and will only be required for a limited period of time.

Consistency with Australian Accounting Standards

9. The Australian Accounting Standards Board (AASB) is expected to adopt an equivalent accounting standard in the near future.

10. In March 2020, the Australian Accounting Standards Board (AASB) issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements—Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060). 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.[3] The AASB now considers whether to add new disclosures to AASB 1060 on a case-by-case basis.

Due process

11. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the ED, concluded that the applicable

[3] In July 2020, the XRB Board agreed with the NZASB recommendation not to harmonise the disclosure requirements for New Zealand Tier 2 for-profit entities with the disclosure requirements in AASB 1060, and instead wait for the completion of the IASB project *Disclosure Initiative—Subsidiaries that are SMEs*, as that might provide a future reduced disclosure approach for both countries.

due process steps had been completed and agreed to begin the balloting process. This review of due process occurred at the IASB's July 2020 meeting.[4]

12. 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.

13. 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 memorandum

14. Attached as agenda item 5.2 is a copy of the draft amending standard *Interest Rate Benchmark Reform—Phase 2*.

15. Attached as agenda item 5.3 is a draft signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board.

Questions for the Board

Q1. Does the Board approve for issue *Interest Rate Benchmark Reform—Phase 2*?

Q2. Does the Board approve the signing memorandum?

Attachments

For-profit amendments

Agenda item 5.2: Draft: *Interest Rate Benchmark Reform—Phase 2*

Agenda item 5.3: Draft: signing memorandum

Agenda item 5.4: Memo: PBE Policy Approach

PBE amendments

Agenda item 5.5: Cover memo

Agenda item 5.6: Draft: ITC *PBE Interest Rate Benchmark Reform—Phase 2*

Agenda item 5.7: Draft: NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2*

[4] IASB Update July 2020

Appendix A – *Interest Rate Benchmark Reform Phase 2* – amendments

1. The main amendments in *Interest Rate Benchmark Reform—Phase 2* are:

   Practical expedient for modifications

2. As a practical expedient for modifications required by the reform – an entity would not derecognise the financial asset or liability in accordance with NZ IFRS 9 *Financial Instruments*. Modifications required by the reform are to be accounted for by updating the effective interest rate to reflect, for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate. The practical expedient also applies to changes in estimates of future cash payments or receipts due to the activation of an existing contractual clause (for example, the triggering of a 'fallback clause').

   Specific relief from discontinuing hedging relationships

3. The Standard amends the hedge accounting requirements so that changes to hedge designations and hedge documentation required by the reform would not result in discontinuation of hedge accounting. For an entity to continue to apply hedge accounting, its amended hedging relationships would still be required to meet all other qualifying criteria. The Standard also amends the specific requirements for applying hedge accounting to groups of items to reflect the expectation that hedged items within the group may be changed at different times.

   Separately identifiable risk components

4. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. Despite some differences, both IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. When hedging relationships are amended due to the reform or new hedging relationships are designated, an alternative benchmark rate designated as a non-contractually specified risk component may not meet the 'separately identifiable requirement'. This could be because a market for financial instruments referenced to an alternative benchmark rate might not yet be sufficiently developed.

5. The Standard contains amendments so that an alternative benchmark rate is deemed a separately identifiable risk component if an entity reasonably expects it to meet the separately identifiable requirement within 24 months of the date it is designated as a non-contractually specified risk component. However, it must be reliably measurable to qualify for hedge accounting.

   Additional disclosures

6. Additional disclosures have been included in the Standard to enable users to understand the nature and extent of risks arising from interest rate benchmark reform and how those risks are managed. The additional disclosures also provide information about an entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates and how it is managing the transition

Appendix B – Summary of feedback and IASB response

Feedback	**IASB response**
Amendments to hedging relationships	
Some requested clarifications about the scope and required timing of the required changes to the hedging relationships.	Make minor changes to the amendments to ensure permitted changes to hedge documentation include all aspects that could be affected by IBOR reform.
Some respondents requested clarification as to whether the designated hedged risk could include a basis spread between the existing benchmark rate and its replacement.	Include a specific reference to changes to the hedged portion. Clarify that entities will have until the end of the reporting period during which the uncertainty for a particular hedging relationship is resolved, to update the hedge documentation.
Some respondents noted that, instead of modifying the contractual terms of derivatives, central clearing parties might facilitate the transition to alternative benchmark rates using approaches that result in the termination and replacement of derivatives on an economically equivalent basis.	Clarify that modifications required by the reform could be made other than by modifying the contractual terms of the hedging instrument provided the hedging instrument is not derecognised and the outcome is 'economically equivalent' to modifying the hedging instrument to refer to an alternative benchmark rate.
Qualifying hedges – retrospective effectiveness	
The ED proposed to provide relief from failing the effectiveness assessment in IAS 39 solely due to ineffectiveness caused by uncertainty arising from the reform and, at the same time, to retain the requirement to measure and recognise ineffectiveness. Some respondents noted that the proposed relief could unintentionally cause some hedging relationships to fail the retrospective effectiveness assessment (i.e. if the cumulative fair value changes of the hedged item and hedging instrument must be reset to zero for hedging relationships for which hedge effectiveness is assessed on a cumulative basis).	The relief should be available to entities to apply when needed, rather than being required.
Designation of risk components	
The ED proposed to allow an alternative benchmark rate that is not separately identifiable at the date it is designated, to be deemed to have met that requirement if the entity reasonably expects that the rate will be separately identifiable within 24 months. Some respondents observed that 24 months might not be sufficient time for a rate to become established.	Retain the 24 month period (as the relief is intended to be temporary and requires a clear end-date to ensure the integrity of the hedge accounting requirements). Clarify that the 24-month period applies to the individual alternative benchmark rate and therefore begins from the date that an entity designates a particular alternative benchmark rate as the hedged risk for the first time.
Disclosures	
Most respondents supported the proposed disclosures. Some investors noted that certain *quantitative* information would be a useful measure of an entity's progress in the reform.	Require disclosure of quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives (each shown separately) that, at the end of the reporting period remain referenced to interest rate benchmarks subject to the reform.

Interest Rate Benchmark Reform—Phase 2

Issued September 2020

This Standard was issued on 17 September 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 15 October 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 *Interest Rate Benchmark Reform—Phase 2* issued by the International Accounting Standards Board (IASB).

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

APPROVAL BY THE IASB OF *INTEREST RATE BENCHMARK REFORM—PHASE 2* ISSUED IN AUGUST 2020

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS 9 *FINANCIAL INSTRUMENTS*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS 4 *INSURANCE CONTRACTS*

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IFRS16 *LEASES*

Part A – Introduction

This Standard sets out amendments to NZ IFRS as a consequence of *Interest Rate Benchmark Reform—Phase 2* which was issued by the IASB in August 2020.

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

Amendments to NZ IFRS 9 *Financial Instruments*

Paragraphs 5.4.5–5.4.9, paragraphs 6.8.13, 6.9.1–6.9.13, paragraphs 7.1.9 and 7.2.43–7.2.46 are added. A heading is added before paragraph 6.9.1 and subheadings are added before paragraphs 5.4.5, 6.9.7, 6.9.9, 6.9.11 and 7.2.43. For ease of reading these paragraphs have not been underlined.

5.4 Amortised cost measurement

…

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

5.4.5 An entity shall apply paragraphs 5.4.6–5.4.9 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2.

5.4.6 The basis for determining the contractual cash flows of a financial asset or financial liability can change:

(a) by amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);

(b) in a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or

(c) because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).

5.4.7 As a practical expedient, an entity shall apply paragraph B5.4.5 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 5.4.9). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

(a) the change is necessary as a direct consequence of interest rate benchmark reform; and

(b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

5.4.8 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (ie the basis immediately preceding the change) are:

(a) the replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;

(b) changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and

(c) the addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.

5.4.9 If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 5.4.7 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial liability, the entity shall apply paragraph 5.4.3 or paragraph B5.4.6, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

…

6.8 Temporary exceptions from applying specific hedge accounting requirements

End of application

…

6.8.13 An entity shall prospectively cease applying paragraphs 6.8.7 and 6.8.8 at the earlier of:

(a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 6.9.1; or

(b) when the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

6.9 Additional temporary exceptions arising from interest rate benchmark reform

6.9.1 As and when the requirements in paragraphs 6.8.4–6.8.8 cease to apply to a hedging relationship (see paragraphs 6.8.9–6.8.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

(c) amending the description of the hedging instrument.

6.9.2 An entity also shall apply the requirement in paragraph 6.9.1(c) if these three conditions are met:

(a) the entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 5.4.6);

(b) the original hedging instrument is not derecognised; and

(c) the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 5.4.7 and 5.4.8).

6.9.3 The requirements in paragraphs 6.8.4–6.8.8 may cease to apply at different times. Therefore, in applying paragraph 6.9.1, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 6.9.7–6.9.12 as applicable. An entity also shall apply paragraph 6.5.8 (for a fair value hedge) or paragraph 6.5.11 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

6.9.4 An entity shall amend a hedging relationship as required in paragraph 6.9.1 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

6.9.5 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8) or to the designation of the hedging relationship (as required by paragraph 6.9.1), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 6.9.1.

6.9.6 Paragraphs 6.9.7–6.9.13 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 6.4.1, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Cash flow hedges

6.9.7 For the purpose of applying paragraph 6.5.11, at the point when an entity amends the description of a hedged item as required in paragraph 6.9.1(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

6.9.8 For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of items

6.9.9 When an entity applies paragraph 6.9.1 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 6.9.1, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

6.9.10 An entity shall assess separately whether each subgroup meets the requirements in paragraph 6.6.1 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 6.6.1, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 6.5.8 and 6.5.11 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of risk components

6.9.11 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 6.3.7(a) and B6.3.8) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (ie the 24-month period applies on a rate-by-rate basis).

6.9.12 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 6.9.11 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk component.

6.9.13 In addition to those hedging relationships specified in paragraph 6.9.1, an entity shall apply the requirements in paragraphs 6.9.11 and 6.9.12 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 6.3.7(a) and B6.3.8) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

7.1 Effective date

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7.1.9 *Interest Rate Benchmark Reform—Phase 2*, which amended NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16, issued in September 2020, added paragraphs 5.4.5–5.4.9, 6.8.13, Section 6.9 and paragraphs 7.2.43–7.2.46. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

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Transition for *Interest Rate Benchmark Reform—Phase 2*

7.2.43 An entity shall apply *Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with NZ IAS 8, except as specified in paragraphs 7.2.44–7.2.46.

7.2.44 An entity shall designate a new hedging relationship (for example, as described in paragraph 6.9.13) only prospectively (ie an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) the entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

7.2.45 If, in applying paragraph 7.2.44, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 6.9.11 and 6.9.12 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (ie the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).

7.2.46 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Amendments to NZ IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 102M is amended. New text is underlined, and deleted text is struck through.

Paragraphs 102O–102Z3 and 108H–108K are added. A heading is added before paragraph 102P and subheadings are added before paragraphs 102P, 102V, 102Y and 102Z1. For ease of reading these paragraphs have not been underlined.

Temporary exceptions from applying specific hedge accounting requirements

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End of application

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102M An entity shall prospectively cease applying paragraph 102G to a hedging relationship at the earlier of:

(a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item ~~or~~and of the hedging instrument; and

(b) when the hedging relationship to which the exception is applied is discontinued.

...

102O An entity shall prospectively cease applying paragraphs 102H and 102I at the earlier of:

(a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 102P; or

(b) when the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional temporary exceptions arising from interest rate benchmark reform

Hedge accounting

102P As and when the requirements in paragraphs 102D–102I cease to apply to a hedging relationship (see paragraphs 102J–102O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8 of NZ IFRS 9. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;

(c) amending the description of the hedging instrument; or

(d) amending the description of how the entity will assess hedge effectiveness.

102Q An entity also shall apply the requirement in paragraph 102P(c) if these three conditions are met:

(a) the entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 5.4.6 of NZ IFRS 9);

(b) the original hedging instrument is not derecognised; and

(c) the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 5.4.7 and 5.4.8 of NZ IFRS 9).

102R The requirements in paragraphs 102D–102I may cease to apply at different times. Therefore, applying paragraph 102P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 102V–102Z2 as applicable. An entity also shall apply paragraph 89 (for a fair value hedge) or paragraph 96 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

102S An entity shall amend a hedging relationship as required in paragraph 102P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

102T If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8 of NZ IFRS 9) or to the designation of the hedging relationship (as required by paragraph 102P), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 102P.

102U Paragraphs 102V–102Z3 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 88, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Retrospective effectiveness assessment

102V For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 88(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 102G as required by paragraph 102M. This election is made separately for each hedging relationship (ie on an individual hedging relationship basis).

Cash flow hedges

102W For the purpose of applying paragraph 97, at the point when an entity amends the description of a hedged item as required in paragraph 102P(b), the cumulative gain or loss in other comprehensive income shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

102X For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 101(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in other comprehensive income for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of items

102Y When an entity applies paragraph 102P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 102P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash

flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

102Z An entity shall assess separately whether each subgroup meets the requirements in paragraphs 78 and 83 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 78 and 83, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 89 or 96 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating financial items as hedged items

102Z1 An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 81 and AG99F) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (ie the 24-month period applies on a rate-by-rate basis).

102Z2 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 102Z1 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk portion.

102Z3 In addition to those hedging relationships specified in paragraph 102P, an entity shall apply the requirements in paragraphs 102Z1 and 102Z2 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 81 and AG99F) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

Effective date and transition

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108H *Interest Rate Benchmark Reform—Phase 2*, which amended NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16, issued in September 2020, added paragraphs 102O–102Z3 and 108I–108K, and amended paragraph 102M. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with NZ IAS 8, except as specified in paragraphs 108I–108K.

108I An entity shall designate a new hedging relationship (for example, as described in paragraph 102Z3) only prospectively (ie an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) the entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

108J If, in applying paragraph 108I, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 102Z1 and 102Z2 to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of these amendments (ie the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

108K An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 24I–24J and 44GG–44HH are added and a subheading is added before paragraph 24I. For ease of reading these paragraphs have not been underlined. Paragraphs 44DE and 44DF are renumbered as paragraphs 44EE and 44FF.

Other disclosures

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Additional disclosures related to interest rate benchmark reform

24I To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

(a) the nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and

(b) the entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

24J To meet the objectives in paragraph 24I, an entity shall disclose:

(a) how the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

(b) disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:

(i) non-derivative financial assets;

(ii) non-derivative financial liabilities; and

(iii) derivatives; and

(c) if the risks identified in paragraph 24J(a) have resulted in changes to an entity's risk management strategy (see paragraph 22A), a description of these changes.

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Effective date and transition

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44~~DE~~EE *Interest Rate Benchmark Reform*, which amended NZ IFRS 9, NZ IAS 39 and NZ IFRS 7, issued in November 2019, added paragraphs 24H and 44DF. An entity shall apply these amendments when it applies the amendments to NZ IFRS 9 or NZ IAS 39.

44~~DF~~FF In the reporting period in which an entity first applies *Interest Rate Benchmark Reform*, issued in November 2019, an entity is not required to present the quantitative information required by paragraph 28(f) of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

44GG *Interest Rate Benchmark Reform—Phase 2*, which amended NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16, issued in September 2020, added paragraphs 24I–24J and 44HH. An entity shall apply these amendments when it applies the amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 4 or NZ IFRS 16.

44HH In the reporting period in which an entity first applies *Interest Rate Benchmark Reform—Phase 2*, an entity is not required to disclose the information that would otherwise be required by paragraph 28(f) of NZ IAS 8.

Amendments to NZ IFRS 4 *Insurance Contracts*

Paragraphs 20R–20S and paragraphs 50–51 are added. A subheading is added before paragraph 20R. For ease of reading these paragraphs have not been underlined.

Recognition and measurement

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Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

20R An insurer applying the temporary exemption from NZ IFRS 9 shall apply the requirements in paragraphs 5.4.6–5.4.9 of NZ IFRS 9 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 102B of NZ IAS 39.

20S For the purpose of applying paragraphs 5.4.6–5.4.9 of the amendments to NZ IFRS 9, the references to paragraph B5.4.5 of NZ IFRS 9 shall be read as referring to paragraph AG7 of NZ IAS 39. References to paragraphs 5.4.3 and B5.4.6 of NZ IFRS 9 shall be read as referring to paragraph AG8 of NZ IAS 39.

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Effective date and transition

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50 *Interest Rate Benchmark Reform—Phase 2*, which amended NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16, issued in September 2020, added paragraphs 20R–20S and paragraph 51. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with NZ IAS 8, except as specified in paragraph 51.

51 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Amendments to NZ IFRS 16 *Leases*

Paragraphs 104–106 and paragraphs C1B and C20C–C20D are added. A heading is added before paragraph 104 and a subheading is added before paragraph C20C. For ease of reading these paragraphs have not been underlined.

Temporary exception arising from interest rate benchmark reform

104 A lessee shall apply paragraphs 105–106 to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 5.4.6 and 5.4.8 of NZ IFRS 9). These paragraphs apply only to such lease modifications. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of NZ IFRS 9.

105 As a practical expedient, a lessee shall apply paragraph 42 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) the modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) the new basis for determining the lease payments is economically equivalent to the previous basis (ie the basis immediately preceding the modification).

106 However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

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Effective date

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C1B *Interest Rate Benchmark Reform—Phase 2*, which amended NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16, issued in September 2020, added paragraphs 104–106 and C20C–C20D. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Transition

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Interest Rate Benchmark Reform—Phase 2

C20C An entity shall apply these amendments retrospectively in accordance with NZ IAS 8, except as specified in paragraph C20D.

C20D An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Part D – Effective Date

This Standard shall be applied for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	10 September 2020
To:	Michele Embling, Chair External Reporting Board
From:	Michael Bradbury, Acting Chair NZASB
Subject:	***Interest Rate Benchmark Reform—Phase 2***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *Interest Rate Benchmark Reform—Phase 2.* The amending standard amends NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement*, NZ IFRS 7 *Financial Instruments: Disclosures*, NZ IFRS 4 *Insurance Contracts* and NZ IFRS 16 *Leases*.

2. The objective of the Phase 2 amendments is to assist entities with providing useful information to users of financial statements and to support preparers in applying NZ IFRS when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates. Interest rate benchmark reform is significant because benchmark rates underpin almost all financial products based on variable interest rates.

3. The Phase 2 amendments relate to:

   - changes to contractual cash flows — an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to an alternative benchmark rate;
   - hedge accounting — an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
   - disclosures — an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

Due process

4. IASB ED/2020/1 *Interest Rate Benchmark Reform—Phase 2* (the ED) was issued in April 2020 with comments due by 25 May. In New Zealand, due to the short comment period, we asked

[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).

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 80 comment letters on this ED from its world-wide constituents. The IASB did not receive any comments from New Zealand constituents.

6. Respondents were broadly supportive. The feedback received led to some minor changes and clarifications and an additional disclosure.

Finalising the amendments

7. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2020/1 and concluded that the applicable due process steps for the amendments being finalised had been completed. This review of due process occurred at the IASB's meeting in July 2020.[2]

8. The IASB issued *Interest Rate Benchmark Reform—Phase 2* in late August 2020. The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted.

9. The NZASB has approved *Interest Rate Benchmark Reform—Phase 2*. 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.

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 Commissioner is required.

Consistency with XRB Financial Reporting Strategy

11. The amending standard is a standard in its own right. *Interest Rate Benchmark Reform—Phase 2* is identical to *Interest Rate Benchmark Reform—Phase 2* issued by the IASB, except for the New Zealand specific introduction and a scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities.

12. The amending standard establishes some new disclosure requirements. We do not propose any RDR concessions in respect of the new disclosure requirements. The Phase 2 disclosures are focused on interest rate benchmark reform and will only be required for a limited period of time.

13. The Australian Accounting Standards Board (AASB) is expected to adopt an equivalent amending standard in the near future.

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[2] A summary of the IASB's July 2020 meeting is available at: IASB Update July 2020

14. In March 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* (AASB 1060). 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.[3] The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis.

15. The issue 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 for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Effective date

16. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2021, with early application permitted.

Other matters

17. The NZASB has agreed to propose equivalent amendments to PBE Standards so that PBEs affected by IBOR reform have access to the same practical expedients and relief as for-profit entities. The phase one IBOR amendments have already been incorporated in PBE Standards.

Recommendation

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

Attachments

Interest Rate Benchmark Reform—Phase 2

Certificate of determination

Michael Bradbury
Acting Chair NZASB

[3] In July 2020, the XRB Board agreed with the NZASB recommendation not to harmonise the disclosure requirements for New Zealand Tier 2 for-profit entities with the disclosure requirements in AASB 1060, and instead wait for the completion of the IASB project *Disclosure Initiative—Subsidiaries that are SMEs*, as that might provide a future reduced disclosure approach for both countries.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	2 September 2020
To:	NZASB Members
From:	Joanne Scott
Subject:	*PBE Policy Approach: Interest Rate Benchmark Reform—Phase 2*

Recommendations[1]

1. The Board is asked to:

   (a) CONSIDER the application of the *Policy Approach to the Development of PBE Standards* (the Policy) to *Interest Rate Benchmark Reform—Phase 2*; and

   (b) AGREE to propose equivalent amendments to PBE Standards.

2. If the Board agrees to propose equivalent amendments to PBE Standards, we are also seeking approval to issue an Invitation to Comment (ITC) and Exposure Draft (ED) (see agenda items 5.5 to 5.7).

Background

3. As noted in agenda item 5.1 the IASB has now completed the second phase of its work on interest rate benchmark reform. Assuming that the Board approves the for-profit amending standard, the next step is to consider whether the amendments should be incorporated in PBE Standards, and if so, when.

4. The phase one amendments have already been incorporated in PBE Standards and the Board has indicated that it intends to do the same for the phase two amendments. Relevant Board discussions are as follows.

   October 2019

   (a) The Board considered the application of the Policy to the phase one amendments and agreed to incorporate them in PBE Standards. Although staff had not identified any specific PBEs that would require the amendments, outreach indicated that some PBEs could require the relief offered by the amendments.[2] The Board noted that the

[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] Agenda paper 5.4, considered at the Board's meeting on 30 October 2019, summarised outreach undertaken to assess the need for the phase one amendments. Some PBEs indicated that they did not require the phase one amendments because they did not manage interest rate risk, or if they did, they transacted mainly in NZD and/or did not designate any derivative financial instruments as hedges in a hedging relationship. However, we received feedback that some PBEs (for example, those that invest offshore or raise funds in currencies other than NZD) could be affected.

amendments would provide relief for an affected entity but would not impose requirements on other entities. The phase one ITC and ED were issued following the October 2019 meeting.

February 2020

(b) The Board approved *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IPSAS 29 and PBE IPSAS 30.

May 2020

(c) Staff noted that the IASB intends to finalise the phase two amendments as quickly as possible and that the Board would be asked to approve the for-profit amendments later this year. Staff sought permission to draft a PBE ITC and ED for consideration at the same time as seeking approval of the for-profit amendments. The Board concurred with this suggestion.

5. The phase one amendments were expected to affect relatively few PBEs. They focused on providing targeted relief for certain forward-looking requirements related to hedge accounting. Although the phase two amendments are also narrow in scope, they are likely to affect more entities than the phase one amendments. The exceptions established by the phase two amendments apply to those modifications to contractual cash flows that are (a) required as a direct consequence of IBOR reform and (b) done on an economically equivalent basis, and the consequential changes in hedge accounting.

PBE Policy Approach

6. As noted above, the Board has already applied the Policy to the phase one amendments and made equivalent amendments to PBE Standards.

7. We think that the phase two amendments should also be incorporated in PBE Standards. Our reasons are as follows.

(a) The Board has previously highlighted the importance and benefits of close alignment between the for-profit and PBE Standards dealing with financial instruments and its desire to maintain this close alignment.

(b) There are likely to be PBEs that require the phase two amendments.

(c) This is an urgent issue (evidenced by the IASB's short comment period for the proposals and speed in finalising the amendments) and it would be unreasonable to make New Zealand PBEs wait until the IPSASB has considered these amendments. The IPSASB has not yet considered the phase one amendments.

(d) The amendments will not impose additional requirements on entities that are unaffected by IBOR reform.

(e) It will make life easier for constituents if the PBE amendments have the same effective date as the for-profit amendments.

RDR concessions

8. The phase two amendments require disclosures about interest rate benchmark reform. We have not proposed any RDR concessions in relation to the for-profit disclosures and do not propose any RDR concessions for PBEs in respect of the new disclosure requirements. We note that the new disclosures will be required for a limited time.

Question for the Board

Q1. Does the Board agree to propose amendments equivalent to *Interest Rate Benchmark Reform—Phase 2* to PBE Standards?

ITC and ED

9. If the Board says "yes" to Question 1, then we will seek approval to issue the ITC and ED (see agenda items 5.5, 5.6 and 5.7).

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	2 September 2020
To:	NZASB Members
From:	Joanne Scott
Subject:	**PBE IBOR Phase 2**

Purpose

1. Earlier in this agenda item we are seeking approval of *Interest Rate Benchmark Reform—Phase 2* (see agenda items 5.1–5.3) and recommending that the Board propose equivalent amendments to PBE Standards (see agenda item 5.4).

2. This memo seeks approval of the ITC and ED (see agenda items 5.5 and 5.6) to propose equivalent amendments to PBE Standards.

Recommendations[1]

3. The Board is asked to

   (a) APPROVE for issue NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* and the accompanying ITC; and

   (b) AGREE a comment period of 45 days, with comments closing on 26 October 2020.

Comment period

4. The normal comment period for domestic exposure drafts is 90 days, but it can be less in certain circumstances. EG A2 *Overview of the Accounting Standard Setting Process* (paragraph 42) says "The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods will be used only for urgent or minor matters and will never be less than 30 days."

5. The IASB has treated the Phase 2 amendments as urgent. The IASB allowed a 45-day comment period and has worked hard to issue the amendments as quickly as possible. The IASB sought the approval of the Due Process Oversight Committee (DPOC) for a short comment period for the project.[2] The DPOC memo explained that the amendments are narrow in scope and the relief granted by the amendments will be temporary in nature. It noted that the exceptions would simplify application of some requirements for preparers and avoid some potentially

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

[2] The memo seeking approval for a shorter comment period can be found at https://cdn.ifrs.org/-/media/feature/meetings/2020/february/trustees/ap1d.pdf

disruptive effects on financial statements arising from IBOR reform (such as potential disruption to hedge accounting relationships). The memo also noted the expected broad consensus on the proposed amendments (which has subsequently been observed).

6. Other standard-setting bodies also regard the amendments as urgent. For example, the European Financial Reporting Advisory Group (EFRAG) has accelerated its usual consultation process for endorsement.

7. Although we do not know how many PBEs will benefit from these amendments, we anticipate that affected entities would regard them as urgent.

8. We therefore propose:
   (a) a comment period of 45 days, with comments closing 26 October 2020; and
   (b) an effective date of 1 January 2021, with early application permitted (which is the same as the effective date of the NZ IFRS amendments).

9. If the Board is willing to accept late papers in November the proposed comment period would allow the Board to consider any submissions and approval of the amendments at its 4 November 2020 meeting.

Differences between the amendments to NZ IFRS and PBE Standards

10. Most of the proposed amendments to PBE Standards are directly equivalent to the NZ IFRS amendments. For those wanting to compare the amendments to NZ IFRS and PBE Standards, the ITC includes a table summarising the proposed amendments and an appendix listing the relevant paragraphs.

11. There is one key difference between the for-profit amendments and the proposed amendments to PBE Standards. We are proposing that the new practical expedient for entities applying amortised cost be made available to entities applying PBE IPSAS 41 *Financial Instruments*, PBE IFRS 9 *Financial Instruments* <u>and</u> PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. We needed to do this because some PBEs are still applying PBE IPSAS 29 in full. The IASB had a similar situation because some insurers are still applying IAS 39 in full – the IASB made the new practical expedient available to such insurers by amending IFRS 4 *Insurance Contracts*. We have used the IASB's amendments to IFRS 4 as the basis for PBE IPSAS 29 paragraphs AG20A and AG20B.

Attachments

Agenda item 5.6: Draft: ITC *PBE Interest Rate Benchmark Reform—Phase 2*

Agenda item 5.7: Draft: NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2*

Agenda Item 5.6

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2020-5
PBE Interest Rate Benchmark Reform—Phase 2

Proposed amendments to
PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30

(NZASB ED 2020-5)

Invitation to Comment

September 2020

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Appendix 9

NZASB ED 2020-5 PBE Interest Rate Benchmark Reform—Phase 2 .... see separate file

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposed amendments.

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

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

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

Please indicate whether the comments are made on your own behalf, on behalf of a group of people, or on behalf of an entity.

The closing date for submissions is **26 October 2020**.

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

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

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

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

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IASB	International Accounting Standards Board
IBOR	Interbank offered rate
IPSASB	International Public Sector Accounting Standards Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE Standards	Public Benefit Entity Standards

Questions for respondents

		Paragraphs
1	Do you agree with the proposed amendments? If you disagree, please explain why.	8–10
2	Do you agree with the proposed effective date? If you disagree, please explain why.	11
3	Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. In 2014, the Financial Stability Board[2] recommended the reform of some interest rate benchmarks such as interbank offered rates (IBORs). Since then, many jurisdictions have taken steps to implement interest rate benchmark reform. Some interest rate benchmarks, such as the London Inter-bank Offered Rate (LIBOR) are being phased out, alternative risk free rates are being established, and other benchmarks are being strengthened. The New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) has been largely unaffected by the international reforms. However, some New Zealand entities will have loan agreements or derivative contracts that refer to other interest rate benchmarks and may encounter financial reporting issues associated with the reforms.

2. The International Accounting Standards Board (IASB) has issued two sets of amendments to IFRS® Standards to address the effects of interest rate benchmark reform on financial reporting.

   (a) In September 2019 the IASB issued *Interest Rate Benchmark Reform* (also referred to as pre-replacement, or 'Phase 1' amendments), which addressed issues affecting financial reporting in the lead up to the reform of an interest rate benchmark.

   (b) In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* (also referred to as replacement or 'Phase 2' amendments) which addresses replacement issues that arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates. The objective of Phase 2 is to assist entities in providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the transition to alternative benchmark rates.

3. In keeping with New Zealand's Accounting Standards Framework, the NZASB has incorporated the Phase 1 and Phase 2 amendments in NZ IFRS.

4. Generally, the NZASB waits for the International Public Sector Accounting Standards Board (IPSASB) to consider changes to IFRS Standards before proposing amendments to PBE Standards. In this case the NZASB considered that the amendments might be urgently required by some PBEs and that there are benefits from keeping the two sets of financial instrument standards closely aligned. In February 2020, the NZASB issued *PBE Interest Rate Benchmark Reform* which incorporated the Phase 1 amendments in PBE Standards. The NZASB is now proposing to incorporate the Phase 2 IBOR amendments in PBE Standards on the grounds that some PBEs could benefit from the targeted relief and clarifications in those amendments.

[2] The Financial Stability Board is an international body that promotes international financial stability by coordinating the development of regulatory, supervisory and other financial sector policies by national financial authorities and international standard-setting bodies.

1.2 Purpose of this Invitation to Comment

5. This Invitation to Comment and associated Exposure Draft (ED) seek comments on the proposal to incorporate the Phase 2 IBOR amendments into PBE Standards.

1.3 Timeline and next steps

6. Submissions on NZASB ED 2020-5 are due by 26 October 2020. This is a shorter comment period than usual because entities affected by the reforms could have an urgent need for the amendments. Page 4 of this Invitation to Comment explains how to make a submission.

7. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise the amendments before the end of the year.

2. Overview of Invitation to Comment and ED

2.1 Amendments to PBE Standards

8. The ED proposes to amend the following standards:

   (a) PBE IPSAS 41 *Financial Instruments*;

   (b) PBE IFRS 9 *Financial Instruments*;

   (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and

   (d) PBE IPSAS 30 *Financial Instruments: Disclosures*.

9. Table 1 below summarises the amendments to NZ IFRS and the proposed amendments to PBE Standards. The Appendix to this Invitation to Comment lists the relevant paragraphs. Readers might also be interested in the IASB's explanation of the amendments.[3]

Table 1

<table>
<tr><th>IBOR Phase 2 amendments NZ IFRS</th><th>Proposed amendments to PBE Standards</th></tr>
<tr><td rowspan="2">NZ IFRS 9 Financial Instruments
Modifications
• Provides a practical expedient for changes in the contractual cash flows of a financial asset or financial liability, when such changes are directly required by the IBOR reform.
Hedge accounting
• Provides relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.</td><td>PBE IPSAS 41 Financial Instruments
• Equivalent to the amendments to NZ IFRS 9.
• See also the transition requirements.</td></tr>
<tr><td>PBE IFRS 9 Financial Instruments
• Equivalent to the amendments to NZ IFRS 9.</td></tr>
</table>

[3] See the IASB project page https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-2/#about

IBOR Phase 2 amendments NZ IFRS	Proposed amendments to PBE Standards
NZ IAS 39 Financial Instruments: Recognition and Measurement Hedge accounting • Provides relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.	**PBE IPSAS 29 Financial Instruments: Recognition and Measurement** • Equivalent hedge accounting relief to the amendments to NZ IAS 39. • In addition, paragraphs AG20A and AG20B have been added. These paragraphs refer entities which measure financial assets or liabilities at amortised cost to the practical expedient available in PBE IPSAS 41 [and PBE IFRS 9], in relation to changes in contractual cash flows as a result of IBOR reform.
NZ IFRS 7 Financial Instruments: Disclosures • Requires disclosures about the nature and extent of risks arising from IBOR reform, an entity's progress in completing IBOR reform and how it is managing the transition.	**PBE IPSAS 30 Financial Instruments: Disclosures** • Equivalent to the amendments to NZ IFRS 7.
NZ IFRS 4 Insurance Contracts • Requires insurers that apply the temporary exemption from NZ IFRS 9 to apply amendments equivalent to those made to NZ IFRS 9.	• No change to PBE IFRS 4 *Insurance Contracts*. There is no equivalent temporary exemption in that standard.
NZ IFRS 16 Leases • Provides a practical expedient for lessees relating to lease modifications brought about by IBOR reform.	• No change to PBE IPSAS 13 *Leases*. Lessee accounting requirements in PBE IPSAS 13 differ from those in NZ IFRS 16.

10. No disclosure concessions are proposed for Tier 2 PBEs. The additional disclosures will be required for a limited period of time.

2.2 Effective date

11. The proposed effective date for the amendments is 1 January 2021, with early adoption permitted.

Questions for respondents

1. Do you agree with the proposed amendments? If you disagree, please explain why.
2. Do you agree with the proposed effective date? If you disagree, please explain why.
3. Do you have any other comments on the ED?

Appendix

IBOR Phase 2 amendments NZ IFRS	Proposed amendments to PBE Standards
IFRS 9 Financial Instruments	**PBE IPSAS 41 Financial Instruments**
Added paragraphs 5.4.5–5.4.9	Added paragraphs 72.1–72.5
Added paragraph 6.8.13	Added paragraph 155.13
Added paragraphs 6.9.1–6.9.13	Added paragraphs 155.14–155.26
Added paragraph 7.1.9	Added paragraph 156.4
Added paragraphs 7.2.43–7.2.46	Amended paragraphs 157.7–157.8 Added paragraphs 157.12–157.15 Amended paragraph 179 Added paragraph 184A
	Added paragraphs BC15–BC16
IFRS 9 Financial Instruments	**PBE IFRS 9 Financial Instruments**
Added paragraphs 5.4.5–5.4.9	Added paragraphs 5.4.5–5.4.9
Added paragraph 6.8.13	Added paragraph 6.8.13
Added paragraphs 6.9.1–6.9.13	Added paragraphs 6.9.1–6.9.13
Added paragraph 7.1.9	Added paragraph 7.1.9
Added paragraphs 7.2.43–7.2.46	Added paragraphs 7.2.43–7.2.46
	Added paragraphs BC22–BC23
IAS 39 Financial Instruments: Recognition and Measurement	**PBE IPSAS 29 Financial Instruments: Recognition and Measurement**
Amended paragraph 102M	Amended paragraph 113M
Added paragraphs 102O–102Z3	Added paragraphs 113O–113Z3
Added paragraphs 108H–108K	Added paragraphs 126.10–126.14
	Added paragraphs AG20A and AG20B
	Added paragraphs BC5–BC6
IFRS 7 Financial Instruments: Disclosures	**PBE IPSAS 30 Financial Instruments: Disclosures**
Added paragraphs 24I–24J	Added paragraphs 28I–28J
Added paragraphs 44GG–44HH	Added paragraphs 53.11–53.12
	Added paragraphs BC4–BC5
IFRS 4 Insurance Contracts	Not relevant for PBE IFRS 4 *Insurance Contracts* The amendments to IFRS 4 were used as the basis for PBE IPSAS 29 paragraphs AG20A and AG20B.
IFRS 16 Leases	Not relevant for PBE IPSAS 13 *Leases*

NZASB EXPOSURE DRAFT 2020-5

PBE Interest Rate Benchmark Reform—Phase 2

Issued [date]

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

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

This [draft] Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Accounting Standards Board to address the effects of interest rate benchmark reform on an entity's financial statements that arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). It follows *PBE Interest Rate Benchmark Reform*, issued in February 2020, which addressed issues affecting financial reporting in the period before the reform of an interest rate benchmark.

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

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Part A – Introduction

This Standard sets out amendments to PBE Standards to address the effects of interest rate benchmark reform on an entity's financial statements. These issues arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates).

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

Part B – Scope

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

Part C – Amendments

Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 72.1–72.5, paragraphs 155.13, 155.14–155.26, paragraphs 156.5, 157.12–157.15 and 184A are added. Paragraphs 157.7, 157.8 and 179 are amended. A heading is added before paragraph 155.14 and subheadings are added before paragraphs 72.1, 155.20, 155.22, 155.24, 157.12 and 184A. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9. References to [PBE IFRS 9] will be omitted when PBE IPSAS 41 is compiled.

Amortised Cost Measurement

...

Changes in the Basis for Determining the Contractual Cash Flows as a Result of Interest Rate Benchmark Reform

72.1 An entity shall apply paragraphs 72.2–72.5 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 155.2.

72.2 The basis for determining the contractual cash flows of a financial asset or financial liability can change:

(a) By amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);

(b) In a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or

(c) Because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).

72.3 As a practical expedient, an entity shall apply paragraph AG160 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 72.5). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

(a) The change is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately preceding the change).

72.4 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e., the basis immediately preceding the change) are:

(a) The replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;

(b) Changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and

(c) The addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.

72.5 If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 72.3 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial liability, the entity shall apply paragraph 71 or paragraph AG161, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

...

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

End of Application

...

155.13 An entity shall prospectively cease applying paragraphs 155.6 and 155.8 at the earlier of:

(a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 155.14; or

(b) When the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

155.14 As and when the requirements in paragraphs 155.4–155.8 cease to apply to a hedging relationship (see paragraphs 155.9–155.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72.2–72.4. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

(c) Amending the description of the hedging instrument.

155.15 An entity also shall apply the requirement in paragraph 155.14(c) if these three conditions are met:

(a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72.2);

(b) The original hedging instrument is not derecognised; and

(c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72.3 and 72.4).

155.16 The requirements in paragraphs 155.4–155.8 may cease to apply at different times. Therefore, in applying paragraph 155.14, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 155.20–155.25 as applicable. An entity also shall apply paragraph 137 (for a fair value hedge) or paragraph 140 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

155.17 An entity shall amend a hedging relationship as required in paragraph 155.14 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

155.18 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72.2–72.4) or to the designation of the hedging relationship (as required by paragraph 155.14), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 155.14.

155.19 Paragraphs 155.20–155.26 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 129, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships

Cash Flow Hedges

155.20 For the purpose of applying paragraph 140, at the point when an entity amends the description of a hedged item as required in paragraph 155.14(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

155.21 For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

155.22 When an entity applies paragraph 155.14 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 155.14, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

155.23 An entity shall assess separately whether each subgroup meets the requirements in paragraph 146 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 146, the entity shall

discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 137 and 140 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of Risk Components

155.24 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 128(a) and AG257) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (i.e., the 24month period applies on a rate-by-rate basis).

155.25 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 155.24 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a noncontractually specified risk component.

155.26 In addition to those hedging relationships specified in paragraph 155.14, an entity shall apply the requirements in paragraphs 155.24 and 155.25 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 128(a) and AG257) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

Effective Date

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156.5 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in [Month] 2020, added paragraphs 72.1–72.5, 155.13, 155.14–155.26 and 157.12–157.15 and amended paragraphs 157.7, 157.8 and 179. If an entity has early adopted PBE IPSAS 41 it shall apply these amendments for annual periods beginning on or after [1 January 2021]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. If an entity has not early adopted PBE IPSAS 41, it shall apply these amendments when it first applies PBE IPSAS 41.

Transition

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Entities Transitioning from PBE IFRS 9

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Hedge Accounting

157.7 When an entity that has previously applied the hedge accounting requirements of PBE IFRS 9 first applies this Standard it shall apply the requirements in paragraphs 113–~~155.12~~155.26 of this Standard. On first time application of this Standard it shall apply hedge accounting to the existing hedging relationships to which it applied hedge accounting under PBE IFRS 9.

157.8 When an entity that has previously applied PBE IFRS 9 continued to apply the hedge accounting requirements of PBE IPSAS 29 it may continue to apply those requirements. Alternatively, an entity may elect, on adoption of this Standard, to apply the requirements in paragraphs 113–~~155.12~~155.26 of this Standard in accordance with paragraphs 179–184A of this Standard.

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Transition for PBE Interest Rate Benchmark Reform—Phase 2

157.12 An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 157.13–157.15.

157.13 An entity shall designate a new hedging relationship (for example, as described in paragraph 155.26) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

157.14 If, in applying paragraph 157.13, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 155.24 and 155.25 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).

157.15 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Entities Transitioning from PBE IPSAS 29

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Transition for Hedge Accounting

179. When an entity first applies this Standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of PBE IPSAS 29 instead of the requirements in paragraphs 113–~~155.12~~155.26 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Appendix C of PBE IPSAS 29.

…

Transition for PBE Interest Rate Benchmark Reform—Phase 2

184A An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 157.13–157.15.

In the Basis for Conclusions, paragraphs BC15 and BC16 are added.

Interest Rate Benchmark Reform—Phase 2

BC15. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided a practical expedient for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform. As a consequence of the amendments, entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect

the change to the alternative benchmark rate. The amendments also provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.

BC16. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks would also benefit from these amendments and proposed equivalent amendments to PBE Standards. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020.

Amendments to PBE IFRS 9 *Financial Instruments*

Paragraphs 5.4.5–5.4.9, paragraphs 6.8.13, 6.9.1–6.9.13, paragraphs 7.1.9 and 7.2.43–7.2.46 are added. A heading is added before paragraph 6.9.1 and subheadings are added before paragraphs 5.4.5, 6.9.7, 6.9.9, 6.9.11 and 7.2.43. For ease of reading these paragraphs have not been underlined.

5.4 Amortised cost measurement

…

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

5.4.5 An entity shall apply paragraphs 5.4.6–5.4.9 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2.

5.4.6 The basis for determining the contractual cash flows of a financial asset or financial liability can change:

(a) by amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);

(b) in a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or

(c) because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).

5.4.7 As a practical expedient, an entity shall apply paragraph B5.4.5 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 5.4.9). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

(a) the change is necessary as a direct consequence of interest rate benchmark reform; and

(b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately preceding the change).

5.4.8 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e., the basis immediately preceding the change) are:

(a) the replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;

(b) changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and

(c) the addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.

5.4.9 If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 5.4.7 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial

liability, the entity shall apply paragraph 5.4.3 or paragraph B5.4.6, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

...

6.8 Temporary exceptions from applying specific hedge accounting requirements

End of application

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6.8.13 An entity shall prospectively cease applying paragraphs 6.8.7 and 6.8.8 at the earlier of:

(a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 6.9.1; or

(b) when the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

6.9 Additional temporary exceptions arising from interest rate benchmark reform

6.9.1 As and when the requirements in paragraphs 6.8.4–6.8.8 cease to apply to a hedging relationship (see paragraphs 6.8.9–6.8.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

(c) amending the description of the hedging instrument.

6.9.2 An entity also shall apply the requirement in paragraph 6.9.1(c) if these three conditions are met:

(a) the entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 5.4.6);

(b) the original hedging instrument is not derecognised; and

(c) the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 5.4.7 and 5.4.8).

6.9.3 The requirements in paragraphs 6.8.4–6.8.8 may cease to apply at different times. Therefore, in applying paragraph 6.9.1, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 6.9.7–6.9.12 as applicable. An entity also shall apply paragraph 6.5.8 (for a fair value hedge) or paragraph 6.5.11 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

6.9.4 An entity shall amend a hedging relationship as required in paragraph 6.9.1 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

6.9.5 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8) or to the designation of the hedging relationship (as required by paragraph 6.9.1), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation

of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 6.9.1.

6.9.6 Paragraphs 6.9.7–6.9.13 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 6.4.1, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Cash flow hedges

6.9.7 For the purpose of applying paragraph 6.5.11, at the point when an entity amends the description of a hedged item as required in paragraph 6.9.1(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

6.9.8 For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of items

6.9.9 When an entity applies paragraph 6.9.1 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 6.9.1, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

6.9.10 An entity shall assess separately whether each subgroup meets the requirements in paragraph 6.6.1 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 6.6.1, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 6.5.8 and 6.5.11 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of risk components

6.9.11 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 6.3.7(a) and B6.3.8) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (i.e., the 24month period applies on a rate-by-rate basis).

6.9.12 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 6.9.11 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a noncontractually specified risk component.

6.9.13 In addition to those hedging relationships specified in paragraph 6.9.1, an entity shall apply the requirements in paragraphs 6.9.11 and 6.9.12 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 6.3.7(a) and B6.3.8) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

7.1 Effective date

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7.1.9 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30, issued in [Month] 2020, added paragraphs 5.4.5–5.4.9, 6.8.13, Section 6.9 and paragraphs 7.2.43–7.2.46. An entity shall apply these amendments for annual periods beginning on or after [1 January 2021]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

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7.2.27–7.2.42 [Not used]

Transition for PBE Interest Rate Benchmark Reform—Phase 2

7.2.43 An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 7.2.44–7.2.46.

7.2.44 An entity shall designate a new hedging relationship (for example, as described in paragraph 6.9.13) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) the entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

7.2.45 If, in applying paragraph 7.2.44, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 6.9.11 and 6.9.12 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).

7.2.46 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

In the Basis for Conclusions, paragraphs BC22 and BC23 are added.

Interest Rate Benchmark Reform—Phase 2

BC22. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided a practical expedient for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform. As a consequence of the amendments, entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the

alternative benchmark rate. The amendments also provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.

BC23. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks would also benefit from these amendments and proposed equivalent amendments to PBE Standards. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020.

Amendments to PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

Paragraph 1132M is amended. New text is underlined, and deleted text is struck through.

Paragraphs 113O–113Z3 and 126.10–126.13 are added. A heading is added before paragraph 113P and subheadings are added before paragraphs 113P, 113V, 113Y and 113Z1. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9.

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

…

End of Application

113M~~102M~~ An entity shall prospectively cease applying paragraph 113G~~102G~~ to a hedging relationship at the earlier of:

(a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item ~~or~~ and of the hedging instrument; and

(b) When the hedging relationship to which the exception is applied is discontinued.

...

113O An entity shall prospectively cease applying paragraphs 113H and 113I at the earlier of:

(a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 113P; or

(b) When the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

Hedge Accounting

113P As and when the requirements in paragraphs 113D–113I cease to apply to a hedging relationship (see paragraphs 113J–113O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72.2–72.4 of PBE IPSAS 41 [5.4.6–5.4.8 of PBE IFRS 9]. In this context, the hedge designation shall be amended only to make one or more of these changes;

(a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;

(b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;

(c) Amending the description of the hedging instrument; or

(d) Amending the description of how the entity will assess hedge effectiveness.

113Q An entity also shall apply the requirement in paragraph 113P(c) if these three conditions are met:

(a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72.2 of PBE IPSAS 41 [5.4.6 of PBE IFRS 9]);

(b) The original hedging instrument is not derecognised; and

(c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72.3 and 72.4 of PBE IPSAS 41 [5.4.7 and 5.4.8 of PBE IFRS 9]).

113R The requirements in paragraphs 113D–113I may cease to apply at different times. Therefore, applying paragraph 113P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 113V–113Z2 as applicable. An entity also shall apply paragraph 99 (for a fair value hedge) or paragraph 107 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

113S An entity shall amend a hedging relationship as required in paragraph 113P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

113T If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72.2–72.4 of PBE IPSAS 41 [5.4.6–5.4.8 of PBE IFRS 9]) or to the designation of the hedging relationship (as required by paragraph 113P), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 113P.

113U Paragraphs 113V–113Z3 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 98, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships

Retrospective Effectiveness Assessment

113V For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 98(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 1132G as required by paragraph 113M. This election is made separately for each hedging relationship (i.e., on an individual hedging relationship basis).

Cash Flow Hedges

113W For the purpose of applying paragraph 108, at the point when an entity amends the description of a hedged item as required in paragraph 113P(b), the cumulative gain or loss in other comprehensive revenue and expense shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

113X For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 112(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in other comprehensive revenue and expense for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

113Y When an entity applies paragraph 113P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this

example, in applying paragraph 113P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

113Z An entity shall assess separately whether each subgroup meets the requirements in paragraphs 87 and 93 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 87 and 93, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 99 or 107 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating Financial Items as Hedged Items

113Z1 An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 90 and AG139) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (i.e., the 24-month period applies on a rate-by-rate basis).

113Z2 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 113Z1 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk portion.

113Z3 In addition to those hedging relationships specified in paragraph 113P, an entity shall apply the requirements in paragraphs 113Z1 and 113Z2 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 90 and AG139) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

Effective Date

...

126.10 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in [Month] 2020, added paragraphs 113O–113Z3, 26.11–126.13, AG20A–AG20B, and amended paragraph 113M. An entity shall apply these amendments for annual periods beginning on or after [1 January 2021]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 126.11–126.13 and paragraph 126.14.

126.11 An entity shall designate a new hedging relationship (for example, as described in paragraph 113Z3) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:

(a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and

(b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

126.12 If, in applying paragraph 126.11, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 113Z1 and 113Z2 to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of

these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

126.13 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

126.14 An entity is not required to restate prior periods to reflect the application of the amendments in paragraphs AG20A and AG20B. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. 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.

Paragraphs AG20A–AG20B are added. A heading is added before paragraph AG20A. For ease of reading these paragraphs have not been underlined.

Changes in the Basis for Determining the Contractual Cash Flows as a Result of Interest Rate Benchmark Reform

AG20A An entity shall apply the requirements in paragraphs 72.2–72.5 of PBE IPSAS 41 [or paragraphs 5.4.6–5.4.9 of PBE IFRS 9] to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 113B of PBE IPSAS 29.

AG20B For the purpose of applying paragraphs 72.2–72.5 of the amendments to PBE IPSAS 41, the references to paragraph AG160 of PBE IPSAS 41 shall be read as referring to paragraph AG19 of PBE IPSAS 29. References to paragraphs 71 and AG161 of PBE IPSAS 41 shall be read as referring to paragraph AG20 of PBE IPSAS 29. [For the purpose of applying paragraphs 5.4.6–5.4.9 of the amendments to PBE IFRS 9, the references to paragraph B5.4.5 of PBE IFRS 9 shall be read as referring to paragraph AG19 of PBE IPSAS 29. References to paragraphs 5.4.3 and B5.4.6 of PBE IFRS 9 shall be read as referring to paragraph AG20 of PBE IPSAS 29.]

In the Basis for Conclusions, paragraphs BC5 and BC6 are added.

Interest Rate Benchmark Reform—Phase 2

BC5. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.

BC6. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks would also benefit from these amendments and proposed equivalent amendments to PBE Standards. In addition, the NZASB considered that entities still applying PBE IPSAS 29 in full could benefit from the practical expedient added to PBE IFRS 9 and PBE IPSAS 41 for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform and proposed an equivalent practical expedient in PBE IPSAS 29. In addition, the NZASB considered that

entities still applying PBE IPSAS 29 in full could benefit from the practical expedient added to PBE IFRS 9 and PBE IPSAS 41 for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform, and proposed an equivalent practical expedient in PBE IPSAS 29. As a result of that practical expedient entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020.

Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 28I–28J and 53.11–53.12 are added and a subheading is added before paragraph 28I. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when these amendments are compiled into PBE IPSAS 41.

Other Disclosures

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Additional Disclosures Related to Interest Rate Benchmark Reform

28I To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

(a) The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and

(b) The entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

28J To meet the objectives in paragraph 28I, an entity shall disclose:

(a) How the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

(b) Disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:

(i) Non-derivative financial assets;

(ii) Non-derivative financial liabilities; and

(iii) Derivatives; and

(c) If the risks identified in paragraph 28J(a) have resulted in changes to an entity's risk management strategy, a description of these changes.*

* For entities that have early adopted PBE IFRS 9 or PBE IPSAS 41, see also paragraph 26A

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Effective Date and Transition

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53.11 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in [Month] 2020, added paragraphs 28I–28J and 53.12. An entity shall apply these amendments when it applies the amendments to PBE IPSAS 41, [PBE IFRS 9] or PBE IPSAS 29.

53.12 In the reporting period in which an entity first applies *PBE Interest Rate Benchmark Reform—Phase 2*, an entity is not required to disclose the information that would otherwise be required by paragraph 33(f) of PBE IPSAS 3.

In the Basis for Conclusions, paragraphs BC4 and BC5 are added.

Interest Rate Benchmark Reform—Phase 2

BC4. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments also introduced additional disclosure requirements regarding an entity's progress towards completing the implementation of the reform.

BC5. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks would also benefit from these amendments and proposed equivalent amendments to PBE Standards, including additional disclosure requirements. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020.

Part D – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after [1 January 2021]. Earlier application is permitted.

In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from [1 January 2021] or when an entity applies those standards, whichever comes first.

Agenda Item 7.1

XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

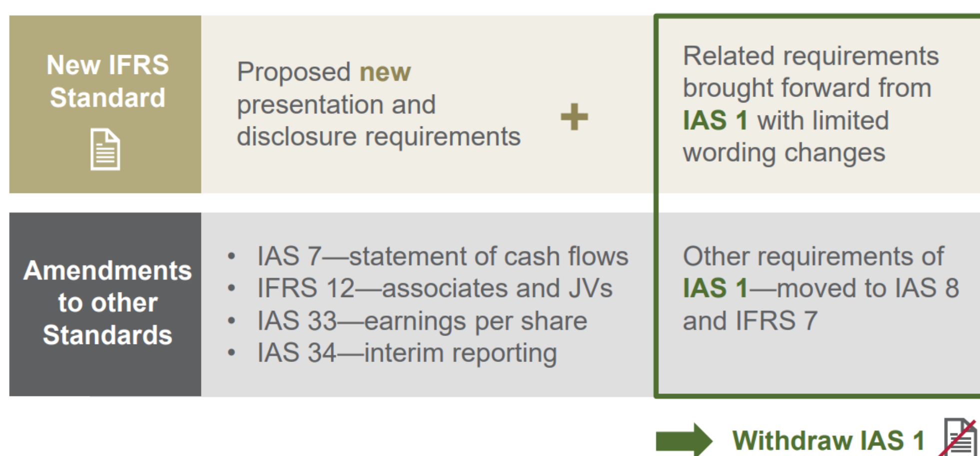
Date:	28 August 2020
To:	NZASB Members
From:	Lisa Kelsey
Subject:	**General Presentation and Disclosures**

Recommendation[1]

1. We recommend that the Board CONSIDERS and APPROVES the draft comment letter at agenda item 7.2

Background

2. In December 2019, the IASB issued Exposure Draft ED/2019/7 *General Presentation and* Disclosures (the ED) under its *Primary Financial Statements* project. The ED proposes to introduce a new IFRS Standard that sets out general presentation and disclosure requirements. The proposed new standard will replace IAS 1 *Presentation of Financial Statements.* The structure of the ED is shown in the diagram below.



3. Comments on this ED were originally due to the IASB by 30 June 2020. However, as part of the IASB's response to COVID-19, the IASB extended the comment period to 30 September 2020. We extended the comment period for NZ constituents from 21 May 2020 to 7 August 2020.

4. Because the ED contains several new proposals, we grouped the proposals for consideration over two NZASB meetings (February and April 2020).

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

5. At the June 2020 meeting the Board considered and provided feedback on a draft comment letter.

Structure of this memo

6. The remaining sections in this memo are:
   (a) Outreach;
   (b) Submissions received;
   (c) Comment letter;
   (d) Editorials and FMA guidance; and
   (e) Next steps.

Outreach

7. In Appendix A, we have summarised the outreach undertaken on this project. We undertook a number of outreach activities, ensuring we reached out to users, preparers, directors, auditors, academia and regulators.

8. Feedback from the outreach activities has been provided to the Board as they discussed the various proposals contained in the ED. Feedback from the outreach activities has shaped the Board's responses to the questions contained in the invitation to comment.

9. We have reflected the comments received from the TRG in the draft comment letter at agenda item 7.2.

TRG feedback

10. We took the draft comment letter to the TRG on 21 July. An extract from the TRG report (tabled at the Board's August meeting) is included below. Overall TRG members were supportive of the Board's preliminary views expressed in the draft comment letter.

    IASB's ED *General Presentation and Disclosures*

    14. TRG members were provided with the draft comment letter updated for feedback received from the NZASB at its June 2020 meeting. The draft comment letter was accompanied by a short memo which highlighted for TRG members areas where the NZASB was disagreeing with, or recommending improvements to, the IASB's proposals.

    15. TRG members were asked whether their views were in accord with the NZASB's preliminary views and whether they had any additional points they would like to include in the NZASB's response to the IASB.

    16. TRG members were supportive of the NZASB's preliminary views as expressed in the draft comment letter.

    17. Below, we have summarised feedback received from TRG members as we worked through the questions for respondents.
        (a) Hopefully going forward the disclosure of main business activities by entities will not be as generic and high-level as currently.

(b) Totally supports the NZASB's preliminary view — disagreeing with the proposals to present associates and joint ventures as integral and non-integral.

(c) Likes paragraph 42 — where the NZASB comments on the critical role materiality judgements play in the presentation and disclosure of information in financial statements.

(d) Understands why the NZASB has included the discussion on materiality in its response to question 8(b) (this question deals with principles of aggregation and disaggregation). However, the NZASB should consider re-positioning the discussion on materiality, as this is key across all proposals — maybe have more discussion upfront in the cover letter.

(e) Supports the NZASB's response regarding the further disaggregation of amounts that are immaterial. Believes too much emphasis on disaggregation is counterinitiative with the focus in recent years on decluttering financial statements.

(f) Fully supports allowing a mix of analysis by nature and function of operating expenses. This is because entities have determined a mix provides useful information to the users of its financial statements. Also, it is the way that expenses are tracked and managed internally by some entities.

(g) Likes the NZASB response — disagreeing with the proposals to define and require disclosure by all entities of unusual income and expenses.

(h) Agrees the IASB should not define EBITDA. Agrees clarification needed on when EBITDA is a management performance measure (MPM) versus a subtotal.

18. In relation to the proposed definition of MPMs, the TRG was asked for feedback on two options for response (resulting from discussions by the NZASB at its June 2020 meeting).

19. TRG members were in favour of the option to align the proposed MPM definition with the FMA guidance on Disclosing non-GAAP financial information. This option would result in balance sheet and cashflow measures coming within the definition of MPMs. However, TRG members would like the NZASB response to emphasise the IOSCO guidance. TRG members were of the view that other jurisdictions would have similar regulatory requirements as set out in the IOSCO guidance and this would add more weight to the NZASB's argument.

20. The following comments were made in relation to the draft cover letter.

(a) The NZASB should consider saying more about materiality in its cover letter.

(b) The NZASB should consider highlighting going concern disclosures in its cover letter (given the NZASB's domestic project on going concern disclosures).

(c) The NZASB should consider bringing into the cover letter the table (or content thereof) that was provided to the TRG in the cover memo for this agenda item (this table summarised the questions where the NZASB disagreed with, or recommended improvements to, the IASB's proposals).

(d) A member envisaged there will be pushback from preparers on having to change presentation again (for the information of TRG members, we noted we had presented on the proposals to the CA ANZ CFO/FC SIG via webcast — 343 members joined for the live webcast session and a recording of the session was sent to 483 members).

(e) A member noted that it is quite timely to be discussing these proposals, as entities are currently grappling with what they should or should not disclose in this COVID-19 environment.

Submissions received

11. One NZ constituent has provided us with preliminary feedback for the benefit of staff and Board members. We have included this feedback at agenda item 2.3.1. The NZ constituent will be sending a comment letter to the IASB.

12. We have not received any submissions on this ED. Some New Zealand constituents may comment directly to the IASB.

Comment letter

13. The Board discussed a draft comment letter at its June 2020 meeting. Feedback received from members at the June meeting has been reflected in the draft comment letter at agenda item 7.2. To assist Board members with reviewing the updated comment letter we have briefly summarised under each question (see notes for the Board) what we have amended/added since the June 2020 draft.

Negative interest rates

14. During discussions at the June 2020 meeting it was suggested that our comment letter should say something about the desirability of guidance on the presentation of items in a negative interest rate environment.

15. We have included the following comment under question 14 in the draft comment letter.

    Negative interest rates

    97. During discussions on the ED, an issue was raised regarding the presentation of income and expenses in a negative interest rate environment. We are aware of the January 2015 IFRS Interpretations Committee agenda decision *Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39* Financial Instruments: Recognition and Measurement *and IAS 1* Presentation of Financial Statements*)—January 2015.* While this agenda decision clarified that you cannot present negative interest as a revenue line item, it did not clarify how the resulting expense should be presented. We have received feedback that clarification of presentation would be helpful to ensure consistent reporting and remove diversity in practice.

16. Some background information on negative interest rates is set out in Table 1 below.

Table 1 Background information of negative interest rates	
Date	**Information**
September 2012	The IFRS Interpretations Committee published a **tentative** rejection notice on IAS 39 *Financial Instruments: Recognition and Measurement*, Negative interest rates: implications for presentation in the statement of comprehensive income. https://cdn.ifrs.org/-/media/feature/news/updates/ifrs-ic/2012/ifric-update-sep-2012.pdf
January 2013	EFRAG sent a comment letter to the IASB in response to the IFRS Interpretations Committee tentative agenda decision.

Table 1 Background information of negative interest rates	
Date	**Information**
	…Rejection notices cannot add or interpret the existing requirements, as they are not subject to a full due process, and also not subject to an endorsement process in the European Union. We observe that the IFRS Interpretations Committee conclusion that "the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue or interest expense, but in some other appropriate expense classification" is interpretative in nature, as it is currently not an explicit requirement… https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FProject%20Documents%2F275%2FFinal_comment_letter_IFRS_IC_negative_yield.pdf
January 2015	The IFRS Interpretations Committee published the following agenda decision: **Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 1 *Presentation of Financial Statements*)—January 2015** The Interpretations Committee discussed the ramifications of the economic phenomenon of negative effective interest rates for the presentation of income and expenses in the statement of comprehensive income. The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 *Revenue* [IAS 18 has been withdrawn. Paragraph 4.2 of the *Conceptual Framework for Financial Reporting* contains a definition of income], because it reflects a gross outflow, instead of a gross inflow, of economic benefits. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue, but in an appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 85 and 112(c) of IAS 1 *Presentation of Financial Statements*, the entity is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item. The Interpretations Committee considered that in the light of the existing IFRS requirements an interpretation was not necessary and consequently decided not to add the issue to its agenda.
20 August 2019	Extracts from a blog by GAAP Dynamics …Imagine paying a bank for the privilege of holding your money in a savings account or them paying you when you take out a mortgage to buy a house… …Over the past several years, interest rates have gone below zero for the European Central Bank (ECB), France, Germany, and Japan as central banks have gone negative to pump up their nation's economies… …What is the proper accounting for investments with negative yields? While it would be great to have a clear-cut answer on this matter, this is simply not the case. There are no explicit rules under either U.S. GAAP or IFRS with respect to accounting for investments with negative yields… …Accounting rules are not always clear, as is the case of accounting for investments with negative yields. In such instances, companies should make an accounting policy choice, documenting the rationale for their decision and consistently apply this policy each year… https://www.gaapdynamics.com/insights/blog/2019/08/20/going-negative-accounting-for-investments-with-negative-yields/

Table 1 Background information of negative interest rates	
Date	**Information**
February 2020	Discussions continue, for example, a PwC podcast (Episode 67: Negative interest rates) notes the presentation issue, explaining there is no direct guidance and a variety of presentation options could be used. https://www.pwc.com/gx/en/services/audit-assurance/ifrs-reporting/podcasts.html
June 2020	Email received from IASB staff (see agenda item 2.3.2)

Definition of Management Performance Measures

17. At the June 2020 meeting, we provided the Board with a number of options to consider for our response to the proposed definition of MPMs. Board discussions and decisions at that meeting have resulted in two options for the Board to consider at this meeting. These options are included in the draft comment letter.

Editorials and FMA guidance

18. As we have worked through the ED we have identified some editorials. Our plan is to summarise these and send them directly to IASB staff.

19. Earlier in the project we prepared a comparison of the FMA *Guidance on presenting non-GAAP financial information* with the proposed requirements on MPMs. We will also send this comparison to IASB staff.

Next steps

20. If the Board approves the draft comment letter, we will finalise and submit via the IASB's website prior to 30 September 2020.

21. If the Board would like changes made to the comment letter, the Board will need to decide if it is are happy for the Acting Chair to finalise the letter with staff or alternatively whether the comment letter should be approved by a few Board members.

Attachments

Agenda item 7.2: Draft comment letter

Appendix A

ED/2019/7 General Presentation and Disclosures—Summary of Outreach

As part of the IASB's response to COVID-19, the IASB extended the comment period from 30 June 2020 to 30 September 2020. We extended the comment period for NZ constituents from 21 May 2020 to 7 August 2020.

Targeted outreach with the following groups			
Group	**Topics**	**Date**	**Notes**
Forthcoming proposals from IASB			
NZASB invited senior analysts from institutional investment firms and share broking firms (users) INFINZ[2] present as well.	All	NZASB meeting 11 September 2019	Aida Vatrenjak (IASB technical staff member) presented from London to NZASB members as well as invited guests. [feedback collated and sent to Aida]
XRAP[3] (various)	All	XRAP meeting 19 September 2019	LK and DB presented to XRAP on the forthcoming proposals. Feedback received from XRAP.
ACC Investment team (users)	All	29 October 2019	LK and DB met with members from ACC investment team. Gave a presentation of the forthcoming proposals. Feedback received from the team.
TRG (practitioners)	Structure of the statement of profit or loss EBIT and EBITDA Profit or loss of associates and JVs Classification of FX and FV gains and losses	16 December 2019	In lieu of November 2019 memo sent to TRG members requesting feedback on some of the forthcoming proposals. Three members provided feedback via email.
IASB issued ED/2019/7 General Presentation and Disclosures on 17 December 2019			
NZAuASB (auditors)	MPMs and unusual items	NZAuASB meeting 12 February 2020	LK presented and sought feedback at the February meeting of the NZAuASB (Agenda item 7)

[2] INFINZ – Institute of Finance Professionals NZ Inc.

[3] The XRAP membership reflects a wide cross-section of the financial reporting community: preparers, users and auditors; large companies, small and medium companies, SOEs, central government, local government, not-for-profit organisations; and shareholders, directors, chief executives, chief financial officers, advisors.

Targeted outreach with the following groups			
Group	**Topics**	**Date**	**Notes**
IFRS Masterclass (preparers)	Presented at the IFRS Masterclass on the proposals in the ED	25 February 2020	LK and DB presented to IFRS Masterclass and sought feedback
TRG (practitioners)	MPMs Unusual income and expenses Aggregation and disaggregation	TRG meeting 3 March 2020	LK presented and sought feedback at the March TRG meeting.
AASB User Advisory Committee meeting (users)	All	19 March 2020	LK and DB dialled in and listened to discussion, noted feedback.
AASB Disclosure Initiative panel meeting	All	23 March 2020	LK and DB dialled in and listened to discussion, noted feedback.
FMA (regulator)	Primarily MPMs, but sought feedback on all proposals	15 April 2020	LK and DB met with staff member of the FMA via a video call. Feedback provided on the proposals.
NZ Banks (five) ANZ, Co-operative Bank, ASB, Kiwibank, Westpac	Accounting policy choice re allocation of interest expense to operating/financing	5 May 2020	Emailed request for feedback. Received feedback from Kiwibank and ASB.
CA ANZ CFO/Financial Controllers SIG (preparers)	Focused on key proposals Subtotals, EBITDA, disaggregation (including unusual items) MPMs, targeted improvements to the statement of cash flows	3 June 2020	LK and KC presented to the SIG via webcast – had a 60minute slot. 343 members joined for the live webcast session. Recording of our session sent to 483 members.
TRG (practitioners)	Draft comment letter (post-June NZASB meeting, which included feedback from the Board)	21 July 2020	TRG members provided feedback on a draft comment letter
Project staff from AASB (standard setter)	All	28 July 2020	LK met with staff from AASB to discuss preliminary views of AASB/NZASB. Also to discuss feedback they have heard via outreach activities.
Staff from CA ANZ (practitioners, preparers)	All	28 July 2020	LK met with staff from CA ANZ to discuss feedback they have

Targeted outreach with the following groups			
Group	**Topics**	**Date**	**Notes**
			heard on the IASB's proposals.
IoD (Director community)	All	31 July 2020	Article published on IoD website and also included in the newsletter "Directory Download" to IoD members. Link to article
Academics	All Asia-Oceania virtual academic research seminar on PFS. On 21 August 2020, the IASB, in conjunction with the AASB, held a virtual research seminar for academics across the Asia-Oceania region. The seminar provided an overview of the IASB's General Presentation and Disclosures ED and relevant academic literature.	21 August 2020	We sent invites to 17 academics, also suggested it was passed on to others.

Other outreach	
Creating awareness in New Zealand of the forthcoming proposals and the various ways for constituents to provide feedback through the *NZASB Update* and LinkedIn posts.	
NZASB Update	**NZASB Update 1/2020 (6 Feb 2020)** – ED up on website, link to ED and other IASB documents. Included link to Hans Hoogervorst short video explaining the proposals. Calling for feedback by 21 May 2020. **NZASB Update 2/2020 (24 Feb 2020)** – link to IASB recording of webinar introducing the proposals. Link again to ED etc and calling for feedback by 21 May 2020. Link to February NZASB Board papers on the proposals. **NZASB Update 3/2020 (28 Feb 2020)** – included in the "have your say" section of update. **NZASB Update 4/2020 (19 Mar 2020)** – included in the "have your say" section of update. **NZASB Update 5/2020 (31 Mar 2020)** – included in the "have your say" section of update. **NZASB Update 6/2020 (14 Apr 2020)** – link to NZASB Board papers on the proposals. Included in the "have your say" section of update. **NZASB Update 7/2020 (29 Apr 2020)** – advised of extension of consultation period by the IASB from 30 June to 30 September, also advised our extension from 21 May to 7 August. Included in the "have your say" section of update. **NZASB Update 8/2020 (10 May 2020)** – included in the "have your say" section of update. **NZASB Update 10/2020 (2 Jun 2020)** – invited constituents to register for the second webinar by IASB technical staff explaining the detailed proposals for subtotals and categories in the statement of profit or loss. Included in the "have your say" section of update. **NZASB Update 11/2020 (12 Jun 2020)** – included in the "have your say" section of update.

Other outreach	
	NZASB Update 12/2020 (26 Jun 2020) – link to NZASB meeting papers which includes draft comment letter. Included in the "have your say" section of the update **NZASB Update 13/2020 (8 Jul 2020)** – invited constituents to register for the third webinar by IASB technical staff explaining the disaggregation proposals, analysis of operating expenses and unusual income and expenses. Included in the "have your say" section of update. **NZASB Update 14/2020 (4 Aug 2020)** – summary of proposals plus a reminder that comments to NZASB close 7 August 2020. **NZASB Update 16/2020 (20 Aug 2020)** – invited constituents to register for the fourth and final webinar by IASB technical staff explaining the Management Performance Proposals.
LinkedIn Posts	Series of LinkedIn posts in June, July and August. The posts included links to the open for comment page on the XRB website.

Agenda Item 7.2

30 September 2020

Mr Hans Hoogervorst
Chairman of the International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Hans

ED/2019/7 *General Presentation and Disclosures*

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *The draft comment letter taken to the June meeting stated that the cover letter would summarise main points from the questions for respondents.*
- *The TRG considered an updated cover letter at its July meeting and made the following comments in relation to the cover letter:*
    - *The NZASB should consider saying more about materiality in its cover letter.*
    - *The NZASB should consider highlighting going concern disclosures in its cover letter (given the NZASB's domestic project on going concern disclosures).*
    - *The NZASB should consider bringing into the cover letter the table (or content thereof) that was provided to the TRG in the cover memo for this agenda item (this table summarised the questions where the NZASB disagreed with, or recommended improvements to, the IASB proposals).*
- *We have amended the cover letter for the above comments made by the TRG.*

Thank you for the opportunity to comment on ED/2019/7 *General Presentation and Disclosures.* The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

We are very supportive of the IASB's projects to help make financial information more useful and improve the way financial information is communicated to users of the financial statements.

Overall comments

We support the proposals to provide more structure to the statement of profit or loss by introducing defined and required subtotals. We acknowledge there can be tension between increasing comparability and allowing sufficient flexibility for an entity to communicate its performance story. The proposals in the ED allow an entity to communicate management's view of performance by disclosing information about management performance measures in the notes to the financial statements. We are of the view that the package of proposals can increase comparability between entities without adversely affecting the ability of individual entities to communicate their story to the users of their financial statements.

Materiality

We are of the view that the concept of materiality and materiality judgements plays a critical role in the presentation and disclosure of information in financial statements. Because an entity makes materiality judgements when making decisions about recognition and measurement, as well as presentation and disclosure, we can understand the IASB's rationale for proposing to move the definition of material and associated guidance to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as the concept of materiality is pervasive in the preparation of financial statements. However, we believe the IASB has missed an opportunity to embed the concept of materiality into a general presentation and disclosure standard.

With presentation and disclosure – and particularly disclosure – there are good reasons why a general presentation and disclosure standard should include specific guidance on applying materiality. By including such guidance in a general presentation and disclosure standard, that guidance could then be applied (via cross-reference) to all other standards containing disclosure requirements.

Please refer to our response to question 8(b) for a detailed discussion on materiality.

The proposals

While we support many of the proposals in the ED, there are some areas where we disagree or recommend improvements. We have highlighted these areas below (see our response to the questions for our detailed recommendations and responses).

The investing category (Question 5)

In relation to the proposed new categories of 'operating', 'investing' and 'financing' in the statement of profit or loss, we strongly recommend that the IASB considers using different terms or more descriptive terms than those used in the statement of cash flows. Using the same terms as the statement of cash flows, but with a different meaning will be very confusing for users of financial statements.

Integral and non-integral associates and joint ventures (Question 7)

We do agree that separately presenting operating profit or loss and income and expenses from associates and JVs provides useful information to users of financial statements. However, we do not agree with the proposal to classify associates and joint ventures accounted for using the equity

method as integral or non-integral. The classification would require significant judgement to be applied, would result in lack of comparability and would be difficult to audit. Furthermore, IFRS 12 *Disclosure of Interests in Other Entities* already requires sufficient disclosure of information.

Analysis of operating expenses (Question 9)

We do not agree with the proposal that an entity shall present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either the nature or function of the expense. Our view is that companies should be allowed the flexibility to determine the most appropriate analysis of expenses, even it that results in a mixed analysis.

Unusual income and expenses (Question 10)

We do not agree with the IASB proposals to define and require disclosure by all entities of unusual income and expenses. We have concerns that the proposals as currently drafted will not be operable.

Management Performance Measures (Question 11)

While we agree that MPMs provide useful information and should be included in the financial statements (as this will bring more transparency and discipline to the reporting of these financial performance measures), we have concerns with the proposals as they are currently drafted.

Going concern

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 NZASB recently issued domestic narrow-scope amendments to FRS-44 *New Zealand Additional Disclosures*[1] to improve going concern disclosures to provide better information to users of financial statements during this period of exceptional circumstances.

The issue of New Zealand specific disclosures is a short-term measure to deal with the most pressing need for improved disclosures. We strongly recommend that the IASB add a project to its agenda to look at going concern issues more comprehensively. The major economic disruption from COVID-19 has highlighted this matter as an area where improvements are needed.

Questions for respondents

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

New Zealand outreach

We would like to take the opportunity to thank IASB staff member Aida Vatrenjak for her assistance with an outreach event we held on the proposals with institutional investors in New Zealand.

[1] *Going Concern Disclosures* (Amendments to FRS-44)

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

Yours sincerely

Michael Bradbury

Acting Chair – New Zealand Accounting Standards Board

Appendix to *General Presentation and Disclosures*

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *No changes made.*

Response to question 1

1. We agree with the proposal that all entities present in the statement of profit or loss a subtotal for operating profit or loss.
2. Like the IASB, we have also seen diversity in practice, in terms of (a) entities that present an operating profit subtotal and others that do not; and (b) for those entities that do present an operating profit subtotal, what the subtotal comprises.
3. We believe that having a consistent view of the income and expenses that are included in a subtotal for operating profit or loss will reduce diversity in practice and improve comparability between entities.

Other comments

4. We note that the IASB is proposing to bring forward paragraph 8 (shown below) from IAS 1 *Presentation of Financial Statements* into the proposed new IFRS Standard (as paragraph 12). Paragraph 8 of IAS 1 has been amended to include a reference to subtotals. Paragraph 12 of the proposed IFRS X *General Presentation and Disclosures* allows entities to use another label when presenting the new operating profit or loss subtotal. In fact, entities may be able to use different labels for all of the proposed new subtotals. As the main objective of the proposals to add defined subtotals to the statement of profit or loss is to increase comparability between entities, we believe that these new required subtotals should be labelled consistently across entities. We recommend that the IASB amend paragraph IFRS X.12 to exclude the subtotals required by paragraph 60 of IFRS X. This will also remove the risk that entities may label the new subtotals with existing labels which may confuse users.

A comparison of proposals with requirements in IAS 1 *Presentation of Financial Statements*		
IAS 1 para #	**Revised text (new text underlined, deleted text struck through)**	**New para #**
IAS 1.8	Although this [draft] Standard uses ~~the~~ terms such as ‘other comprehensive income’, ‘profit or loss’ and ‘total comprehensive income’, an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term ‘net income’ to describe profit or loss.	IFRS X.12

Question 2—the operating category
Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category. Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Removed the following sentence from paragraph 6 'We acknowledge that the IASB's previous attempts at developing a direct definition of operating profit or loss were not successful'.*
- *Moved the other comment about classification of the fair value movements for biological assets to question 14 (other comments) under the heading illustrative examples.*

Response to question 2

5. We agree with the proposal that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

6. We acknowledge the challenges the IASB faced trying to define operating profit or loss. We agree that, because entities have various business activities, it is difficult to arrive at a direct definition of operating profit or loss that could be applied consistently, even between entities in the same industry. Therefore, for practical reasons we support the operating category being a default or residual category.

7. We agree that the operating category should include all income and expenses from an entity's main business activities. We have discussed main business activities in more detail under question 3.

8. We have heard concerns that the proposal not to define operating profit or loss directly may mean that some income and expenses not arising from an entity's core operations may be classified as operating by virtue of the fact that those income and expenses do not meet the definitions to be classified in the other categories. However, in considering this concern, we are satisfied that the disaggregation proposals should provide the users of the financial statements with enough information to enable adjustments to be made where appropriate.

Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities
Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities. Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *The Board considered two options at the June 2020 meeting, option 1 was to request additional guidance on the meaning of main business activities and option 2 was to acknowledge that judgement was involved and not request additional guidance. The Board agreed on option 2, the response now reflects that decision.*
- *Removed the paragraph that reiterated information from the IASB's Basis of Conclusions.*
- *Reworded paragraph 11, removed the sentence 'we note that no specific requirement is proposed to disclose information on the significant judgements involved in determining an entity's main business activities.'*
- *Removed extracts from the ED as did not consider necessary to have these in the comment letter.*

Response to question 3

9. We agree with the proposal that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

10. The ability for an entity to classify income and expenses from investments as operating rather than investing rests on the application of judgement as to what is "generated in the course of its main business activities". For some entities, for example, global conglomerates with multiple business activities, significant judgement may be involved in determining the entity's main business activities. In our response to Question 2 we have agreed with the IASB's proposals not to define operating profit or loss and agreed that, because entities have various business activities, it is difficult to arrive at a direct definition of operating profit or loss that could be applied consistently, even between entities in the same industry. We believe the IASB would have the same difficulty if we requested a definition or further guidance on what is meant by 'main business activities'.

11. We note that the IASB is proposing to bring across paragraph 138 of IAS 1 into the new IFRS X as paragraph 99. This will require an entity to disclose in the notes (if not disclosed elsewhere) a description of the entity's main business activities. It is this description of main business activities that will drive the classification of income and expenses into each of the categories.

12. We also note that an entity may disclose information on the significant judgements involved in determining an entity's main business activities under paragraph 122 of IAS 1, which is moving to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as paragraph 27E.

13. We are of view that the above disclosures should give users of the financial statements enough information about an entity's main business activities and how this has affected the classification of income and expenses in the statement of profit or loss. Any information provided on main business activities and subsequent classification of income and expenses should also be consistent with any business model information that may be provided by an entity in its annual report, for example, in its management commentary.

Other comments

14. Investors have told us they would support proposals that are applicable to as many company types as possible. They agree with the proposals for banks but would not like to see other exceptions or modifications being made for other types of business.

Question 4—the operating category: an entity that provides financing to customers as a main business activity
Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either: • income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or • all income and expenses from financing activities and all income and expenses from cash and cash equivalents. Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Paragraph 17 now reads "We initially had…."*

Response to question 4

15. We agree with the proposal in paragraph 51 of the ED that an entity that provides financing to customers as a main business activity classify in the operating category either:

    (a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

    (b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

16. We agree that when an entity provides financing to customers as a main business activity, the difference between the interest revenue from that activity and the related interest expense (a cost of earning that income) is an important indicator of operating performance. The IASB's proposals would enable entities such as banks to continue presenting a net interest income subtotal.

17. We initially had reservations about allowing alternative accounting policy choices because they can lead to a loss of comparability between entities. In addition, if an entity chooses to allocate all income and expenses from cash and cash equivalents and financing activities to the operating category, this could result in a loss of relevant information for users. For example, a car manufacturer that provides financing to customers as one of its main business activities may elect to allocate all income and expenses from cash and cash equivalents and financing activities to the operating category. In this case, the car manufacturer would not present a subtotal for profit or loss before financing and income tax and, effectively, the income statement would not have a separate category for financing. The user of the financial statements would therefore not have access to information about the financing activities undertaken by the car manufacturer that are unrelated to the provision of financing to customers.

18. However, we have received feedback from New Zealand banks (the entities most likely to make use of the proposed accounting policy choice) that any methodologies to split (i) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers from (ii) income and expenses from financing activities and from cash and cash equivalents that are unrelated to the provision of financing to customers would be arbitrary at best.

19. We therefore agree with the IASB that an allocation should not be required but should be permitted.

Question 5—the investing category
Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities. Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Board requested we were stronger in our feedback about the confusion that will be caused by the IASB using the same labels across the statement of profit or loss and the statement of cash flows.*
- *Added paragraph 22.*
- *Changed lead in of paragraph 24 to "we strongly recommend…"*

Response to question 5

20. We agree that an investing category will provide users with useful information about the returns from investments that are not part of the entity's main business activities, particularly for non-financial institutions.

21. We have heard concerns that users will not understand the difference in the definition of the proposed investing category in the statement of profit or loss and the existing 'investing activities' in the statement of cash flows. Although both are labelled as investing, the definitions are not aligned. For example, cash proceeds from the disposal of property, plant and equipment would be classified as investing activities in the statement of cash flows, but the disposal gain/loss would be classified in the operating category in the statement of profit or loss. This is because property, plant and equipment are used in combination with other resources of an entity in its main business activities and do not "generate a return individually and largely independently of other resources held by an entity".

22. One of the main criticisms levelled at financial statements is that some users (for example, retail investors and less sophisticated users) do not understand them and they are becoming more and more complicated. If the IASB then introduces the same terms, but with different meanings for the statement of profit or loss and the statement of cash flows, this will be very confusing for users of financial statements.

23. We strongly recommend that the IASB considers using different terms or more descriptive terms in each of the statements. For example, the definition for income and expenses from investments in the statement of profit or loss seems to focus on 'distinct' or 'separable' investing activities (which generate returns independently of other assets), whereas the IAS 7 definition seems to focus on 'long-term' investing activities. We suggest the IASB considers using a more descriptive label, based on the key underlying principle that drives the

classification in each statement. We believe this would at least make it clearer that they are not the same thing.

Question 6—profit or loss before financing and income tax and the financing category
(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss. (b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category. Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Slight reordering of paragraph 24.*
- *As some Board members did not understand our point under other comments, paragraphs 28 and 29 have been rewritten to make it clearer.*

Response to question 6

24. We support the proposal for entities to present a profit or loss before financing and income tax subtotal in the statement of profit or loss, other than some specific entities (i.e. entities that provide financing to customers as a main business activity (e.g. banks) and classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category).

25. We support the proposals for entities to classify in the financing category:
    (a) income and expenses on liabilities arising from financing activities;
    (b) income and expenses from cash and cash equivalents; and
    (c) interest income and expenses on liabilities that do not arise from financing activities.

26. We acknowledge that some users have different views on the appropriate classification of income and expenses from cash and cash equivalents (e.g. as investing, financing or operating). However, we support the inclusion of income and expenses from cash and cash equivalents in the financing category (with the proposed exceptions for some specific entities) for reasons similar to including interest income and expenses on liabilities that do not arise from financing activities in the financing category (i.e. a consistent location for the presentation of information). This consistent location would enable users to reclassify income and expenses from cash and cash equivalents to other categories if they wish to do so.

27. The ED stipulates that entities would classify in the investing category incremental expenses incurred to generate income and expenses from investments. However, the ED is silent on incremental expenses related to the financing category. We recommend that the IASB includes guidance on whether incremental expenses related to financing activities should also be in the financing category as this would be useful.

Other comments

28. The proposals define financing activities as follows:

    financing activities: Activities involving the receipt or use of a resource from a provider of finance with the expectation that:

    (a) the resource will be returned to the provider of finance; and

    (b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

29. We suggest the IASB clarifies the following.

    (a) How the proposed definition interacts with interest recognised on interest free or low interest loans recognised initially at fair value? (The definition implies the lender is expected to be compensated for extending credit, which is not the case for interest free or low interest loans).

    (b) Whether the 'payment of a finance charge' would include notional interest calculated for accounting purposes, rather than a contractual interest charge.

Question 7—integral and non-integral associates and joint ventures
(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them. (b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. (c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Following a request from a Board member we have added figure 1 below paragraph 33.*

Response to question 7

30. We do not agree with the proposal to classify associates and joint ventures (JVs) accounted for using the equity method as integral or non-integral. Our reasons are as follows.
    (a) Our outreach with investors does not suggest there is a demand for this information.
    (b) IFRS 12 *Disclosure of Interests in Other Entities* already requires entities to disclose information about the nature, extent and financial effects of their interests in associates and JVs.
    (c) Preparers have suggested it would be more beneficial for the IASB to reconsider whether equity accounting for associates and JVs is appropriate or whether another method should be considered.
    (d) Any definition of 'integral' and 'non-integral' would require significant judgement to be applied, would result in lack of comparability, and would be difficult to audit.

31. However, we have heard from investors that it would be useful to have an entity's share of profit or loss of associates and JVs accounted for using the equity method presented separately from operating profit or loss.

32. Although we do not agree with classifying associates and JVs as integral or non-integral, we do agree that separately presenting operating profit or loss and income and expenses from associates and JVs provides useful information to users of financial statements.

33. We suggest, for simplicity, that the IASB considers requiring the separate presentation of associates and JVs immediately below operating profit (so effectively part of the investing

category but as a separate line item). We recommend requiring the presentation of two line items to differentiate between

(a) share of profit or loss from associates and JVs (for equity-accounted associates and JVs); and

(b) FV movements for other associates and JVs measured at fair value (given the feedback from users).

We have shown what our suggestion would look like in Figure 1 below.

Figure 1—Summary of a statement of profit or loss

Revenue	X	Operating
Operating expenses	(X)	
Operating profit or loss	**X**	
Share of profit or loss from associates and JVs	X	Investing
FV movements for other associates and JVs measured at fair value	X	
Income from investments	X	
Profit or loss before financing and income tax	**X**	
Interest revenue from cash and cash equivalents	X	Financing
Expenses from financing activities	(X)	
Unwinding of discount on pension liabilities and provisions	(X)	
Profit or loss before tax	**X**	

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation
(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes. (b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information. Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *No changes to response to question 8(a)*
- *In the response to question 8(b) we have added paragraph 48, this is to reflect feedback received from the TRG at its July 2020 meeting.*

Response to question 8(a)

34. We agree that clarifying the role of the primary financial statements and the notes would:
    (a) help entities decide what information to disclose in the notes to explain and supplement the primary financial statements; and
    (b) assist the IASB in deciding what information it should require to be presented in the primary financial statements or permit disclosure in the notes instead.

35. We agree with the proposed description of the roles of the primary financial statements and the notes.

36. In our view, the notes form an integral part of the financial statements. It is the combination of the primary financial statements and the notes that meets the objective of financial statements. We would like the IASB to acknowledge in IFRS X that while the primary financial statements and the notes do have separate roles to play, they are both equally important in meeting the objective of financial statements.

Response to question 8(b)

37. We are supportive of the IASB providing principles and guidance on aggregation and disaggregation. We have received feedback from users of financial statements that financial statements do not always include information that is appropriately aggregated or disaggregated. Aggregating items that have shared characteristics makes large volumes of information understandable and avoids obscuring relevant information. Similarly, disaggregating items with dissimilar characteristics provides users of financial statements with relevant information and avoids obscuring material information.

38. While we generally agree with the principles and guidance for aggregation and disaggregation included in the ED, we have identified below some areas for further consideration by the IASB.

Materiality

39. We are of the view that the concept of materiality and materiality judgements plays a critical role in the presentation and disclosure of information in financial statements. Because an entity makes materiality judgements when making decisions about recognition and measurement, as well as presentation and disclosure, we can understand the IASB's rationale for proposing to move the definition of material and associated guidance to IAS 8 as the concept of materiality is pervasive in the preparation of financial statements. However, we believe the IASB has missed an opportunity to embed the concept of materiality into a general presentation and disclosure standard.

40. We consider that materiality is well established as a concept in relation to recognition and measurement but is less so in relation to presentation and disclosure. In general, the application of recognition and measurement requirements results in quantitative information. Because recognition and measurement requirements result in quantitative information, materiality judgements are typically judgements about the magnitude of the amounts concerned, i.e. a quantitative assessment. Therefore, when applying materiality to recognition and measurement, it is often judgements about whether, and the extent to which, it is necessary to comply with the recognition and measurement requirements in standards.

41. In contrast, when applying materiality to presentation and disclosure, the following judgements are needed.

    (a) Information might be qualitative rather than quantitative, especially information disclosed in the notes.

    (b) Whether information is material might depend on the nature of the item, instead of (or in addition to) its magnitude (for example, the definition of unusual items considers not just the magnitude of the item but also its nature), so it is not simply a quantitative assessment.

    (c) Materiality judgements do not merely relate to whether, and the extent to which, it is necessary to comply with the requirements of the standard. They also relate to how to apply those requirements, so are a key driver in determining what information is disclosed (as is acknowledged in the guidance on aggregation and disaggregation in paragraph B9 "In the notes, it is the concept of materiality that drives aggregation and disaggregation. To achieve the objective of financial statements, items that have dissimilar characteristics shall be disaggregated into component parts when the resulting information is material").

42. All the above points mean that materiality is not only a very important concept for presentation and disclosure, but also that it is much harder to apply in practice. The reality is that it is easier for preparers and auditors to make materiality judgements when dealing with quantitative information, so it is an easier concept to apply to recognition and measurement requirements. Therefore, it is sufficient to have materiality guidance in IAS 8 when dealing

with recognition and measurement requirements. But with presentation and disclosure – and particularly disclosure – there are good reasons why a general presentation and disclosure standard should include specific guidance on applying materiality. And by including such guidance in a general presentation and disclosure standard, that guidance could then be applied (via cross-reference) to all other standards containing disclosure requirements.

43. Section 8 of the IASB's DP/2017/1 *Disclosure Initiative–Principles of Disclosure* (POD DP) included the New Zealand Accounting Standards Board staff's proposed approach to drafting disclosure requirements in IFRS® Standards. One of the main features of this proposed approach was placing greater emphasis on the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives.

44. Below is an extract from section 8 of the POD DP. A lot of the guidance in the section below has been picked up by the IASB in the new guidance on aggregation and disaggregation, but not all – for example, the guidance on considering the extent and mix of quantitative and qualitative information. We have included this as it may be of some help when considering what specific guidance on materiality judgements to include in a general presentation and disclosure standard.

NZASB staff example 1—Guidance on the use of judgement

This is an example of clarifying paragraphs emphasising the need to use judgement and could be placed in each Standard that contains disclosure requirements or could be placed in a general disclosure standard, such as in IAS 1.

X1.1 To achieve the [overall] disclosure objective in a Standard, an entity shall use its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of an item or transaction to the entity (taking into account the nature and/or size of that item or transaction) and the amount of judgement involved in accounting for that item or transaction. Therefore, assessments need to take into account the extent to which the entity's financial position, financial performance or cash flows are affected by:

(a) the item or transaction; and

(b) risks and uncertainties associated with the item or transaction.

X1.2 When using judgement to determine the information to be disclosed in accordance with a Standard, an entity considers:

(a) how much emphasis to place on particular disclosures;

(b) the level of detail needed (taking into account the expectation that users of financial statements should have a reasonable knowledge of business and economic activities);

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of the financial statements need additional information to meet the disclosure objective.

X1.3 An entity aggregates or disaggregates disclosures in accordance with this Standard or another IFRS Standard 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 different characteristics.

Materiality – other comments

45. The IASB is not proposing to carry forward paragraph 97 from IAS 1 which states "when items of income and expense are material, an entity shall disclose their nature and amount separately". We believe that the IASB should include this paragraph in a new general presentation and disclosures standard.

The label ‘other’

46. We have heard concerns from investors that some companies use the label ‘other’ when describing expenses, without providing information to help them understand what those items comprise.

47. We are in complete agreement that disaggregation of material items of income and expenses provides useful information to users. However, we would caution the IASB against requiring an entity to disaggregate an ‘other expenses’ line made up of immaterial items where the entity has made every effort to apply the principles set out in paragraphs 25 to 28 in the ED, and the resulting amount in the line item ‘other expenses’ is immaterial. We recommend amending paragraph 28 to clarify this. We also suggest including this scenario in the illustrative examples.

48. In support of our comments in the paragraph above, we have received feedback that too much emphasis on disaggregation is counterinitiative with the focus in recent years on decluttering financial statements. The concern is that the proposals in the ED may cause the pendulum to swing too far in the other direction and have the effect of cluttering the financial statements.

Question 9—analysis of operating expenses
Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes. Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Added subparagraph (b) to paragraph 49 to reflect feedback received from the TRG at its July meeting.*
- *Added paragraph 50 due to concerns raised by the Board that our response to this question is not consistent with earlier comments made.*
- *Added paragraph 55 to reflect feedback from a Board member.*

Response to question 9

49. We do not agree with the proposal that an entity shall present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either their nature or function. Our reasons are as follows.

    (a) In practice, we observe that it is common for companies to provide a mixed method of analysis based on the type of analysis that companies regard as providing the most useful information to users of their financial statements. Our view is that companies should be allowed the flexibility to determine the most appropriate analysis of expenses, even it that results in a mixed analysis.

    (b) We have received feedback that companies report an analysis of expenses that reflects the way they track and manage the expenses internally. Requiring companies to then report in a different manner in our view will add to the costs for little benefit.

    (c) Our outreach has shown that there is not a good understanding of what is meant by an analysis of expenses by nature or function.

    (d) Additionally, we note that despite paragraph B46, which states that an entity shall not use a mixture of the nature of expense method and the function of expense method, paragraph B47 states that an entity shall present the line items required by paragraph 65 (which are by nature). Therefore, in practice, paragraph B47 is requiring a mixture of methods for an entity analysing operating expenses by function.

50. We acknowledge that our comments above may be seen as inconsistent with views expressed earlier in our comment letter, where we agreed with increased structure in the statement of profit or loss (by way of categories and subtotals) to aid comparability. In our view

standardisation of the structure of the statement of profit or loss—including the key subtotals—is sufficient to improve comparability, without the need to take that standardisation a step further by being overly prescriptive in how expense line items are presented.

51. We do not agree with the proposal that an entity presenting an analysis of expenses using the function of expense method shall also disclose in a single note an analysis of its total operating expenses using the nature of expense method. Our reasons are as follows.

    (a) Some may argue that the above is already required under the existing requirement in IAS 1, but in our experience the existing requirement is not interpreted as requiring a comprehensive analysis in the notes. Rather, selected additional information is provided, for example, depreciation, amortisation and employee benefit expense (possibly because these items are individually listed in paragraph 104 of IAS 1).

    (b) We have concerns with the practical application of the requirement. Some entities may not have the ability to be able to analyse operating expenses by more than one method in their accounting/reporting systems. Therefore, these entities would need to incur additional costs to track operating expenses using another method outside of their current systems.

    (c) As well as the practical application problem above, there is also a conceptual problem with requiring 'cost of goods sold' to be reanalysed. Conceptually, if this line item is just made up of inventory, then it is not actually a functional line item. Rather, it is the cost of an asset (inventory) that is expensed at the point that it is sold to another party. For a manufacturing entity, the analysis required under the proposals (and existing IAS 1, if you follow the illustrative example) involves a decapitalisation process, to break down the cost of this asset into the original inputs (for example, raw materials, employee costs, etc) that were then capitalised into inventory under IAS 2 *Inventories*. Then, to balance the total cost of inputs purchased back to the COGS expense, there is an adjusting line item for the movement in inventory. Therefore, these input costs included in the analysis are not "expenses" as defined in the conceptual framework.

52. The IASB has acknowledged in the Basis for Conclusions that it did think about the costs to preparers when it developed this proposal. However, the IASB went ahead with the proposal due to the strong demand from users for this information to forecast future operating expenses. We do understand the driver for the proposal, but we suggest that the IASB considers alternatives. For example, given that users seem to be looking for information that is based on cash flows rather than accrual accounting, an alternative is to consider the presentation and disclosure requirements in IAS 7.

Other comments

53. We would like the IASB to consider the removal of paragraph 65 in the ED. This paragraph requires the presentation in the statement of profit or loss of minimum line items. We would like to challenge the status quo here – why do we need to continue to have minimum line items in a general presentation and disclosure standard? The IASB has worked hard to develop new proposals, including principles and general requirements on the aggregation and

disaggregation of information. The application of the IASB's proposals plus our recommendation in question 8 above to give greater emphasis to the concept of materiality should be sufficient for preparers to determine what information is presented and disclosed in the statement of profit or loss.

54. Further to the above, the requirements in paragraph 65 are an ad hoc collection of line items that have accumulated over the years, with no coherent rationale for singling out particular income or expense items.

55. As an alternative to paragraph 65, we would be supportive of the IASB retaining requirements for entities to disclose particular types of income or expenses in the notes to the financial statements, if necessary to meet user information needs, as opposed to requiring the disclosure of these line items on the face of the statement of profit or loss.

Question 10—unusual income and expenses
(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'. (b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note. (c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses. (d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses. Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *The Board considered three views at the June 2020 meeting, view 1 agree to proceed with proposals but more work needed on definition, view 2 do not proceed with trying to define unusual, rely on existing IAS 1 requirements and view 3 support views already expressed in the submission to the IASB on its POD DP. The Board agreed on a combination of view 2 and 3, the response now reflects that decision.*

Response to question 10

56. We do not agree with the IASB's proposals to define and require disclosure by all entities of unusual income and expenses.

57. IAS 1 already includes a requirement to separately disclose the nature and amount of material income and expenses (paragraph 97). Paragraph 98 of IAS 1 includes examples of circumstances that would give rise to the separate disclosure of income and expenses.

> **Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes**
>
> **97 When items of income or expense are material, an entity shall disclose their nature and amount separately.**
>
> 98 Circumstances that would give rise to the separate disclosure of items of income and expense include:
>
> (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
>
> (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
>
> (c) disposals of items of property, plant and equipment;
>
> (d) disposals of investments;
>
> (e) discontinued operations;
>
> (f) litigation settlements; and
>
> (g) other reversals of provisions.

58. The IASB has not carried forward paragraph 97. Paragraph 98 is carried forward into the application guidance as paragraph B15 (with minor amendments). In question 8 we commented that in our view the IASB has missed an opportunity to embed the concept of materiality into a general presentation and disclosure standard. An alternative to trying to refine the definition of unusual income and expenses is to focus on the existing requirements in IAS 1 (paragraph 97 and 98) and strengthen these requirements to ensure users receive information about material income and expenses to enable them to assess prospects for future cash flows.

59. As we acknowledged in our comment letter to the IASB on the POD DP "information on unusual or infrequently occurring items is useful to users of financial statements, because it helps them to assess the recurring/sustainable performance and make assessments about the future, provided the items are genuinely unusual or infrequently occurring".

60. In our comment letter to the IASB on the POD DP, we did not support the development of definitions of, and requirements for, the presentation of unusual or infrequently occurring items. We suggested instead that the IASB develop principles for the fair presentation of these items.

61. Our suggestion is that the IASB relies on the existing requirements in IAS 1 (existing paragraphs 97 and 98) for the disclosure of material items, adds "occurrence of other unusual or infrequently occurring items" to the list of circumstances that would give rise to the separate disclosure of items of income and expense, and adds requirements for the fair presentation of these unusual or other infrequently occurring items.

Question 11—management performance measures
(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'. (b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures. (c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures. Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not? Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Reframed paragraph 62 as a list.*
- *Paragraph 80, changed to 'some' companies to reflect feedback received from a Board member.*
- *Definition of MPMs, the Board considered a variety of options at the June NZASB meeting. We have included in this response two options for the Board's consideration.*
- *TRG members were in favour of the option to align the proposed MPM definition with the FMA guidance on Disclosing non-GAAP financial information (i.e. Option 2). This option would result in balance sheet and cashflows measures coming within the definition of MPMs. However, TRG members would like the NZASB's response to emphasise the IOSCO guidance. TRG members were of the view that other jurisdictions would have similar regulatory requirements as set out in the IOSCO guidance and this would add more weight to the NZASB's argument.*
- *Added paragraph 71 for TRG feedback.*

Response to question 11

Overall

62. We agree:
    (a) That MPMs can provide useful information to users of financial statements.
    (b) There is a demand from users for information about MPMs.
    (c) That information about MPMs should be included in the financial statements and be subject to audit.
    (d) That the proposals will bring more transparency and discipline to the reporting of these financial performance measures.

63. There is currently an audit expectation gap as users think that information about non-GAAP measures included in an entity's annual report has been audited. Disclosing MPMs in the financial statements will make it clear these measures have been subject to audit.

64. We acknowledge that in the case of some MPMs (such as measures based on tailor-made accounting policies), the audit work may be restricted to checking that the measure has been calculated in accordance with the entity's definition of the measure and that the entity has complied with the disclosure requirements for MPMs. However, we do not think that this should prevent these measures from being included in the audited financial statements.

MPM definition – subtotals of income and expenses

Notes for the Board

103 ***Management performance measures*** **are subtotals of income and expenses that (see paragraphs B76–B81):**

- **(a) are used in public communications outside financial statements;**
- **(b) complement totals or subtotals specified by IFRS Standards; and**
- **(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.**

At its June meeting, the Board discussed three situations.

Situation 1:

- *an entity uses a financial performance measure that is a subtotal of income and expenses.*
- *in this situation the entity must provide the specified information* (as per the proposals i.e. how the MPM is calculated, a reconciliation back to the IFRS amount etc).*

**this assumes that the other three legs of the MPM definition are met.*

Situation 2:

- *an entity chooses* to include in its financial statements information about other financial performance measures that can be reconciled to an IFRS amount in the financial statements.*
- *currently no proposed requirement to provide the specified information.*

**there is nothing to prohibit an entity from including these other measures in the financial statements.*

Situation 3

- *an entity chooses* to include in its financial statements information about other financial performance measures that can't be reconciled to an IFRS amount in the financial statements.*
- *currently no proposed requirement to provide the specified information.*

**there is nothing to prohibit an entity from including these other measures in the financial statements.*

The Board discussed two options.

Option 1

Do not amend definition of an MPM, but if an entity chooses to include other measures then require that the specified information be included in the financial statements.

Agree with situation 1.

For situation 2, if an entity chooses to include in its financial statements another measure that can be reconciled to an IFRS amount, then an entity shall provide the specified information.

For situation 3, cannot provide specified information, but arguably if entity chooses to include in the financial statements, the measures would be subject to audit.

Option 2

Amend the proposed definition of an MPM to align with the FMA guidance on non-GAAP measures. Rationale is that, in New Zealand at least, entities will already be providing the reconciliations etc to meet the FMA requirements.

Agree with situation 1.

For situation 2, amend the definition of an MPM to capture financial performance measures that can be reconciled to an IFRS amount. This would align with the FMA guidance.

The key difference between option 1 and option 2 is that, under option 1 the entity could decide to limit the information in the financial statements to those MPMs that are subtotals of income and expenses (the first situation above) – whereas under option 2, if the entity has another type of MPM in its public communications that can be reconciled to an IFRS amount in the financial statements, then the specified disclosures must be provided – so making the second situation a mandatory disclosure in the financial statements, not optional.

FMA – Disclosing non-GAAP financial information

If the entity is a Financial Markets Conduct reporting entity (FMC reporting entity) any disclosure of non-GAAP information outside the financial statements will be subject to the guidance note issued by the FMA. The following terms are defined in the Financial Market Conduct Regulations 2014.

***Non-GAAP financial measure**: means a numerical measure of an issuer or issuing group's historical or future financial performance, financial position, or cash flows that is used as an alternative to, or to supplement, a GAAP financial measure.*

***Non-GAAP profit measure**: means a non-GAAP financial measure that is used as an alternative to, or to supplement, net profit after tax.*

65. The IASB is proposing to limit MPMs to financial performance measures that are subtotals of income and expenses. This is in line with the IASB's focus on improving the reporting of financial performance in the statement of profit or loss. Paragraph BC154 is the key paragraph that explains why the IASB is limiting MPMs.

BC154 Feedback from users of financial statements led the Board to focus on improvements to the reporting of financial performance in the statement(s) of financial performance and the related notes. Therefore, the Board's proposed definition for management performance measures is limited to subtotals of income and expenses. Thus, other financial measures (such as currency adjusted revenue or return on capital employed) and non-financial measures (such as customer retention rate) are not management performance measures and would not be included in the proposed disclosure.

Option 1 for comment letter

66. Limiting MPMs to financial performance measures that are subtotals of income and expenses will mean in some cases only a subset of the non-GAAP financial measures used by management in its public communications will be MPMs. The remainder of the non-GAAP financial measures used by management will continue to be reported outside the financial statements, for example, in management commentary.

67. We acknowledge the IASB's focus on improving reporting of financial performance in the statement of profit or loss, and we agree that, as a minimum, management should be required to include in the financial statements information about those financial performance measures that are subtotals of income and expenses.

68. However, some entities may choose to include in the financial statements other non-GAAP financial measures used by management that can be reconciled to an IFRS amount in the financial statements (such as, a numerical measure relating to an entity's financial position or cashflow). In our view, such non-GAAP financial measures should be subject to the same disclosure requirements as the defined MPMs. In other words, "if an entity chooses to put additional non-GAAP measures in the financial statements then it must comply with the principles in this section"

Option 2 for comment letter

69. Limiting MPMs to financial performance measures that are subtotals of income and expenses will mean in some cases only a subset of the non-GAAP financial measures used by management in its public communications will be MPMs. The remainder of the non-GAAP financial measures used by management will continue to be reported outside the financial statements, for example, in management commentary.

70. We recommend that the definition of MPMs is widened to include non-GAAP financial measures that are derived from an IFRS amount in the financial statements. The first part of the MPM definition could be replaced with: "a numerical/financial measure of historical financial performance, financial position, or cash flows……(insert rest of definition)".

71. Internationally, this would be consistent with the approach taken in the ESMA's *Guidelines on Alternative Performance Measures*, IOSCO's *Statement on Non-GAAP Financial Measures* (IOSCO's statement) and US SEC *Conditions for Use of Non-GAAP Financial Measures*.

72. In New Zealand, this would align with the FMA guidance on *Disclosing non-GAAP financial information* (which is broadly aligned with the IOSCO statement). The FMA guidance sets out guidelines for FMC reporting entities to follow when they disclose non-GAAP financial information outside the financial statements. We are of the view that analysts and investors would welcome the inclusion in the financial statements of other key financial measures that are used by management.

Definition of an MPM – scope of public communications

73. We believe that the IASB needs to provide guidance to clarify the intended scope of 'public communications outside the financial statements' used in the definition of MPMs for the following reasons.
    (a) The proposed guidance (see paragraph B79) provides examples of public communications (management commentary, press releases and investor presentations). However, the guidance does not limit public communications to these forms of communication.
    (b) Some constituents have questioned whether public communications outside the financial statements would include posts on social media made by the company.
    (c) Other constituents have raised concerns from an audit perspective, noting the challenges of having to review all of an entity's public communications for possible MPMs.

(d) We also have concerns that the IASB has not provided guidance on the timeframe regarding public communications. It is not clear from the proposed definition of an MPM or associated guidance, whether an entity would need to consider all public communications during the year (such as quarterly investor communications) or only those communications relating to the interim/annual reporting period.

(e) Do financial statements meet the definition of public communications – if a measure is only in the financial statements does it meet the MPM definition?

Definition of an MPM – complement totals or subtotals specified by IFRS Standards

74. We have received feedback that the purpose of subparagraph 103(b) of the proposed definition of MPMs is not clear. This subparagraph states that MPMs are subtotals of income and expenses that "complement totals or subtotals specified by IFRS Standards". We believe that the requirement in subparagraph 103(b) is needed in order for an MPM to be reconciled back to an IFRS specified subtotal in the statement of profit or loss. But we also question whether the IASB intended this subparagraph to restrict MPMs to those that are subtotals of income and expenses that cover the same reporting period as the financial statements (see previous comment on the scope of 'public communications'). We recommend that the IASB considers adding an explanation for the purpose of this requirement in the application guidance.

Faithful representation

75. We have concerns with paragraph 105(a) of proposed IFRS X which specifically restricts the disclosure of MPMs in the financial statements to those MPMs that "faithfully represent aspects of the financial performance of the entity to users of the financial statements".

(a) We acknowledge there is a general requirement in IFRS Standards that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of information.

(b) Paragraph 2.13 of the *Conceptual Framework for Financial Reporting* states "To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible."

(c) We note that IFRS 8 *Operating Segments* does not place a similar explicit restriction on the disclosure of segment information which reflects the views of management (see paragraph BC160).

(d) The restriction in paragraph 105(a) does not prevent entities from using such MPMs outside of the financial statements.

(e) In our view, there can be tension between:

(i) communicating to users of financial statements management's view of an aspect of an entity's financial performance; and

(ii) the restriction that MPMs must faithfully represent an aspect of an entity's financial performance.

(f) We believe that where entities are reporting such MPMs outside the financial statements, information about these MPMs is still useful to users of the financial statements and should be disclosed in the financial statements and be subject to audit.

(g) Additionally, we have heard concerns from auditors and preparers about how to interpret 'faithfully represents' in the context of MPMs and subsequently how this will be audited.

76. Therefore, we recommend that the IASB removes this restriction. We consider that paragraph 105(b) of proposed IFRS X, which requires MPMs to be described in a clear and understandable manner that does not mislead users, will be sufficient.

77. We acknowledge that removing paragraph 105(a) will allow MPMs that might not faithfully represent an aspect of an entity's financial performance to be included in the financial statements. However, we believe that such MPMs should not be restricted from being included in the financial statements. Information about such MPMs could provide useful information to users, for example, why the MPM presents management's view of performance and a reconciliation back to a comparable total or subtotal specified by IFRS Standards.

78. If the IASB retains the restriction in paragraph 105(a), then we believe that further guidance is needed to clarify when an MPM faithfully represents aspects of the financial performance of the entity to users of the financial statements.

Proposed disclosures

79. Generally, we agree with the proposed disclosure requirements.

80. We have received feedback that some companies do not adequately explain why a non-GAAP measure provides useful information to users (regardless of whether this non-GAAP information is inside or outside the financial statements). In most cases companies are providing very generic explanations. We have also received feedback that the illustrative example in the ED is too generic and is not very helpful.

81. We have heard concerns that the reconciling items between the MPM and the IFRS number may not be described in a useful manner. We note that paragraph B85 requires that reconciling items meet the requirements in paragraphs 25 to 28, which includes a requirement that the description of the items in the financial statements shall faithfully represent the characteristics of those items. We recommend the IASB considers whether it should add to paragraph 106(b) that reconciling items must be described in a clear and understandable manner.

Question 12—EBITDA
Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA. Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Amended paragraph 83 to read 'EBITDA is an almost universal measure of performance.'*
- *The comment about including BC165 was moved from question 11 (was under other comments) to paragraph 84.*

Response to question 12

82. We agree with not proposing requirements relating to EBITDA. In our view, the calculation of EBITDA is diverse in practice. It would be difficult for the IASB to come up with a globally accepted definition of EBITDA.

83. However, as EBITDA is an almost universal measure of performance (not just in financial statements), we would suggest that the IASB provides guidance to clarify when EBITDA would be able to be presented on the face of the statement of profit or loss. We suggest it would also be helpful to clarify that EBITDA can be presented in the notes to the financial statements as an MPM. In paragraph 85 below we recommend that the IASB considers including the content of paragraph BC165 in the ED, as this explains when the IASB would expect that an MPM such as EBITDA would meet the requirements for presentation on the face of the statement of profit or loss.

84. We consider paragraph BC165 (shown below) is helpful and should be included in the ED.

> BC165 However, the Board expects that few management performance measures would meet the requirements for presentation as a subtotal in the statement(s) of financial performance. To meet the requirements, such subtotals must:
>
> (a) fit into the structure of the proposed categories (see paragraph BC28);
>
> (b) not disrupt the presentation of an analysis of expenses in the operating category using either the function of expense or nature of expense method (see paragraph BC109); and
>
> (c) comprise amounts recognised and measured applying IFRS Standards.

85. We support the IASB's proposal to include operating profit before depreciation and amortisation in the list of IFRS specified subtotals.

Question 13—statement of cash flows
(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities. (b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows. Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Added the word 'substantial' in front of the word confusion in paragraph 88.*

Response to question 13(a)

86. The indirect method of reporting cash flows from operating activities is not prevalent in New Zealand. Therefore we have not commented on this question.

Response to question 13(b)

87. We agree with the feedback received by the IASB that diversity in how companies classify interest and dividend cash flows reduces comparability between companies, making analysis by investors/users difficult. Therefore, we support the proposal to remove the classification choice for interest and dividend cash flows for most entities.

Other comments

88. As highlighted in our response to question 5 above, we have received feedback that the use of similar labels to describe the categories in the statement of profit or loss and the classifications in the statement of cash flows will create substantial confusion in practice. Therefore, we strongly recommend that the IASB explores further the use of different labels between the two statements before finalising the proposals.

89. In line with our response to question 7 above, we do not agree with the proposal to separate cash flows from investments into those from integral and non-integral associates and JVs.

Question 14—other comments
Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

Notes for the Board—changes made to the draft comment letter tabled June 2020 NZASB meeting.

- *Following feedback from a Board member we have added paragraph 96 on negative interest rate environments.*
- *The section on illustrative examples is new, have moved paragraph 98 from question 2 to here. Classification will depend on the main business activities of the entity, as the Board decided not to request additional guidance on main business activities. Did not want to seem inconsistent and then ask for guidance for this entity-specific issue, however, since raised by TRG leave to IASB to consider if they wish to cover off in illustrative examples.*

Response to question 14

Going concern

90. 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 NZASB recently issued domestic narrow-scope amendments to FRS-44 *New Zealand Additional Disclosures*[2] to improve going concern disclosures to provide better information to users of financial statements during this period of exceptional circumstances.

91. The issue of New Zealand specific disclosures is a short-term measure to deal with the most pressing need for improved disclosures. We strongly recommend that the IASB adds a project to its agenda to look at going concern issues more comprehensively. The major economic disruption from COVID-19 has highlighted this matter as an area where improvements are needed.

Statement presenting comprehensive income

92. IAS 1 requires income and expenses included in other comprehensive income (OCI) to be categorised into income and expenses that may be reclassified (recycled) to profit or loss in subsequent periods and items that are permanently reported outside profit or loss and will not be reclassified. This creates two categories of income and expenses included in other comprehensive income.

93. To increase the understandability of amounts included in other comprehensive income, the IASB proposes to create more descriptive labels for these two categories of other comprehensive income.

[2] *Going Concern Disclosures* (Amendments to FRS-44)

Categories of income and expenses included in other comprehensive income	
Current labels	**Proposed labels**
will not be reclassified subsequently to profit or loss.	remeasurements permanently reported outside profit or loss.
will be reclassified to subsequently to profit and loss when specific conditions are met.	income and expenses to be included in profit or loss in the future when specific conditions are met

94. We support the proposed new labels for the categories of income and expenses included in other comprehensive income. The new labels use plain English and are easier to understand.

95. We would encourage the IASB to undertake a specific project on OCI. We have received feedback that users do not understand the distinction between profit or loss and OCI and the role of recycling.

Negative interest rates

96. During discussions on the ED, an issue was raised regarding the presentation of income and expenses in a negative interest rate environment. We are aware of the January 2015 IFRS Interpretations Committee agenda decision *Income and expenses arising on financial instruments with a negative yield—presentation in the statement of comprehensive income (IAS 39* Financial Instruments: Recognition and Measurement *and IAS 1* Presentation of Financial Statements*)—January 2015.* While this agenda decision clarified that you cannot present negative interest as a revenue line item, it did not clarify how the resulting expense should be presented. We have received feedback that clarification of presentation would be helpful to ensure consistent reporting and remove diversity in practice.

Illustrative Examples

97. We recommend the IASB provides examples that are entity specific and avoids boiler plate examples. For example, we have received feedback that note 2 to part 1 of the illustrative examples does not contain entity specific information on how the three MPMs provide useful information about the entity's performance (proposed required disclosure under paragraph 106(a) of IFRS X).

98. We have received feedback that the IASB should provide an example regarding the classification of the fair value movements for biological assets (are the movements in fair value operating or investing in nature?) There is currently diversity in practice so clarity would be helpful.

99. We note that the illustrative statement of profit and loss in Part I (analysis of expenses by function) includes a line item impairment losses on trade receivables. We also note that impairment losses on trade receivables is listed separately in note 1, which is an analysis of operating expenses by nature. We question how the same item can be by nature and by function.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 122

Approval to Issue *Amendments to NZ IFRS 17*

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 *Amendments to NZ IFRS 17;* 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 *Amendments to NZ IFRS 17* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 14th day of August 2020

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 123

Approval to Issue *Extension of the Temporary Exemption from Applying NZ IFRS 9*

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 *Extension of the Temporary Exemption from Applying NZ IFRS 9;* 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 *Extension of the Temporary Exemption from Applying NZ IFRS 9* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 14th day of August 2020

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 124

Approval to Issue *Amendments to PBE IFRS 17*

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 *Amendments to PBE IFRS 17;* 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 *Amendments to PBE IFRS 17* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 14th day of August 2020

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 125

Approval to Issue *Going Concern Disclosures* (Amendments to FRS-44)

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 *Going Concern Disclosures* (Amendments to FRS-44); 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 *Going Concern Disclosures* (Amendments to FRS-44) pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 17th day of August 2020

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 126

Approval to Issue *Going Concern Disclosures* (Amendments to PBE IPSAS 1)

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 *Going Concern Disclosures* (Amendments to PBE IPSAS 1); 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 *Going Concern Disclosures* (Amendments to PBE IPSAS 1) pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 17th day of August 2020

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Michele J Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 127

Approval to Issue *Classification of Liabilities as Current or Non-current—Deferral of Effective Date*

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 *Classification of Liabilities as Current or Non-current–Deferral of Effective Date;* 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 *Classification of Liabilities as Current or Non-current–Deferral of Effective Date* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 14 th day of August 2020

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Michele Embling
Chair
External Reporting Board

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 128

Approval to Issue *2020 Amendments to PBE FRS 48*

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 *2020 Amendments to PBE FRS 48;* 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 *2020 Amendments to PBE FRS 48* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 14th day of August 2020.

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Michele J Embling
Chair
External Reporting Board