

Board Meeting Agenda

Wednesday 14 April 2021, virtual meeting

Est Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
PBE Items for Consideration					
10.45 am	4	IPSASB Leases	(JC/VSF)		
	4.1	Cover memo	Consider	Paper	4
	4.2	Draft comment letter ED 75	Consider	Paper	11
	4.3	Update on RFI	Consider	Verbal	
	4.4	IPSASB ED 75	Consider	Link to XRB website	
	4.5	IPSASB Request for Information	Consider	Link	
11.35 am	<i>Meeting break</i>				
11.40 am	5	Public Sector Insurance	(AT/VSF)		
	5.1	Cover memo	Note	Paper	19
	5.2	Memo – Scope	Consider	Paper	22
	5.3	Memo – Risk margins	Consider	Paper	53
12.30 pm	<i>Lunch break</i>				
1.00 pm	6	IPSASB Measurement Projects	(GS/JS/JP/TC)		
	6.1	Cover memo	Consider	Paper	73
	6.2	Education session	Note	Slides	114
	6.3	Outreach plan	Consider	Paper	128
	6.4	IPSASB EDs 76–79	Consider	Late papers	
	6.5	IPSASB At a Glance Documents (for EDs 76–79)	Consider	Late papers	
2.10 pm	<i>Meeting break</i>				
For-profit Items for consideration					
2.15 pm	7	Business Combinations under Common Control	(GS)		
	7.1	Cover memo	Consider	Paper	131
	7.2	IASB DP/2020/2 <i>Business Combinations under Common Control</i>	Consider	Link to XRB website	
	7.3	Snapshot IASB DP/2020/2	Consider	Link	

Est Time	Item	Topic	Objective		Page
3.00 pm	8	Disclosure Initiative: Targeted Standards-level Review of Disclosures	(JS)		
	8.1	Cover memo	Consider	Paper	148
	8.2	IASB ED/2021/3 <i>Disclosure Requirements in IFRS Standards—A Pilot Approach</i>	Consider	Link to XRB website	
	8.3	IASB ED/2021/3 Basis for Conclusions	Consider	Link	
	8.4	Snapshot IASB ED/2021/3	Consider	Link	
3.15 pm 15 min	<i>Afternoon tea break</i>				
3.30 pm	9	IASB Agenda Consultation	(TC/JP)		
	9.1	Cover memo	Consider	Paper	155
	9.2	Draft comment letter	Consider	Paper	166
	9.3	RFI – <i>Third Agenda Consultation</i>	Consider	Link to IFRS Foundation website	
	9.4	NZASB comment letter on the <i>2015 Agenda Consultation</i>	Note	Paper	
	9.5	NZASB comment letter on the <i>2011 Agenda Consultation</i>	Note	Paper	
4.10pm	10	IFRS Interpretations Committee Update			
	10.1	February 2021 meeting update	Consider	Paper	236
	10.2	March 2021 meeting update	Consider	Paper	245
Standards approved					
4.25 pm	11	Standards approved	(LK/VSF)		
	11.1	Approval 131 <i>Disclosure of Accounting Policies</i>	Note	Paper	250
	11.1.1	Cover memo <i>Disclosure of Accounting Policies</i>	Note	Paper	251
	11.1.2	Amending standard <i>Disclosure of Accounting Policies</i>	Note	Paper	257
	11.1.3	Signing memorandum <i>Disclosure of Accounting Policies</i>	Note	Paper	268
	11.2	Approval 132 <i>Definition of Accounting Estimates</i>	Note	Paper	272
	11.2.1	Cover memo <i>Definition of Accounting Estimates</i>	Note	Paper	273
	11.2.2	Amending standard <i>Definition of Accounting Estimates</i>	Note	Paper	278
	11.2.3	Signing memorandum <i>Definition of Accounting Estimates</i>	Note	Paper	286
	11.2.4	Application of the PBE Policy Approach to <i>Definition of Accounting Estimates</i>	Note	Paper	289

Est Time	Item	Topic	Objective		Page
C: NON-PUBLIC SESSION					
4.55 pm		<i>Finish</i>			

Next NZASB meeting: Wednesday 13 May 2021

Date: 1 April 2021

To: NZASB Members

From: Jamie Cattell and Vanessa Sealy-Fisher

Subject: **IPSASB Leases**

Purpose and introduction¹

1. The purpose of this agenda item is to:
 - (a) seek the Board's views on the draft comment letter to the IPSASB on ED 75 *Leases* (agenda item 4.2); and
 - (b) seek the Board's feedback on the types of arrangements listed in the IPSASB's Request for Information *Concessionary Leases and Other Arrangements Similar to Leases* (RFI) (agenda item 4.5);
 - (c) verbally report feedback received from the outreach undertaken since the Board papers were distributed.
2. At the February meeting, the Board agreed to comment on ED 75 and to provide information on the types of arrangements outlined in the RFI.

Background

3. The IPSASB issued ED 64 *Leases* in January 2018. ED 64 proposed:
 - (a) the IFRS right-of-use model for lessees;
 - (b) the right-of-use model for lessors; and
 - (c) specific guidance on concessionary leases for both lessors and lessees.
4. Respondents to ED 64 generally supported the right-of-use (ROU) model proposed for lessees. However, views were mixed regarding the ROU model proposed for lessors and the proposed guidance on concessionary leases.
5. The NZASB also made a submission on ED 64, in which it:
 - (a) agreed with the accounting model proposed for lessees;
 - (b) disagreed with the accounting model proposed for lessors;

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- (c) disagreed with the proposed accounting for concessionary leases by both the lessee and the lessor;
 - (d) recommended that the IPSASB develop proposals for lessors based on IFRS 16; and
 - (e) recommended that the IPSASB reconsider concessionary leases at a later date after it had made further progress on related ongoing projects (for example, Revenue and Non-exchange Transactions).
6. After considering the feedback received on ED 64, the IPSASB has decided to progress the project in two phases:
- (a) Phase 1, which proposes accounting for leases which are fully within the scope of IFRS 16 for both lessees and lessors, that is, ED 75; and
 - (b) Phase 2, which will address public sector issues. The RFI has been issued as part of this phase to obtain more information on public sector specific issues related to concessionary leases and other “lease-like” arrangements common in the public sector. The IPSASB will determine whether additional guidance is needed for these leases and arrangements based on the feedback received on the RFI.
7. In January 2021, ED 75 and the RFI were issued.

ED 75 Proposals

8. ED 75 is substantially based on IFRS 16. Accordingly it proposes:
- (a) a right-of-use model for lessees; and
 - (b) to substantially carry forward the risks and rewards model in IPSAS 13 for lessors;
9. There are however some differences from IFRS 16 as follows.
- (a) ED 75 does not include the requirements and guidance in IFRS 16 for manufacturer or dealer lessors because this is not expected to be applied in the public sector. This means that the definition of ‘initial direct costs’ has also been amended to remove the reference to manufacturer or dealer lessors.
 - (b) Application guidance has been added for the definition of a ‘contract’ to cater for jurisdictions where public sector entities are precluded from entering into formal contracts, but they do enter into arrangements that have the substance of contracts (paragraph AG3).
 - (c) The term ‘service potential’ has been added after the term ‘economic substance’ where appropriate in the application guidance for identifying a lease (paragraphs AG10–AG24). This is consistent with the explanation of a resource in paragraph 5.7 of the IPSASB Conceptual Framework, which refers to both service potential and economic benefits.
10. As the IPSASB has decided to request further information on concessionary leases as part of phase two of the project, ED 75 includes no specific guidance on concessionary leases.

ED 75 SMCs

11. ED 75 contains three specific matters for comment (SMCs). Those SMCs relate to:
 - (a) how the IPSASB has modified IFRS 16 for the public sector;
 - (b) retention of the IFRS 16 and IPSAS 13 definition of fair value in ED 75 (which differs from the definition in IFRS 13 *Fair Value Measurement* and the proposed definition in forthcoming ED 77 *Measurement*. The definition in ED 77 is aligned with that in IFRS 13); and
 - (c) referring to both 'economic benefits' and 'service potential' where appropriate in the application guidance on identifying a lease.
12. The draft comment letter supports all three SMCs. However, we have raised some concerns.

Question for the Board

- Q1. Does the Board have any comments on the Draft Comment Letter?

The RFI

13. The RFI is independent of ED 75 and will not delay the issuance of a final pronouncement based on ED 75. The RFI is seeking information on public sector specific issues related to concessionary leases and other "lease-like" arrangements. In particular, the IPSASB is seeking input on the characteristics of concessionary leases and these other arrangements and how they are currently accounted for in constituents' respective jurisdictions.
14. While the IPSASB is seeking feedback on all such arrangements, based on the submissions received on ED 64, the RFI describes six specific topics for which more information is needed.
 - (a) Concessionary leases.
 - (b) Leases for zero or nominal consideration.
 - (c) Access rights (or right of access to property and/or land).
 - (d) Arrangements allowing right-of-use.
 - (e) Social housing rental arrangements.
 - (f) Shared property with or without a lease-arrangement in place.
15. For each of the above topics the RFI is seeking input from constituents on:
 - (a) whether they have such arrangements in their jurisdiction;
 - (b) the nature and characteristics of the arrangement(s) and associated transactions; and
 - (c) how the arrangements are reflected in affected parties' financial statements.
16. One of the primary issues for each of these topics is whether the arrangements to which they refer meet the definition of a lease as set out in ED 75. The rationale for the uncertainty surrounding each topic is explained further in the Appendix to this memo.

Questions for the Board

- Q2. Are any of the specific topics identified in the RFI particularly prevalent in New Zealand’s public sector and/or not-for-profit sector? If so, is there currently a common accounting practice for reflecting these in the financial statements of both parties to the arrangement?
- Q3. Is the Board aware of any relevant examples of the specific topics above we should investigate further?
- Q4. Is the Board aware of any other arrangements similar to leases not mentioned in the RFI that we should investigate further?

Outreach on ED 75 and the RFI

17. We have, or will be, contacting all New Zealand constituents who commented on the proposals in ED 64 *Leases*.
18. Staff have developed a survey as a means through which constituents can provide their feedback on the RFI. It is expected that this survey will be published prior to the Board Meeting.

TRG Feedback

19. Technical Reference Group (TRG) members did not identify any public sector-specific reasons for leases to be accounted for differently from the way they are accounted for in the for-profit sector.
20. One TRG member noted an inconsistency between the Application Guidance on the recognition exemption for which the underlining asset is of low value (paragraphs AG4–AG9) and the IPSASB’s Basis for Conclusions on this matter. The inconsistency has been raised in the draft comment letter.
21. We are also aware that a concern has been raised regarding the proposed scope of ED 75. The concern is that concessionary leases could be within scope because they meet the definition of a lease. We think that concessionary leases should be included within the scope of ED 75 as they meet the definition of a lease in ED 75, albeit the consideration is for less than market value.
22. TRG members generally agreed that leases for zero or nominal consideration and social housing rental arrangements are a widespread issue in both the public sector and not-for-profit sector. They did not consider there is currently any common accounting practice across entities for these arrangements.

CA ANZ/CPA Outreach Event

23. Staff attended an outreach event hosted by CA ANZ and CPA Australia on Friday 26 March to hear constituents’ views on both the ED and the RFI.

Webinar held on Tuesday 30 March

24. A webinar was held on Tuesday 30 March which included a presentation from Ross Smith, IPSASB Program and Technical Director. The presentation provided an overview of the IPSASB leases project, the proposals in ED 75, and the topics covered in the RFI.
25. In total there were 276 individual registrations for the webinar, of which approximately 190 attended on the day. All registered attendees will be sent the presentation materials and a link to the recording.

Targeted outreach

26. Prior to the Board meeting we will meet with staff from Auckland Council, Audit New Zealand and Wellington City Council. We will provide a verbal update on those meetings at the Board meeting.
27. On Thursday 15 April, we are scheduled to meet with staff from Upper Hutt City Council and Treasury. Feedback from those meetings will be provided at the May Board meeting.

Next steps

28. Approval of the comment letter on ED 75 and the Board's response to the RFI will be sought at the May Board meeting.

Attachments

- Agenda item 4.2: Draft comment letter on ED 75 *Leases*
- Agenda item 4.4: IPSASB ED 75 (in supporting papers)
- Agenda item 4.5: IPSASB RFI *Concessionary Leases and Other Arrangements Similar to Leases* (in supporting papers)

Appendix

1. One of the key issues related to concessionary leases and other “lease-like” arrangements identified by the IPSASB is whether the specific arrangements in the RFI meet the definition of a lease under ED 75.
2. Set out below are the relevant paragraphs from ED 75

Definition of a lease and criteria to identify a lease in ED 75

3. The definition of a lease in para 5 of ED 75 is as follows.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
4. Para 10 sets out the following criteria for identifying a lease at inception of a contract.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
5. Para AG 10 further clarifies that the right to control use of an asset is conveyed where throughout the period of the contract, the customer has both of the following:
 - (a) The right to obtain substantially all of the economic benefits or service potential from use of the identified asset; and
 - (b) The right to direct the use of the identified asset.

Concessionary leases and leases for zero or nominal consideration

6. Concessionary leases and leases for zero or nominal consideration appear to be largely the same as ordinary lease arrangements with the exception of the amount of consideration transferred.
7. Concessionary leases meet the criteria for identifying a lease set out in the ED because they include a transfer of consideration (even when the amount is below market). However Leases for Zero consideration (and leases for nonnominal amount in substance) may not meet the definition of a lease because they do not involve the exchange of consideration.
8. It is also our understanding that there are cases where leases for zero or nominal consideration have restrictions on the rights of the lessee which may indicate full rights to control the use of the asset have not been conveyed.

Access rights arrangements and arrangements allowing right-of-use

9. These arrangements may not meet the definition of a lease as they involve conveyance of only a portion of the rights attached to an asset as opposed to the full rights to control use of the asset.
10. In the case of right-of-use arrangements it is also noted that these may not be in the form of a written arrangement and therefore may not be a contract or part of a contract.

Social housing rental arrangements

11. Some social housing rental arrangements may not meet the definition of a lease as it is common for these arrangements to lack a defined period. Sometimes this is due to restrictions in legislation or because the rental arrangements simply do not specify an end term.

Shared properties with or without a lease-arrangement in place

12. In the public sector it is common for entities to co-locate activities in a single building. Some of these arrangements may not meet the definition of a lease as they often do not involve the exchange of consideration. They may also not meet the definition due to the arrangements not being documented in a formal agreement.



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[date]

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CANADA

Submitted to: www.ifac.org

Dear Ross

IPSASB ED 75 *Leases*

Thank you for the opportunity to comment on the IPSASB's proposals in relation to leases in ED 75.

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

We strongly support the development of an IPSAS based on IFRS 16 *Leases*.

In our comment letter on ED 64 *Leases* we recommended that the IPSASB:

- (a) proceed with the proposals for lessee accounting;
- (b) not proceed with the proposals for lessor accounting and instead develop proposals based on IFRS 16; and
- (c) not proceed with the proposals for concessionary leases until progress has been made on related on-going projects (such as *Revenue, Non-Exchange Expenses* and *Measurement*).

We are pleased with how our comments on ED 64 have been addressed in ED 75.

Developing an IPSAS based on IFRS 16 would put the IPSASB in a position to benefit from the detailed analysis and lengthy debates that occurred during the development of IFRS 16. The final requirements in IFRS 16 were determined after due consideration of both the conceptual and the practical arguments identified by the IASB's constituents.

We have not identified any public sector-specific reasons to diverge from the requirements in IFRS 16.

Our responses to the Specific Matters for Comment are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Vanessa Sealy-Fisher (vanessa.sealy-fisher@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Chair – New Zealand Accounting Standards Board

APPENDIX

Specific Matter for Comment 1

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37–BC60)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Notes for the Board***TRG feedback***

TRG members did not identify any public sector-specific reasons for the accounting for leases in the public sector to differ from the accounting for leases in the private sector for both lessees and lessors.

We agree with the way the IPSASB has modified IFRS 16 for the public sector, subject to our comments below.

Notes for the Board***Lessor accounting – manufacturer or dealer lessor***

The IPSASB decided not to include in ED 75 the manufacturer or dealer lessor requirements included in IFRS 16 because:

- (a) They are not expected to be applied to public sector entities for which IPSAS are designed; and
- (b) The IPSASB's constituents did not request its inclusion during consultation on ED 64, which also which also excluded those requirements. [BC58]

Definition of initial direct costs

This definition has been amended to remove the reference to a manufacturer or dealer lessor as the requirements for manufacturer or dealer lessors from IFRS 16 have been excluded from ED 75. [BC42]

Staff comments

We agree with the modification on the basis that the requirements for a manufacturer or dealer lessor in IFRS 16 would in general not be applicable in the public sector.

- We agree with not including in ED 75 the requirements from IFRS 16 for manufacturer or dealer lessors as explained in the Basis for Conclusions, and the subsequent amendment made to the definition of initial direct costs as a consequence of excluding these requirements.

Notes for the Board***Scope exclusion for concessionary leases***

The IPSASB decided not to provide an explicit scope exclusion for concessionary leases because ED 75:

- (a) is an IFRS aligned Standard and IFRS 16 does not exclude concessionary leases from its scope; and
- (b) any issues in applying ED 75 to concessionary leases, including the concession component, will be considered further in Phase Two of the Leases project (following analysis of RFI submissions). [BC38]

Staff comments

We have received feedback from outreach activities (conducted to date) that an explicit scope exclusion for concessionary leases would be useful. This would make it clearer that ED 75 does not provide guidance for the accounting of concessionary leases (which is instead being considered under Phase 2 of the project).

While we understand this view, we note that an explicit scope exclusion for concessionary leases would result in all leases at below-market terms being excluded from a new lease standard, and effectively all

concessionary leases will have no accounting requirements until Phase 2 of the project is completed. For concessionary leases involving the exchange of consideration (other than those with nominal consideration), we feel it is important that they continue to be included in the scope of ED 75 until specific requirements for concessionary leases are developed under Phase 2 of the project.

However, we agree that, for clarity, ED 75 should explicitly exclude leases for zero or nominal amounts from its scope.

- We agree with not including in ED 75 an explicit scope exclusion for concessionary leases. A concessionary lease meets the definition of a lease in ED 75: it conveys the right to use an asset for a period of time in exchange for consideration, even if the consideration is less than normal market terms. Until specific requirements are developed for concessionary leases (as part of Phase 2 of the project) we feel it is appropriate that any arrangement that meets the definition of a lease be accounted for in accordance with the proposals in ED 75. For a concessionary lease, this means recognising a right-of-use (ROU) asset and a lease liability based on the expected lease payments, which may be at below market amounts.

However, we think that, for clarity, leases for zero or nominal consideration should be explicitly excluded from the scope of ED 75. These types of arrangements do not meet the ED 75 definition of a lease because there is no consideration.

Notes for the Board

Contractual arrangements

The IPSASB noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts, but do enter into arrangements that have the substance of contracts. To assist entities in identifying contracts, ED 75 contains additional Application Guidance to explain that an entity considers the substance rather than the legal form of an arrangement in assessing whether an arrangement is contractual or non-contractual. [BC40]

AG3 Contracts, for the purposes of this [draft] Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- (a) Contracts involve willing parties entering into an arrangement;
- (b) The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- (c) The remedy for non-performance is enforceable by law.

Rather than referring to a “contract”, the IPSASB considered whether the term ‘binding arrangement’ should be used to describe the arrangements highlighted in paragraph AG3. The IPSASB concluded that the term binding arrangement as used in IPSASs embraces a wider set of arrangements than those identified in paragraph AG3 and therefore concluded that it should not be used in ED 75. [BC41]

ED 75 proposes a definition of a lease that is consistent with IFRS 16, being “*a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration*”.

ED 75 proposes a definition of contract that is consistent with IFRS 15, being “*An agreement between two or more parties that creates enforceable rights and obligations*”.

Staff comments

We have received some feedback that the reference to ‘binding arrangements’ rather than ‘contract’ in the definition of a lease would better reflect the public sector context and ensure all leasing arrangements are caught within the scope.

However, on balance we agree with the approach taken by the IPSASB to use the term ‘contract’ rather than ‘binding arrangement’, and instead provide application guidance to assist public sector entities to identify arrangements that are in substance contracts. This approach maintains alignment between ED 75 and IFRS 16. Whether other types of arrangements should be accounted for as leases will be considered under Phase 2 of the project.

We also note that the definition of binding arrangement is not consistent across IPSAS 32 *Service Concession Arrangements* and ED 70 *Revenue with Performance Obligations* which could be confusing for constituents.

IPSAS 32: contracts and other arrangements that confer *similar rights and obligations* [emphasis added] on the parties to it as if they were in the form of a contract

ED 70: an arrangement that confers both *enforceable rights and obligations* [emphasis added] on both parties to the arrangement. A contract is a type of binding arrangement.

- We agree with the IPSASB’s decision to use the term ‘contract’ rather than the term ‘binding arrangement’ (which maintains alignment of ED 75 with IFRS 16) and to include additional application guidance explaining the factors an entity considers in assessing whether an arrangement is contractual or non-contractual.

Notes for the Board

Discount rates

The IPSASB considered whether to provide additional guidance where:

- (a) The lessee’s incremental borrowing rate is different from the likely interest rate implicit in the lease; or
- (b) The lessee is unable to determine the interest rate implicit in the lease or has difficulties in determining the incremental borrowing rate. [BC54]

The IPSASB decided that this issue is not public sector specific because private sector entities encounter similar difficulties in determining the interest rate implicit in the lease and the incremental borrowing rate. [BC55]

Staff comments

We have received some feedback concerning expected challenges public sector entities will face when determining the implicit rate in the lease and the incremental borrowing rate.

However, we agree with the IPSASB this is not a public sector specific because private sector entities have been encountering similar difficulties.

- We agree with not providing addition guidance for public sector entities in determining the interest rate implicit in the lease and the incremental borrowing rate.

Notes for the Board

Recognition exemption

The IPSASB considered the recognition exemptions in IFRS 16 for leases for which the underlying asset is of low value. They agreed in principle that there was not a public sector specific reason that would warrant different recognition exemptions in ED 75. [BC49]

The IPSASB noted that IFRS 16 does not include a reference to a specific monetary amount for a lease of a low value underlying asset. However, paragraph BC100 states that “*The IASB had in mind leases of underlying assets with a value, when new, in the order of the magnitude of US\$5,000 or less*”.

The IPSASB agreed not to include a reference to a specific monetary amount in ED 75 and instead the entity should apply materiality principles when assessing if an underlying asset is of ‘low value’.

Staff comments

We agree with the IPSASB basis for not including a specific monetary amount for a lease of a 'low value' underlying asset in ED 75. This is an appropriate approach for the public sector.

However, we note that the Application Guidance and the Basis for Conclusions are inconsistent.

IFRS 16 and ED 75 both contain an exemption from recognising leases for which the underlying asset is of low value. The IASB had in mind assets of US\$5,000 or less, with the exemption being based on the value, when new, of the asset being leased. [IASB BC100] The exemption is not based on the size or nature of the entity that leases the asset.

The IPSASB concluded that it would not provide guidance on a specific monetary amount. If entities decide to apply the exemption, they should use a threshold for determining leases of low-value assets considering the materiality of leasing transactions in relation to their financial statements. In assessing materiality, preparers consider whether the omission of information could influence financial statement users' assessments of accountability or their decision-making. [BC53]

However, the IPSASB's Basis for Conclusions appears to contradict the Application Guidance in paragraphs AG4–AG9 (which are identical to paragraphs B3–B8 of IFRS 16) – in particular, paragraph AG5 which states that "The assessment [of whether an underlying asset is of low value] is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value."

If the IPSASB does not want to provide guidance on a specific monetary amount, paragraphs AG4–AG9 need to be amended to reflect this.

- We agree with the IPSASB's decision not to include in ED 75 or the Basis for Conclusions a specific monetary amount for assets of low value.

However, the IPSASB's Basis for Conclusions appears to contradict the Application Guidance in paragraphs AG4–AG9 – in particular, paragraph AG5 which states that "The assessment [of whether an underlying asset is of low value] is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value."

Paragraph BC53 states that "If entities decide to apply the exemption, they should use a threshold for determining leases of low-value assets considering the materiality of leasing transactions in relation to their financial statements. In assessing materiality, preparers consider whether the omission of information could influence financial statement users' assessments of accountability or their decision-making."

If entities are considering the materiality of leasing transactions in relation to their financial statements to assess whether an underlying asset is of low value, this means that the assessment is affected by the size, nature or circumstances of the entity. However, paragraph AG5 states that the assessment is not affected by the size, nature or circumstances of the lessee.

If the IPSASB does not want to provide guidance on a specific monetary amount, paragraphs AG4–AG9 need to be reconsidered and amended to reflect this.

Specific Matter for Comment 2:

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, Leases, which differs from the definition proposed in ED 77, Measurement* (see paragraphs BC43–BC45). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

* The fair value definition under development in ED 77, *Measurement* is aligned with the fair value definition in IFRS 13 *Fair Value Measurement*.

Notes for the Board

When considering the options for progressing the *Leases* project, the IPSASB decided that, on balance, the public interest would be better served by proceeding with an IFRS 16 aligned standard because it would be:

- (a) less costly and challenging to implement by changing only less accounting, and the public sector could benefit from the private sector experience in implementing IFRS 16;
- (b) align with the IPSASB’s Strategy and Work Plan theme of Maintaining IFRS Alignment, which was the original objective of the Leases project;
- (c) address more quickly the important off-balance sheet financing of operating leases by lessees without waiting for a new accounting model for lessors; and;
- (d) facilitate Phase One delivery, thus permitting the IPSASB to focus on the important public sector specific issues in Phase Two. [BC36]

The IPSASB noted that including the definition of *fair value* as proposed in ED 77 *Measurement* might significantly change the lease classification and the timing of recognising gains or losses for sale and leaseback transactions. [BC44]

Fair value is defined in ED 77 (and IFRS 13 *Fair Value Measurement*) as “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

ED 75 (and IFRS 16 and IPSAS 13) defines ‘fair value’ in relation to lessor accounting requirements. The definition is: “Fair value, for the purpose of applying the lessor accounting requirements in this [draft] Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”.

The IPSASB decided to retain the fair value definition consistent with IFRS 16 because:

- (a) It is consistent with the IPSASB’s decision to retain the IPSAS 13 lessor accounting requirements and align with IFRS 16 for cost-benefit reasons (outlined above)
- (b) It is consistent with the IASB’s decision to retain in IFRS 16 the fair value definition that existed in IAS 17 *Leases* as the lessor accounting model in IAS 17 was not fundamentally flawed and should not be changed; and
- (c) It provides relief to preparers by not requiring significant changes to their accounting systems for this aspect of ED 75. [BC45]

We agree with retaining the definition of fair value from IFRS 16 and IPSAS 13 in the IPSAS to be based on ED 75, for the reasons given in paragraph BC45 of the Basis for Conclusions on ED 75.

Specific Matter for Comment 3:

The IPSASB decided to propose to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46–BC48). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Notes for the Board

For the purpose identifying a lease, IFRS 16 requires consideration of whether the lessee has the “*right to obtain substantially all of the economic benefits from use of the identified asset*”, with no reference to the “service potential” of the leased asset.

The IPSASB noted that in the public sector lease arrangements are entered into for the purpose of obtaining the economic benefits and/or the service potential of the leased asset. To reflect the public sector context, the IPSASB agreed that the reference to “service potential” should be included in the application guidance on identifying a lease.

If the guidance referred only to “economic benefits” an entity that intends to use the leased asset to provide services to the community might reach the conclusion that the transaction is not a lease because it does not derive economic benefits from the use of that asset, despite the fact that the transaction meets the definition of a lease.

This approach is also consistent with the IPSASB’s Conceptual Framework in referring to assets in terms of both economic benefits and service potential.

We agree with the proposal to refer to both ‘economic benefits’ and ‘service potential’, where appropriate, in the application guidance on identifying a lease. Referring to both of these terms when considering the use for which the leased asset is used:

- (a) is consistent with the IPSASB’s Conceptual Framework; and
- (b) includes in the scope of ED 75 leases where an entity derives service potential, rather than economic benefits, from the use of the asset.



Cover Memo

Project	Insurance Activities in the Public Sector	Meeting	AASB (M180)/ NZASB April 2021
Topic	Applying AASB 17 / NZ IFRS 17 in public sector entities	Agenda item	AASB 10.1 NZASB 5.1
		Date	31 March 2021
Contacts	Angus Thomson athomson@asb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@asb.gov.au	Project priority	Medium
		Decision-making	High
		Project status	Addressing specific technical issues for board deliberation

April 2021 Board meetings – attachments

For the April meeting of the AASB and the NZASB, staff have prepared papers on the following topics:

- **Scope:** identifying activities of public sector entities that should be accounted for under AASB 17/PBE IFRS 17 *Insurance Contracts* (Agenda Paper AASB 10.2/NZASB 5.2); and
- **Risk adjustments:** relevance and measurement of risk adjustments in respect of activities of public sector entities accounted for under AASB 17/PBE IFRS 17 (Agenda Paper AASB 10.3/NZASB 5.3).

February 2021 Board meeting decisions

At their February 2021 meetings, the Boards:

- confirmed the project objective – to consider whether it would be appropriate to apply AASB 17/PBE IFRS 17 to public sector entities in accordance with the Boards’ respective frameworks for promulgating Standards in the public sector; and as far as possible to achieve a consistent accounting outcome in Australia and New Zealand; and
- instructed staff to address the following issues for deliberation at future meetings:
 - identifying relevant ‘insurance-like’ activities that should be accounted for under AASB 17/PBE IFRS 17;**
 - identifying insurance entities that should prepare financial statements;
 - eligibility for the ‘simplified’ premium allocation approach to measuring liabilities for remaining coverage;
 - discount rates;
 - relevance and measurement of risk adjustments for the liability for incurred claims;**
 - the classification of ‘non-insurance’ cost;
 - the recognition of onerous contracts; and
 - the measurement of investments backing insurance liabilities.



Questions for April 2021 meetings

Agenda Paper AASB 10.2/NZASB 5.2: Scope of application of AASB 17/PBE IFRS 17	
Number & para	Questions
S1 Paragraph 3.8	Do the Boards agree that: (a) activities of a for-profit nature could not be regarded as social benefits; however, (b) the for-profit <i>versus</i> not-for-profit distinction should not be an indicator that AASB 17/PBE IFRS 17 would apply in the public sector?
S2 Paragraph 4.18	Do the Boards agree that: (a) the similarity of insurance risks covered with the risks covered by for-profit private sector insurance contracts; and (b) the similarity of benefits provided with the benefits provided by for-profit private sector insurance contracts; should be identified as a pre-requisite for determining that AASB 17/PBE IFRS 17 would apply in the public sector?
S3 Paragraph 4.19	Do the Boards agree that, in practical terms, transaction neutrality would be determined by reference to whether the same types of ‘contracts’ are issued in both the private and public sectors?
S4 Paragraph 4.20	Are the Boards comfortable with the manner in which AASB 17/PBE IFRS 17 would address arrangements in the public sector that are a bundle of services, some of which might be insurance and some of which might not?
S5 Paragraph 5.8	Do the Boards agree that it would be useful to specifically identify public sector schemes that are not within the scope of AASB 17/PBE IFRS 17?
S6 Paragraph 6.16	Do the Boards agree that the extent to which an arrangement is binding on the public sector entity should be an indicator that the arrangements should be within the scope of AASB 17/PBE IFRS 17?
S7 Paragraph 6.17	Do the Boards agree with the staff view on identifying the extent to which an arrangement is binding based on whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively?
S8 Paragraph 7.7	Do the Boards agree that the existence of an identifiable coverage period would be a useful indicator for determining when AASB 17/PBE IFRS 17 should apply in the public sector?
S9 Paragraph 8.4	Do the Boards agree that the fault-based versus no-fault nature of coverage is not a useful indicator for determining when AASB 17/PBE IFRS 17 would apply in the public sector?
S10 Paragraph 9.12	Do the Boards agree that the absence of a ‘contract’ (rather than statute/regulation) should not be an indicator for determining when AASB 17/PBE IFRS 17 would apply in the public sector?
S11 Paragraph 9.13	Do the Boards agree that the existence of a stand-alone ‘contract’ that includes substantive terms relating to risks and benefits (that go well beyond the detail in any relevant statute/regulation) should be an indicator for determining when AASB 17/PBE IFRS 17 would apply in the public sector?



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Agenda Paper AASB 10.2/NZASB 5.2: Scope of application of AASB 17/PBE IFRS 17	
Number & para	Questions
S12 Paragraph 9.14	If the Boards agree to Question S10 in paragraph 9.12, technically, there may or may not be a need to amend, or supplement, AASB 17.2/PBE IFRS 17.2. However, to ensure clarity, do the Boards agree we should specifically note that AASB 17/PBE IFRS 17 applies to statutory arrangements that meet the (other) relevant indicators either in guidance to the Standard or a Basis for Conclusions to the Standard?
S13 Paragraph 10.15	Do the Boards agree that the existence of a contribution from a scheme participant should be an indicator for determining when AASB 17/PBE IFRS 17 should apply in the public sector?
S14 Paragraph 10.16	Do the Boards agree that the absence of any dedicated funding (from participants or government) for an activity should be an indicator that AASB 17/PBE IFRS 17 does not apply?
S15 Paragraph 11.5	Do the Boards agree that useful indicators for determining when AASB 17/PBE IFRS 17 would apply in the public sector would be: (a) the extent to which claims are assessed to cater specifically for a beneficiary's needs, rather than being broadly-determined standardised amounts; and (b) the extent to which the focus of cost management is on both income and costs, rather than simply cost minimisation?
S16 Paragraph 12.9	Do the Boards agree that the existence of a practice of an entity assessing financial performance and financial position on a regular basis (as noted above) is not a useful indicator for determining when AASB 17/PBE IFRS 17 would apply in the public sector?
S17 Paragraph 12.10	Do the Boards agree that the existence of insurance liability management practices (such as underwriting) would be a useful indicator that AASB 17/PBE IFRS 17 should apply?
S18 Paragraph 13.6	Do the Boards agree that the existence of assets being held in a separate fund, or an entity having access to earmarked assets, that are restricted to being used to provide benefits is a useful indicator for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

Agenda Paper AASB 10.3/NZASB 5.3: Risk adjustments under AASB 17/PBE IFRS 17	
Number & para	Questions
R1 Paragraph 4.11	Do Board members agree that Approach 1 would be the most relevant approach – to require each public sector entity to apply AASB 17/PBE IFRS 17 with no specific public sector modifications?
R2 Paragraph 5.4	Do Board members agree that there is no need for public sector specific guidance on consolidated group level risk adjustments, but that a reference in the Basis for Conclusions could be helpful?
R3 Paragraph 5.8	Do Board members agree that it would be most relevant to require each public sector entity to apply the AASB 17/PBE IFRS 17 disclosures on risk adjustments with no specific public sector modifications?

Staff Paper

Project	Insurance Activities in the Public Sector	Meeting	AASB (M180)/NZASB April 2021
Topic	Scope of application of AASB 17/NZ IFRS 17 to public sector entities	Agenda item	AASB 10.2 NZASB 5.2
Contacts	Angus Thomson athomson@asb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@asb.gov.au	Date	31 March 2021
		Project priority	Medium
		Decision-making	High
		Project status	Addressing specific technical issues for board deliberation

Objectives of this paper

The objectives of this paper are for the Boards to:

- consider staff's analysis on factors that might be useful, and those that might not be useful, for indicating whether a public sector entity has arrangements that should be accounted for under AASB 17/PBE IFRS 17 *Insurance Contracts* (versus other Standards); and
- provide input to staff on those indicators.

Staff note that, once the Boards have identified the relevant indicators, a subsequent Board discussion would likely be needed to consider the actual impacts of applying those indicators to determine which public sector activities would be within the scope of AASB 17/PBE IFRS 17.

Abbreviations used in this paper are referenced in full in [Appendix A](#) to this paper.

Summary of staff views

Factors likely to be useful indicators

Staff consider the following factors likely **useful** indicators for determining whether a public sector entity has arrangements that should be accounted for under AASB 17/PBE IFRS 17.

Factors likely to be useful indicators	Reference
1. For-profit private sector insurers cover similar insurance risks as those covered by the public sector entity is a pre-requisite for determining whether AASB 17/PBE IFRS 17 would apply.	Section 4
2. For-profit private sector insurers provide similar benefits as those provided by the public sector entity is a pre-requisite for determining whether AASB 17/PBE IFRS 17 would apply.	



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Factors likely to be useful indicators	Reference
3. The extent to which an arrangement is binding on the public sector entity, determined (in part) on whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively.	Section 6
4. The arrangement includes an identifiable coverage period.	Section 7
5. There exists a stand-alone 'contract' that includes substantive terms relating to risks and benefits (that go well beyond the detail in any relevant statute/regulation).	Section 9
6. The arrangement involves a contribution from a scheme participant.	Section 10
7. The absence of any dedicated funding (from participants or government) for an activity would be a useful indicator that AASB 17/PBE IFRS 17 does not apply.	
8. The extent to which claims are assessed to cater for a beneficiary's needs rather than by broadly-determined standardised amounts.	Section 11
9. The focus of cost management of the arrangement is on both income and costs rather than simply cost minimisation.	
10. The entity has liability management practices normally associated with insurance contracts (such as underwriting).	Section 12
11. Assets are held in a separate fund, or assets have been earmarked, and are restricted to being used to provide benefits.	Section 13

Factors unlikely to be useful indicators

Staff consider the following factors are **unlikely to be useful** indicators for determining whether a public sector entity has arrangements that should be accounted for under AASB 17/PBE IFRS 17.

Factors unlikely to be useful indicators	Reference
12. Classification of an entity as a for-profit entity or a not-for-profit entity.	Section 3
13. The nature of the coverage is fault-based or no-fault-based.	Section 8
14. The arrangement between an entity and a scheme participant arose from a 'contract' or from statute or regulation.	Section 9
15. The entity has a practice of assessing financial performance and financial position on a regular basis.	Section 12

Applying the indicators

As is normally the case with determining which standard applies to a particular transaction,¹ staff are proposing that judgement would need to be exercised to determine whether, on balance, the indicators establish that an entity's activities are within (or outside) the scope of AASB 17/PBE IFRS 17.

¹ Indicators are used in AASB 136/PBE IAS 36 *Impairment of Assets*



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For example, staff are not recommending that an entity's activities would need to meet all the indicators identified above, or even a majority of them, to be judged as falling within the scope of AASB 17/PBE IFRS 17. Different indicators will carry more or less weight, depending on the circumstances.

Specific entities/activities

In addition, to the indicators, staff consider that it would be useful to specifically identify public sector schemes that are not within the scope of AASB 17/PBE IFRS 17 (this is discussed in [Section 5](#)).

1. Context of scope issues

- 1.1 The scope issue has two facets – identifying public sector entity activities to which:
 - (1) AASB 17/PBE IFRS 17 should apply, rather than a different Standard (refer to Table in paragraph 2.5 in [Section 2](#)); and
 - (2) any public sector modifications or guidance to AASB 17/PBE IFRS 17 that might apply.
- 1.2 The scope issues are the same for both Boards, but the context differs for two reasons:
 - (1) the current scopes of the AASB 17 and PBE IFRS 17 differ; and
 - (2) there is relatively more consistency in New Zealand public sector reporting of arrangements that are regarded as insurance.
- 1.3 AASB 1057 *Application of Australian Accounting Standards* (July 2015, as amended by AASB 17 says (emphasis added):
 - 6A AASB 17 *Insurance Contracts* applies to:
 - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements;

except when the entity is:

 - (d) a superannuation entity applying AASB 1056; or
 - (e) **a not-for-profit public sector entity.**²

² AASB 136 *Impairment of Assets*, paragraph Aus6.2 says: "A not-for-profit entity is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls."



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- 1.4 In New Zealand, although Tier 1³ and Tier 2⁴ not-for-profit public benefit entities⁵ are already within the scope of PBE IFRS 17, the NZASB decided to undertake further work on public sector issues raised by respondents to NZASB ED 2018-7 [PBE IFRS 17.BC8]. There are currently no differences between the accounting policy requirements of PBE IFRS 17 and NZ IFRS 17, other than might arise because PBE Standards have not yet been issued in respect of IFRS 15 and IFRS 16.
- 1.5 A motivation for developing PBE IFRS 17 was to capture schemes that are **eligible**⁶ to apply the insurance approach as permitted under IPSAS 42 *Social Benefits* [PBE IFRS 17.BC7]. (The ‘insurance approach’ would involve applying IFRS 17 [IPSAS 42.AG19].)
- 1.6 It is not yet clear whether the Boards will wish to modify aspects of AASB 17/PBE IFRS 17 for application in the public sector. However, **if there are modifications, staff consider that the Boards should, for the time being, keep an open mind about whether those modifications apply to any public sector entity, not only those classified as not-for-profit / public benefit entities.** Staff acknowledge that this might result in an extension of the AASB’s usual approach, which is to only have modifications from IFRS Standards for not-for-profit entities.⁷

2. Overall approach

- 2.1 The general approach to scoping the application of a Standard is to:
 - (a) explicitly identify the types of activities that are within the scope, typically based on defined terms;
 - (b) provide supporting application guidance, which sometimes includes indicators; and
 - (c) explicitly identify types of activities that are excluded from the scope.
- 2.2 AASB 17/NZ IFRS 17 defines the following.

insurance contract	A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
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3 New Zealand Accounting Standards Framework, paragraph 6: “Tier 1: entities that have “public accountability” (as defined) plus entities that are large (as defined) apply Tier 1 PBE Accounting Requirements. These are the requirements in the accounting standards (referred to as PBE Standards) and applicable authoritative notices”

4 New Zealand Accounting Standards Framework, paragraph 6: “Tier 2: entities that do not have “public accountability” (as defined) and entities that are not large (as defined) and which elect to be in Tier 2 apply Tier 2 PBE Accounting Requirements. These are the requirements in the accounting standards with reduced disclosures (referred to as PBE Standards RDR) and applicable authoritative notices.”

5 New Zealand Accounting Standards Framework, paragraph 9: “A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

6 Staff note that IPSAS 42 is not requiring an entity that meets the criteria to apply the ‘insurance approach’ – only that the entity is **eligible** to apply that approach. This is different from the current project objective of the AASB and NZASB, which is to identify those entities that must apply the insurance Standards.

7 *AASB Not-For-Profit Entity Standard-Setting Framework* (2020), paragraph 24. *New Zealand Accounting Standards Framework* (2015), paragraph 63, has the same focus as the AASB not-for-profit Framework, but New Zealand currently has no for-profit public sector entities with insurance activities.



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insurance contract services	The following services that an entity provides to a policyholder of an insurance contract: (a) coverage for an insured event (insurance coverage); (b)* for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and (c)* for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service). * (b) and (c) are only relevant to entities with investment components in their insurance contracts
Insurance risk	Risk, other than financial risk, transferred from the holder of a contract to the issuer.

2.3 AASB 17/PBE IFRS 17 includes application guidance that explains each aspect of the definition:

- (a) uncertain future event [B3 to B5]
- (b) payment in kind [B6]
- (c) insurance risk versus other risks [B7 to B16]
- (d) significant insurance risk [B17 to B23]
- (e) changes in the level of insurance risk [B24 & B25]
- (f) examples of insurance contracts [B26 to B30].

2.4 The IFRS 17 definitions and guidance have been designed largely to cater for the for-profit private sector, but also in the (not-for-profit) mutual entity context [IFRS 17.B16]. They are not designed to cater for the public sector context. Nonetheless, both Boards are interested in having the most relevant Standards apply in the circumstances and, as supported by current practice, there are activities in the public sector for which it is likely to be most relevant to apply AASB 17/PBE IFRS 17.

2.5 The alternative to applying the insurance Standards is to apply other liability-related requirements, which could include the following.

Australia	New Zealand	Comments
AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	PBE IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	A provision is a liability of uncertain timing or amount
<i>Conceptual Framework for Financial Reporting</i> [permitted per AASB 1057.BC7]	<i>Public Benefit Entities' Conceptual Framework</i> [paragraph 5.14]	Liability definition: A present obligation of the entity for an outflow of resources that results from a past event Application of 'accrual accounting'



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- 2.6 It is generally accepted that applying AASB 17/PBE IFRS 17 rather than AASB 137/PBE IPSAS 19 would result in higher liabilities for the reasons outlined in [Appendix B](#) to this paper.

International public sector efforts

- 2.7 The IPSASB is not currently considering the development of an insurance Standard based on IFRS 17. Instead, IPSAS 42 *Social Benefits* sets criteria for identifying schemes that are eligible to apply the 'insurance approach', which involves using IFRS 17.
- 2.8 In the UK, HM Treasury's Financial Reporting Advisory Board is currently considering the application of IFRS 17 to public sector entities.⁸ Staff are monitoring the UK's progress, but it is not sufficiently advanced to provide useful guidance for the AASB and NZASB.

Focus of agenda paper

- 2.9 The focus of the remaining sections of this agenda paper is on assessing possible indicators that could be applied to identify when AASB 17/PBE IFRS 17 should apply in the public sector, including when any public sector modifications or guidance to AASB 17/PBE IFRS 17 might apply (which is **not** to imply that it is necessarily intended there be any modifications or guidance).
- 2.10 The remaining sections in this agenda paper are as follows.
- [Section 3](#): For-profit versus not-for-profit public sector entities
 - [Section 4](#): Transaction neutrality and the nature of the risks covered and similarity of the claims/benefits
 - [Section 5](#): Scoping out 'social benefits'
 - [Section 6](#): Binding nature of arrangement
 - [Section 7](#): Identifiable coverage period
 - [Section 8](#): Fault-based versus no-fault-based
 - [Section 9](#): Contract or no contract?
 - [Section 10](#): Source and extent of funding
 - [Section 11](#): Claims handling
 - [Section 12](#): Assessing financial performance/how an entity is managed
 - [Section 13](#): Assets set aside for benefits

3. For-profit versus not-for-profit public sector entities

- 3.1 This is not an issue in New Zealand at this time as the two most prominent public sector entities applying PBE IFRS 4 *Insurance Contracts* classify themselves as public sector public

⁸ FRAB 141(06) – IFRS 17 *Insurance Contracts* – [Implementation update](#).



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benefit entities.⁹ However, there is a mix of for-profit and not-for-profit classifications among Australian public sector entities applying AASB 4 and AASB 1023 *General Insurance Contracts*.

- 3.2 Staff note that the AASB DP proposed amendments to AASB 17 should apply to both for-profit and not-for-profit public sector entities. Both of the respondents who directly commented on this issue agreed with the AASB's proposal.¹⁰
- 3.3 Staff also note that, in the recent stakeholder engagement, there was:
 - (a) virtually no support for excluding a public sector entity from applying AASB 17/PBE IFRS 17 on the basis that it is a not-for-profit/public benefit entity; and
 - (b) some support for including a public sector entity within the scope of AASB 17 on the basis that it is a for-profit entity.
- 3.4 For some stakeholders, the perspective in paragraph 3.3(b) hinges on a view that a for-profit entity is more likely to be seeking to profit from the service of bearing risk. As a consequence, applying AASB 17/PBE IFRS 17 means including a risk margin in measuring liabilities and recognising revenue from bearing risk in a pattern based on the release from risk. However, two factors mitigate against this view:
 - (a) in principle, under AASB 17/PBE IFRS 17, an entity could determine that it does not need to be compensated for bearing risk and, hence have a zero risk adjustment;¹¹ and
 - (b) some Australian entities are including risk margins in measuring provisions under AASB 137, presumably on the basis that this would be required to 'settle' the liability.
- 3.5 The differing classifications across Australian jurisdictions seem to be driven largely by the funding structure and, for example, whether the entity has been tasked with paying dividends to government in recognition of the cost of government capital deployed to the entity. There are a number of entities deemed by their governments to be for-profit entities that seemingly have highly similar operations to entities that have been deemed not-for-profit.
- 3.6 The IASB did not regard the not-for-profit nature of mutual insurance entities to be a factor that would cause IFRS 17 to be inapplicable. The IASB's Basis for Conclusions makes it clear that IFRS 17 can be applied consistently to for-profit entities and mutual entities [IFRS 17.BC264 to BC269]. For-profit insurance entities and mutual insurance entities often compete for customers in the same markets.
- 3.7 Staff note that government benefits such as the aged pension and unemployment benefits, which are not in dispute as being 'social benefits' are clearly not-for-profit activities. Therefore, it is reasonable to say that the for-profit activities of a public sector entity would not give rise to social benefit liabilities. However, the reverse does not apply – insurance activities could be conducted by either for-profit or not-for-profit entities.

9 Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders (paragraph 6 of XRB A1 *Application of the Accounting Standards Framework*). PBEs comprise not-for-profit entities and public sector entities.

10 Australasian Council of Auditors-General, and Heads of Treasuries Accounting and Reporting Advisory Committee.

11 Risk adjustments are the subject of Agenda Paper AASB 10.3/NZASB 5.3 for discussion at the April 2021 Board meetings.



Question S1

- 3.8 Do the Boards agree that:
- (a) activities of a for-profit nature could not be regarded as social benefits; however,
 - (b) the for-profit *versus* not-for-profit distinction should **not** be an **indicator** that AASB 17/PBE IFRS 17 would apply in the public sector?

4. Transaction neutrality and the nature of the risks covered and similarity of the claims/benefits

- 4.1 The AASB DP identified as a suggested criterion for determining whether activities relate to insurance – that the transactions or arrangements entered into have similar characteristics and relate to a similar level of insurance risk as those entered into by for-profit private sector entities that are accounted for as insurance contracts [AASB DP.E14(c)]. This is not a factor explicitly identified in NZ ED 2018-7, although it can be argued that it applies implicitly via other indicators.
- 4.2 In practical terms, staff regard this factor as being inherent in the notion of ‘transaction neutrality’ that needs to be analysed at a more detailed level to be useful in scoping the application of AASB 17/PBE IFRS 17 in the public sector.
- 4.3 The direct approach to determining transaction neutrality is to consider the extent to which the arrangements in the various public sector jurisdictions have direct counterparts among private sector insurers (and to some extent compete with one another). Sections 5 and 6 take this direct approach.
- 4.4 The less direct approach to determining transaction neutrality is to consider indicators of similarities between arrangements in the various public sector jurisdictions and the private sector insurance contracts. Sections 7 to 14 consider potential indicators of when AASB 17/PBE IFRS 17 would apply in the public sector.
- 4.5 Staff note that:
- (a) the existence of a particular indicator would not necessarily mean that AASB 17/PBE IFRS 17 would apply;
 - (a) the absence of a particular indicator would not necessarily mean that AASB 17/PBE IFRS 17 would not apply;
 - (c) the existence of some indicators would mean that it is difficult to refute the relevance of applying AASB 17/PBE IFRS 17.

Comparing public sector arrangements directly with private sector insurance contracts

- 4.6 Staff note that Compulsory Third Party (CTP) motor insurance is an example of a similar risk underwritten across sectors. CTP is provided by:
- (a) private sector for-profit insurers in NSW, Queensland, South Australia, the ACT and Northern Territory; and

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(b) public sector entities in New Zealand, Victoria, Western Australia and Tasmania.

- 4.7 In the context of a transaction neutral approach to accounting standard setting, staff regard this as a strong indicator that some types of arrangements in the public sector should be accounted for by applying AASB 17/PBE IFRS 17.
- 4.8 The AASB would generally need to justify not applying the same requirements in both sectors under the [AASB Not-for-Profit Entity Standard-Setting Framework](#). The NZASB is under a similar obligation in the context of the [New Zealand Accounting Standards Framework](#). Accordingly, given the fundamental place of transaction neutrality in each board's framework, staff regard it as a pre-requisite for determining cases when AASB 17/PBE IFRS 17 would apply in the public sector.
- 4.9 In some cases, the risks covered by public sector entities in one jurisdiction are covered separately by both private sector and public sector entities in another jurisdiction.

Lowest unit of account issue

- 4.10 Under AASB 17/PBE IFRS 17, there is an underlying presumption that the lowest unit of account is the individual 'contract'.¹² That is, when an insurance contract covers a range of risks, an insurer would not split the contract into components and account for each risk separately. The presumption could be contested, but the entity would need to justify separating the contract into components for the purposes of applying AASB 17/PBE IFRS 17. There may also be cases when judgement needs to be applied to determine if there is more than one contract within an arrangement.
- 4.11 There are cases in the public sector when some arrangements involve covering a range of risks that in other jurisdictions are the subject of more than one arrangement issued by more than one entity. This can pose a possible complication with relying on a criterion for identifying arrangements that have similar characteristics and a similar level of insurance risk as entered into by a for-profit entity. The following table illustrates the point using CTP as an example.

Jurisdiction	Entity/part of entity	Risk	Comments
New Zealand	Accident Compensation Commission	All accident risks, including CTP	Covers both serious and non-serious personal injury caused by motor accidents
Victoria	Transport Accident Commission	All CTP	
Tasmania	Motor Accidents Insurance Board		
Western Australia	Insurance Commission		
NSW	iCare – CTP Care Fund	Motor accident serious personal injury ONLY	Other aspects of motor accident personal injury covered by private sector contracts
South Australia	Lifetime Support Authority		
Queensland	National Injury Insurance Scheme		

¹² IFRS 17 Transition Resource Group, [May 2018 Meeting Summary](#), paragraphs 8(a) and 8(b).



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Jurisdiction	Entity/part of entity	Risk	Comments
Northern Territory	Motor Accidents Compensation Commission		

- 4.12 Stakeholders in some jurisdictions hold strong views that, on a stand-alone basis, publicly-operated motor accident serious personal injury schemes have the character of compensation schemes that are not insurance activities. In contrast, similar publicly-operated schemes that are provided along with non-serious personal injury coverage are typically regarded as insurance activities.

Bundling/unbundling

- 4.13 Staff note that the IASB faced the same issues relating to contracts with multiple components in developing IFRS 17 because many commercially-underwritten contracts include both insurance and non-insurance components (bundled contracts). The most common examples are contracts that provide risk coverage and investment services. (If they were provided on a stand-alone basis, the investment services would be accounted for under IFRS 9.)
- 4.14 IFRS 17 requires a ‘distinct’ investment component of a contract to be separated (unbundled) from a host insurance contract. An investment component is distinct if it is not highly interrelated with the insurance component; and equivalent stand-alone investment components are sold separately [IFRS 17.B31].
- 4.15 An investment component and an insurance component are highly interrelated when the entity is unable to measure one component without considering the other; and the policyholder is unable to benefit from one component unless the other is also present. If the lapse or maturity of one component causes the lapse or maturity of the other, IFRS 17 must be applied to both [IFRS 17.B32].¹³
- 4.16 Hypothetically, in the event it was considered that CTP for non-serious injury is insurance while coverage for serious injury is not insurance, in the cases cited above, it would be consistent with IFRS 17 for:
- (a) the combined (non-serious and serious injury) contracts to be accounted for under AASB 17/PBE IFRS 17; while
 - (b) the stand-alone coverage (serious injury only) is accounted for under AASB 137/PBE IPSAS 19.
- 4.17 Therefore, of itself, the different ways in which risks and services are bundled and provided by different entities in the different jurisdictions is not a barrier to applying AASB 17/PBE IFRS 17.

¹³ While the lapse of one component causing the lapse of another component under AASB 17.B32/PBE IFRS 17.B32 means that insurance components must remain combined with non-insurance components, the same ‘rule’ does not necessarily apply to multiple insurance components – it is only an indicative factor in this latter context, based on IFRS 17 Transition Resource Group, [February 2018 Meeting Summary](#) paragraph 8(a)(ii).



Question S2

4.18 Do the Boards agree that:

- (a) the similarity of insurance risks covered with the risks covered by for-profit private sector insurance contracts; and
- (b) the similarity of benefits provided with the benefits provided by for-profit private sector insurance contracts;

should be identified as a **pre-requisite** for determining that AASB 17/PBE IFRS 17 would apply in the public sector?

Question S3

4.19 Do the Boards agree that, in practical terms, transaction neutrality would be determined by reference to whether the same types of 'contracts' are issued in both the private and public sectors?

Question S4

4.20 Are the Boards comfortable with the manner in which AASB 17/PBE IFRS 17 would address arrangements in the public sector that are a bundle of services, some of which might be insurance and some of which might not?

5. Scoping out 'social benefits'

5.1 IPSAS 42.5 includes a definition of 'social risks', which are intended to be distinct from other forms of aid, such as benefits provided as the result of a disaster [IPSAS 42.AG10]. They are indicative, rather than implying the same risks might not also be the subject of insurance contracts.

Social risks are events or circumstances that:

- (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
- (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

5.2 It seems reasonable to note that most if not all the classes of 'social risks' mentioned could be the subject of insurance contracts sold by for-profit private sector entities, including:

- (a) annuities (age-related), which can provide regular income for life;
- (b) health insurance (health-related), which can provide subsidies or free medical care; and
- (b) income protection insurance (potentially related to health, poverty and/or employment status), which can provide regular income for a fixed period, duration of illness, or for life.

5.3 Accordingly, staff do not consider defining 'social risks' is necessarily a practical way to identify contracts that should be excluded from applying AASB 17/PBE IFRS 17.



IFRS 17 scope issues resolved through ‘practical expedients’

5.4 Staff consider it is important for the Boards to appreciate that, while it would be ideal to address scoping issues solely by applying principles, there may be a need to resort to ‘practical expedients’ that either:

- (a) explicitly rule in, or rule out, applying AASB 17/PBE IFRS 17; or
- (b) provide a specific accounting policy choice of applying AASB 17/PBE IFRS 17 or an alternative Standard.

In both cases, consistent with the Boards’ standard setting frameworks, a justification of any practical expedients would need to be provided by the Boards – probably in a Basis for Conclusions.

5.5 IFRS 17 includes a series of practical expedients – please see [Appendix C](#).

5.6 Identifying particular schemes as not being ‘insurance contracts’ runs the risk that any scheme not mentioned might automatically be assumed to be within the scope of AASB 17/PBE IFRS 17. However, staff consider that there are many sound precedents for taking this approach and that it is useful in narrowing the scope of any area for debate. For example, the AASB could specifically identify the following as not being within the scope of AASB 17 in their current form:

- (a) Medicare benefits (Australia)
- (b) National Disability Insurance Authority benefits/programs (Australia).

5.7 Staff appreciate that there may be a need to update the references to specific entities if those arrangements change or evolve. In respect of the AASB, which faces a more substantive scoping issue than the NZASB, any specific schemes could be identified in an AASB Agenda Decision, which could be amended at short notice.

Question S5

5.8 Do the Boards agree that it would be useful to specifically identify public sector schemes that are not within the scope of AASB 17/PBE IFRS 17?

6. Binding nature of arrangement

6.1 An indicative criterion in IPSAS 42 for being eligible to apply the insurance approach is that the arrangements between the entity and its participants are binding in a similar manner to an insurer being bound by an insurance contract [IPSAS 42.AG25(a)].

6.2 Both the AASB DP [AASB DP.E13(b)] and NZASB ED 2018-7 [ED 2018-7.AG1.6] included a similar proposal. The AASB DP proposal identified as a key criterion that a participant’s beneficial rights cannot be altered without a specific change in legislation or relevant governing measures and cannot be retrospectively amended.

6.3 In a for-profit private sector setting, an insurer is bound by the terms of the contract with an insured in terms of the types of risks covered and what constitutes insured events and, therefore, could be the subject of a valid claim. The actual amounts of compensation paid in



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respect of claims are determined by reference to the terms of the contract. Typically, those terms would be based on:

- (a) the extent of loss; and
- (b) the extent to which the insured or third parties are responsible for the events that led to the loss (that is, which party is at fault), including failure to take reasonable steps to avoid the loss. However, there also exist 'no-fault' arrangements in the for-profit private sector (for example, health insurance accident cover) – accordingly, the fact that 'no-fault' schemes are common in the public sector is probably not a distinguishing feature.

6.4 In respect of paragraph 6.3(a), there may be an insured amount (for example, an agreed value for motor vehicle write-off) – however, often the amount is a function of a number of factors and possibly negotiation. Nevertheless, the extent of a claim in a for-profit private sector setting would need to be determined in the context of the insurance contract terms – there would ordinarily not be an opportunity for an insurer to arbitrarily change those terms under an existing contract.

6.5 In the public sector, there can be the capacity for governments to change the benefits payable to participants. This is potentially a distinguishing feature of some public sector schemes (relative to the binding nature of contracts in the for-profit private sector). However, the significance of this capacity may be mitigated by the extent to which benefits could be changed for existing participants under arrangements in place at the reporting date. Three examples can help illustrate the relevance of this capacity. Assume a public sector scheme has a liability for providing income support for permanently disabled motor accident victims based on paying 50% of Average Weekly Earnings (AWE).

Example A: The entity has the **power to change** the rate of benefits to **future** scheme participants to less than 50% of AWE. However, the entity has a binding commitment to paying 50% of Average Weekly Earnings (AWE) to existing scheme participants, for example, by way of settlements.

Example B1: The entity (or the government that controls the entity) has the **power to change** the rate of benefits to **existing** scheme participants to less than 50% of AWE **but only after obtaining a change to existing legislation**.

Example B2: The entity (or the government that controls the entity) has the **unilateral power to change** the rate of benefits to **existing** scheme participants to less than 50% of AWE, for example, based on projected budget priorities.

6.6 The terms in Example A are **like** those under most insurance contracts sold in the for-profit private sector.

6.7 The terms in Example B1 are **unlike** those under most insurance contracts sold in the for-profit private sector; however, the fact that a legislative change would be needed to change the benefits means it might still be regarded as insurance.

6.8 The terms in Example B2 are **unlike** those under all the insurance contracts sold in the for-profit private sector (of which staff are aware). The entity's ability to arbitrarily change benefits seems indicative of a conventional social benefit arrangement that might change over time based on government policy (and is not insurance).



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- 6.9 Staff consider that the extent to which the existing benefits under an arrangement are binding on the relevant public sector entity should be a key indicator for determining when that arrangement is regarded as insurance.

Practical ability

- 6.10 Example B1 presents a dilemma in the sense that, while the entity or government can retrospectively change benefits, the extent to which this might undermine the binding nature of the arrangement is dependent on how difficult it might be obtain the necessary legislative (or other regulatory) amendments.
- 6.11 AASB 17/PBE IFRS 17 relies on the notion of ‘practical ability’ for the purposes of:
- (a) determining the boundary of an insurance contract (practical ability to set a new price or new benefits [AASB 17.34(a)/PBE IFRS 17.34(a)])
 - (b) relief from recognising a separate onerous contract group (when contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity’s practical ability to set a different price or level of benefits [AASB 17.20/PBE IFRS 17.20]).
- 6.12 Staff consider the notion of ‘practical ability’ could be used to help distinguish those cases when a public sector arrangement should be regarded as binding from cases when an arrangement is not binding. That is, an indicator for regarding arrangements as being insurance would be that the entity (or its controlling government) does not have the practical ability to change a benefit retrospectively.
- 6.13 In a public sector context, an assessment of ‘practical ability’ would probably need to take into account a range of factors, including whether the entity (or its controlling government) has sufficient political capital to make a change that reduces a benefit.

Measurement view

- 6.14 An alternative approach to addressing the impact of an entity’s capacity to change the terms of a scheme’s benefits or the extent of events covered would be to measure the liabilities based on the expected possible changes to benefits and events covered. That is, for example, a measure that factors in a 50% chance that benefits will be reduced by 20% for existing beneficiaries would result in lower liabilities. Accordingly, instead of an entity’s capacity to change the terms of a scheme’s benefits or the extent of events covered would affect the measurement of liabilities, rather than being a factor that indicates whether a scheme provides insurance.
- 6.15 Staff acknowledge that some insurance contracts include a range of options in their original terms about subsequently amending coverage and AASB 17/PBE IFRS 17 requires an insurer to determine the probabilities of those options being exercised in measuring insurance liabilities. When expectations are different from actual events, the insurer recognises ‘experience adjustments and remeasures insurance liabilities based on updated expectations. However, these contract options are at the discretion of the insured and are different from changes to existing contract terms made by an issuer.



Question S6

- 6.16 Do the Boards agree that the extent to which an arrangement is binding on the public sector entity should be **an indicator** that the arrangements should be within the scope of AASB 17/PBE IFRS 17?

Question S7

- 6.17 Do the Boards agree with the staff view on identifying the extent to which an arrangement is binding based on whether the public sector entity (or its controlling government) has the **practical ability** to change a benefit retrospectively?

7. Identifiable coverage period

- 7.1 A key feature of an insurance contract in the context of AASB 17/PBE IFRS 17 is the existence of an identifiable coverage period, which is defined as follows:

The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract.

- 7.2 The coverage period provides the basis for determining the cash flows to include in measuring insurance contracts.

- (a) Most insurance contracts provide protection for events that occur during the coverage period – for example, coverage for claims that might arise from an incident over a one-year contract period. The claims may not come to light until after the coverage period has ended. These are sometimes referred to as ‘claims incurred’ contracts because the time when the event occurs is crucial to identifying valid claims. These are the most common arrangements in the relevant public sector schemes.
- (b) Some insurance contracts provide protection for claims that arise during the coverage period, regardless of when the incidents that gave rise to the claims have occurred. These are sometimes referred to as ‘claims made’ contracts because the time when the claim emerges is crucial to identifying valid claims.

- 7.3 Among public sector schemes, one-year coverage periods are the most common. In some cases, public sector schemes ensure that all their arrangements relate to their financial year – from 1 July to 30 June. However, there are cases of longer coverage periods, for example, for domestic builders’ risks.

- 7.4 In contrast, social benefits are typically associated with providing benefits to people that meet eligibility criteria at any given time – there is no identifiable coverage period. IPSAS 42.5 defines ‘social benefit’ as (emphasis added):

Social benefits are cash transfers provided to:

- (a) Specific individuals and/or households who meet **eligibility criteria**;
- (b) Mitigate the effect of social risks; and
- (c) Address the needs of society as a whole.

Benefits are payable for as long as those people meet the eligibility criteria, which might include, for example, being unemployed, a student, above a certain age.



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- 7.5 Staff consider that the existence of an identifiable coverage period would be a useful criterion for determining when AASB 17/PBE IFRS 17 would apply in the public sector. The social benefit eligibility criteria relate to someone's inherent status, rather than relating to an uncertain future event that occurs within a particular coverage period.
- 7.6 There are likely to be differing views on how this criterion would impact on some of the long-term serious injury and disease schemes, including the lifetime care and industrial diseases schemes.
- (a) One view might be that such schemes generally do not have coverage periods. They are essentially schemes that impose annual levies to fund a long tail of accumulated claims and, over the long term, any relationship between the period(s) during which the harm was caused and the ongoing funding of participant's needs has become lost. The alternative (to having the scheme) would be to provide support services to this group of participants via the public health system.
- (b) Another view might be that, while claims development is the most significant aspect of such schemes, the same could be said of some of the workers' compensation contracts issued by private sector insurers that track each year of development by 'accident year'. Indeed, AASB 17/PBE IFRS 17 (in common with AASB 1023/PBE IFRS 4) requires disclosure of claims development by annual cohorts (determined by reference to the issue dates of the contracts) [AASB 17.130/PBE IFRS 17.130].

Nonetheless, staff consider this indicator would be a useful tool in identifying schemes that should apply AASB 17/PBE IFRS 17 versus another Standard.

Question S8

- 7.7 Do the Boards agree that the existence of an identifiable coverage period would be a useful **indicator** for determining when AASB 17/PBE IFRS 17 should apply in the public sector?

8. Fault-based versus no-fault-based

- 8.1 In respect of many classes of risk, for-profit private sector insurers attribute fault in determining whether claims are valid or the amount of those claims. For example, a policyholder that is negligent may receive a lower claim benefit than a policyholder who is not at fault, which is designed to avoid moral hazard issues. Accordingly, it could be argued that no-fault schemes are more likely to not be insurance activities.
- 8.2 Public sector schemes vary across jurisdictions. For example, some of the CTP for non-serious injury are fault-based, while all the CTP for serious injury are no-fault schemes. Currently, stakeholders have not applied a correlation between whether a scheme involves insurance and its fault status. For example, the Table below shows that some of the no-fault serious injury schemes are regarded as providing insurance and some are not.



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Jurisdiction	Entity/part of entity	Fault basis	Insurance?
New Zealand	Accident Compensation Commission	No-fault	Currently regarded as insurance
Victoria	Transport Accident Commission	No-fault	Currently regarded as insurance
Tasmania	Motor Accidents Insurance Board		
Western Australia	Insurance Commission		
NSW	iCare – CTP Care Fund	No-fault	Currently NOT regarded as insurance
South Australia	Lifetime Support Authority		
Queensland	National Injury Insurance Scheme		
Northern Territory	Motor Accidents Compensation Commission		

- 8.3 In addition, there are many classes of risk covered by for-profit private sector insurers that do not involve attributing fault in determining whether claims are valid or the amount of those claims. For example, insurance contracts for risks such as health/disease and longevity are typically no-fault contracts.

Question S9

- 8.4 Do the Boards agree that the fault-based versus no-fault nature of coverage is **not** a useful **indicator** for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

9. Contract or no contract?

- 9.1 The AASB DP says:

The AASB’s view is that although AASB 17 applies only to contracts, the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) does not limit liability recognition to that arising from contracts, and specifically indicates that obligations may arise from statute. In applying its principle of transaction neutrality, the AASB considers that public sector entities with insurance risk created by statute, that are in substance similar to public and private sector entities with insurance risk created by contracts, should account for insurance risk in the same way. [page 5]

- 9.2 The respondents to the AASB DP either explicitly or implicitly accepted the view that AASB 17 could apply when there is an insurance arrangement based on statute (and not contracts).



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- 9.3 In the recent stakeholder outreach, staff have identified three broad types of response.
- (1) The manner in which the scheme or arrangement has been established (contract versus statute) is a matter of form rather than substance. These stakeholders have observed that:
 - (a) virtually identical forms of coverage are provided under either statutory or private sector (contractual) arrangements (such as comprehensive third-party motor coverage) – accordingly, the insurance Standards would apply by analogy to statutory arrangements under the accounting policy hierarchy¹⁴
 - (b) the purpose of having a statutory (rather than contractual) arrangement is generally to mandate that people obtain coverage from the one entity (usually a public sector entity)
 - (c) individuals and entities are required by statute to pay for some types of insurance coverage from private sector insurers (such as workers' compensation coverage) and the arrangements are effectively a combination of contractual and statutory terms.
 - (2) Literally, the insurance Standards are considered to apply only to 'contracts', and entities' activities in respect of relationships based only on statute are (strictly interpreted) not within the scope of the insurance Standards. These stakeholders have observed that:
 - (a) AASB 15 and AASB 16 provide clear definitions and descriptions of 'contracts' that can be used as a 'bright line'
 - (b) there are currently cases when the contract versus statute distinction is used to determine the accounting that should be applied – for example, the impairment of tax receivables – refer to the discussion below on 'Scope of AASB 9/PBE IPSAS 41'.
 - (3) For some types of risks (such as workers' compensation), the existence of a stand-alone contract that includes substantive information about risks and benefits (well beyond the detail in any relevant enabling legislation or regulations), is a strong indication of an insurance contract.
- 9.4 As noted in PBE IFRS 17.BC5, PBE IFRS 4 already applies to insurance activities that arise from statute rather than contracts. In addition, practice in some Australian states is to apply AASB 4 and AASB 1023 to some types of statutory arrangements. Accordingly, the existence of a 'contract' has not necessarily been seen as crucial to applying insurance accounting.

Scope of AASB 9/PBE IPSAS 41

- 9.5 AASB 17/PBE IFRS 17 literally applies to 'contracts', which are often distinguished from statutory arrangements. The reference to 'contract'¹⁵ in the 'financial instrument' definition is generally read literally, which has meant that statute-based receivables/payables are not accounted for as financial instruments under AASB 9/PBE IPSAS 41.

14 AASB 108/PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* [paragraphs 10 & 11/paragraph 14].

15 AASB 132.11 include the following definition (emphasis added): A financial instrument is any **contract** that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



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- 9.6 AASB 2016-8 amended AASB 9 to specifically scope the initial recognition of statutory receivables into AASB 9 as if it were a (contractual) financial instrument. However, the subsequent accounting for statutory receivables, and the initial and subsequent accounting for statutory payables, is regarded as remaining outside the scope of AASB 9.¹⁶
- 9.7 For example, for Australian *Commonwealth government entities*, receivables for statutory charges must be assessed for impairment under AASB 136 *Impairment of Assets*.¹⁷
- 9.8 A possible implication of the view that, without amendment, statutory receivables and payables cannot be regarded as contracts within the scope of AASB 9 is that, without amendment, AASB 17 could not apply to insurance contracts based on statute.
- 9.9 In New Zealand, the initial and subsequent accounting for statutory receivables and payables remains outside the scope of PBE IPSAS 41.¹⁸

Scope of AASB 17/PBE IFRS 17

- 9.10 Based on current practice and stakeholder feedback, staff consider that the existence of a contract between an entity and a scheme participant is probably not a useful indicator of the relevance of applying AASB 17/PBE IFRS 17. This is because, while having a contract would help to establish a binding relationship between the entity providing the scheme and the participants, a statute can do the same thing.
- 9.11 This seems consistent with the perspective adopted AASB 17/PBE IFRS 17 in any case. Staff also note that the description of the rights and obligations that should be accounted for under AASB 17/PBE IFRS 17 is broad (and go beyond the contract). AASB 17.2/PBE IFRS 17.2 says (emphasis added):

- 2 **An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying IFRS 17.** A contract is an agreement between two or more parties that creates enforceable rights and obligations^[19]. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

16 AASB 2016-8, paragraphs BC11 to BC13.

17 [Public Governance, Performance and Accountability \(Financial Reporting\) Rule 2015 \(legislation.gov.au\)](#) – paragraph 20.

18 This statement is true for PBE IPSAS 41 at present. However, the IPSASB's recent EDs on revenue and transfer expenses proposed that subsequent measurement of non-contractual receivables and payables be brought within IPSAS 41 *Financial Instruments*. If these proposals are finalised, they would then be considered by the NZASB.

19 The second sentence of AASB 17.2/PBE IFRS 17.2 is the same as the definition for 'contract' used more generally in IFRS Standards (including: AASB 15 *Revenue from Contracts with Customers*).



Question S10

- 9.12 Do the Boards agree that the absence of a 'contract' (rather than statute/regulation) should **not** be an **indicator** for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

Question S11

- 9.13 Do the Boards agree that the existence of a stand-alone 'contract' that includes substantive terms relating to risks and benefits (that go well beyond the detail in any relevant statute/regulation) should be an **indicator** for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

Question S12

- 9.14 If the Boards agree to Question S10 in paragraph 9.12, technically, there may or may not be a need to amend, or supplement, AASB 17.2/PBE IFRS 17.2. However, to ensure clarity, do the Boards agree we should specifically note that AASB 17/PBE IFRS 17 applies to statutory arrangements that meet the (other) relevant indicators either in guidance to the Standard or a Basis for Conclusions to the Standard?

10. Source and extent of funding

- 10.1 The source of funding for an arrangement is a matter previously identified by both Boards as potentially differentiating between insurance and other activities. NZASB ED 2018-7 proposed using the 'fully-funded' criterion [ED 2018-7.AG1.1 to AG1.4].

Fully funded

- 10.2 One of the criteria in IPSAS 42 (and proposed in NZASB ED 2018-7) for being eligible to apply the insurance approach is that a scheme is intended to be **fully funded** from contributions and levies.
- 10.3 Staff note that the 'fully funded' criterion under IPSAS 42.28(a) must be present to permit the insurance approach to be applied. IPSAS 42.AG20 explains 'fully funded' as follows:

AG20 A social benefit scheme is intended to be fully funded from contributions when:

- (a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme, together with investment returns arising from the contributions or levies; and
- (b) One or both of the following indicators (individually or in combination) is satisfied:
 - (i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions or levies will be sufficient to fully fund the social benefit scheme; and/or



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- (ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

10.4 Some respondents to NZASB ED 2018-7 commented that the meaning of 'fully funded' is not necessarily clear for entities that aim to be self-funded over the long term, but that in any given year might be:

- (a) overpricing to make up for past deficits
- (b) underpricing to use up past surpluses
- (c) underpricing to suit current economic conditions.

Substantially self-funded

10.5 The AASB was also mindful of the IPSASB's work on social benefits in preparing the AASB DP, but considered that 'fully funded' would be too much of a 'bright line' [AASB DP.BC28(b)(ii)].

10.6 Instead, one of the non-mandatory criteria proposed in the AASB DP for determining whether IFRS 17 should apply in the public sector was that the arrangement is **substantially self-funded** [AASB DP.E14(a)]. Under the AASB DP proposal, there are two aspects to 'self-funding':

- (a) the source of funding should be those who stand to benefit from the arrangement or those who exacerbate the risks to potential beneficiaries; and
- (b) the revenue being sufficient and/or the benefit levels being managed such that the scheme is self-sustaining.

10.7 There was a limited response to the AASB DP proposal of a 'substantially self-funded' criterion. Those who did respond gave some support for the criterion.

Dedicated funding

10.8 The responses received by the IPSASB in the process of developing IPSAS 42 identified as a possible criterion the existence of 'dedicated' funding for an arrangement where it is funded through government (and not participants) [IPSAS 42.BC124].

10.9 Some implications of this feedback received by the IPSASB include that:

- (a) the existence of dedicated funding (whether from government or elsewhere) would be an indicator of insurance activities; and/or
- (b) the absence of dedicated funding – that is, when funding is from consolidated revenue – would mean activities are not insurance.

10.10 Staff observe that all of the public sector entities in either Australia or New Zealand that are currently applying the insurance standards, or have contemplated applying the insurance standards, receive contributions from participants either directly or indirectly via levies. Some of these entities might require top-up funding from consolidated revenue from time-to-time. However, this is the exception rather than the rule (and might be regarded as an 'equity' injection in some cases, rather than a source of ongoing funding).



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10.11 If this criterion was applied, it would at least have the benefit of immediately ruling out the application of the insurance standards to a range 'social benefits' such as aged pension or universal healthcare activities. This could be particularly useful for the AASB which has no social benefits standard that might otherwise provide guidance in this respect. The Australian National Disability Insurance Authority, for example, relies on appropriations for all of its ongoing funding and would be scoped out of AASB 17 based on this criterion.

10.12 A possible complication is that schemes such as Medicare in Australia, at least notionally, have dedicated funding through the Medicare levy on taxpayers. However, the Medicare levy is probably sufficiently 'tax-like' to be regarded as being a levy as intended under this criterion. It might also be helpful to explain that there could be a spectrum of 'dedicated funding', under which the criterion is more significant:

- (a) the more closely the levy is related to coverage (for example, a levy on motorists to provide funding for a scheme that relates to motor accidents would be more likely to indicate insurance activities than a levy on all taxpayers above a particular level of income); and
- (b) the closer the levy is to a 'user-pays model'.

Staff comment

10.13 Staff consider that:

- (a) some type of funding from a scheme participant is probably a reasonable indicator of the relevance of applying AASB 17/PBE IFRS 17 in the sense that it helps to establish a relationship between the entity providing the coverage and the participants; however,
- (b) the complete absence of a contribution from a scheme participant might not necessarily mean that AASB 17/PBE IFRS 17 is irrelevant because a payment/contribution to the insurer is not a part of the 'insurance contract' definition in AASB 17/PBE IFRS 17 (identified above).

10.14 Staff consider that, although the extent to which a participant in a scheme is responsible for paying a contribution might indicate something about the strength of that relationship. References to 'fully-funded' and 'substantially self-funded' are probably not useful because they are difficult to interpret.

Question S13

10.15 Do the Boards agree that the existence of a contribution from a scheme participant should be an **indicator** for determining when AASB 17/PBE IFRS 17 should apply in the public sector?

Question S14

10.16 Do the Boards agree that the absence of any dedicated funding (from participants or government) for an activity should be an **indicator** that AASB 17/PBE IFRS 17 **does not** apply?

11. Claims handling

- 11.1 Under an insurance contract, policyholders make claims that are assessed by the insurer, which is a key part of the risk management process. The following table attempts to compare this process with the process that might be used to assess eligibility for a social benefit.
- 11.2 Staff note that some entities choose to outsource the claims management function to specialists. This does not mean the entity itself is not responsible for claims management. Both private sector insurers and public sector entities sometimes outsource this function.

<i>Insurance contract</i>		<i>Social benefit</i>
<i>Identifying claim events</i>		
1	Determining that the claimed event or loss occurred	As noted in Section 6 , social benefits are typically associated with providing benefits to people that meet eligibility criteria at any given time
	Determining whether the relevant event is within the coverage provided by the insurance contract	
<i>Assessing claims</i>		
2	Assessing the extent of the claim (such as the cost to repair damage) The quantity of benefits is usually assessed based on what the insured has lost or on the insured's needs to recover from an insured event	Social benefits can involve determining the extent of a person's needs, which would have a bearing on the level of benefits they receive (rent assistance for pensioners who do not own their own homes) However, many social benefits are broadly-applied standardised amounts not tailored to a beneficiary's needs
3	Assessing the extent of any contributory negligence on the part of the claimant that might reduce the amount of the claim	Social benefits would not typically be dependent in any way on contributory negligence. However, in Section 7 staff suggest that the fault-based versus no-fault nature of coverage is not a useful indicator
4	Contesting the validity and extent of claims through legal and arbitration processes	This may happen, although the process is more likely to be administrative. It might also be a legal process if there is evidence of ineligibility for benefits already paid
<i>Cost management</i>		
5	A key metric for commercial insurers is the 'claims ratio' (claims divided premiums) Particular insureds or groups of insureds with a high claims ratio would be closely monitored and would be the subject of remediation activities aimed at either reducing benefits or increasing premiums.	The main focus is more likely to be on managing costs without regard to any particular source of income Any remediation is more likely to be aimed at discovering why particular beneficiaries are more costly than others and whether their benefits are valid.
6	Managing claims costs through the use of contracted services (for example, arrangements with medical professionals to provide services at agreed prices)	Outsourcing of benefit services through private sector providers is reasonably common – for example, job search services for the unemployed, and aged-care services



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<i>Insurance contract</i>		<i>Social benefit</i>
<i>Long-term claims management</i>		
7	Long-term management of long-tail claims (such as lifetime disability coverage)	Social benefits can involve long-term management, for example, of those with long-term illnesses through the health system
8	Lump sum payments to settle long-term claims	Probably not relevant to social benefits
<i>Third-party recoveries</i>		
9	Determining whether there are salvage or subrogation recoveries that can be sought	Probably not relevant to social benefits

11.3 There are many similarities between an insurance claims management function and the processes that might be employed to deliver social benefits in an equitable manner and according to government policy. The two features that seem most likely to highlight a distinction between insurance contracts and social benefits are:

- (a) the extent to which claims are assessed to cater specifically for a beneficiary's needs [row 2 of the above Table]; and
- (b) the focus of cost management on both income and costs [row 5 of the above Table].

11.4 Staff consider that each of these features would be useful indicators for determining when AASB 17/PBE IFRS 17 should apply. Staff also acknowledge that (b) is closely associated with underwriting (see [Section 12](#)).

Question S15

11.5 Do the Boards agree that useful **indicators** for determining when AASB 17/PBE IFRS 17 would apply in the public sector would be:

- (a) the extent to which claims are assessed to cater specifically for a beneficiary's needs [row 2 of the above Table], rather than being broadly-determined standardised amounts; and
- (b) the extent to which the focus of cost management is on both income and costs [row 5 of the above Table], rather than simply cost minimisation?

12. Assessing financial performance/how an entity is managed

Assessing financial performance (in general)

12.1 An indicative criterion in IPSAS 42 for being eligible to apply the insurance approach is that the entity assesses its financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme [IPSAS 42.AG25(d)].



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- 12.2 NZASB ED 2018-7 included a similar proposed indicator [ED 2018-7.AG1.6(d)]. A similar indicator was included in the AASB DP, which put an emphasis on the assessment of claims performance [AASB DP.E14(b)].
- 12.3 There was little feedback on this proposal in response to ED 2018-7. There was a mixed response to the AASB DP proposal, with most respondents saying the criterion was not helpful in distinguishing insurance activities. In general, respondents considered there are accountability and performance mechanisms across the spectrum of social benefit and insurance arrangements in most jurisdictions.
- 12.4 Staff consider that the existence of a practice of an entity assessing financial performance and financial position on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme is not a useful indicator of the relevance of applying AASB 17/PBE IFRS 17. The inference that social benefit schemes versus insurance schemes are less likely to monitor performance in this way is probably not useful or supportable.

Management focus of the entity (more specifically)

- 12.5 In recent stakeholder interviews, participants were more interested in discussing the ways in which they managed their activities, rather than the more general matter of assessing financial performance. The feedback from those stakeholder interviews has been mixed.
- (a) Most (Australian and New Zealand) stakeholders from entities that are currently applying AASB 1023/PBE IFRS 4 hold the view that they have been established to manage an area of risk and provided with seed capital to operate with a view to not making further calls on government funding. They consider themselves to be operating an insurance business on a long-term sustainable basis. Within the constraints imposed upon them, they price risk based on commercial principles and manage claims fairly and prudently.
 - (b) Most (Australian) stakeholders from entities that are currently applying AASB 137 hold the view that they are operating a compensation scheme based on terms that have largely been dictated to them (for example, through their enabling legislation) and do not have the scope to manage the risks in the manner of a commercial insurer.
 - (c) A small number of (Australian) stakeholders indicated that they consider the way their entities are currently managed would be better reflected in a change to their existing accounting – some from AASB 1023 to AASB 137 and some from AASB 137 to AASB 1023/AASB 17.
- 12.6 This recent feedback might mean that the way a scheme is managed would be a useful indicator for applying AASB 17/PBE IFRS 17. Alternatively, it might simply mean that there are largely entrenched positions based on familiarity with existing practices.
- 12.7 Staff consider that the manner in which an entity is managed is, in principle, an important indicator of which standards should be applied on the basis that reflecting the ‘business model’ in financial statements is something that standards should aim to achieve. However, this type of indicator is likely to be subject to wide interpretation unless it is associated with specific insurance liability management practices.



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12.8 Those insurance liability management practices could include the following.

- (a) Underwriting and pricing specific types of risks. Although few (if any) public sector insurers are completely unconstrained in their ability to differentially price their services, many of them are able to price risk based a participant's characteristics (for example, industry of employment or type of vehicle or claims experience)
- (b) Use of reinsurance contracts to manage capital. This is not to say that the existence of a reinsurance contract, of itself, indicates that an entity issues insurance contracts. However, it can indicate that the entity is expected to manage its liabilities prudently and protect its own capital base (rather than relying on the taxpayer) for its continuing operation, much like a commercial insurer.

Question S16

12.9 Do the Boards agree that the existence of a practice of an entity assessing financial performance and financial position on a regular basis (as noted above) is **not** a useful **indicator** for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

Question S17

12.10 Do the Boards agree that the existence of insurance liability management practices (such as underwriting) would be a useful **indicator** that AASB 17/PBE IFRS 17 should apply?

13. Assets set aside for benefits

- 13.1 IPSAS 42.AG26(b) identifies the existence of assets being held in a separate fund, or otherwise earmarked, and restricted to being used to provide benefits as being an indicator of insurance contracts, (as opposed to benefits being funded from general taxation).
- 13.2 Similarly, AASB DP.E14(d) identifies that assets and liabilities arising from the arrangements being held in a separate fund, or otherwise specifically identified as used solely to provide benefits to beneficiaries as indicating an insurance arrangement. However, the AASB DP also notes that the absence of separately allocated assets is not necessarily an indicator the arrangement is not insurance.
- 13.3 The implication of this criterion is that a benefit funded from general taxation is more likely to be a social benefit and not insurance. It is related to some extent to the issues around the source and extent of funding ([Section 10](#) above) because funds that are sourced from scheme participants are more likely to be set aside in a scheme fund than would the case for an appropriation of funds from general taxation.
- 13.4 The existence of a separate fund might make it more likely that the scheme is operated and managed as an insurance entity. This is supported by feedback received by staff in recent stakeholder outreach, with many entities having been established to be self-sustaining and to aim for an overall breakeven result from all of their activities, including investment performance. This is a characteristic of private sector for-profit insurers, many of which routinely operate on a long-term sustainable basis by generate underwriting losses that are more than offset by investment returns.



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- 13.5 However, staff acknowledge that some non-insurance liabilities might have separate funds earmarked for their settlement – for example funds within the Australian government Future Fund are earmarked to meet the defined benefit superannuation liabilities.²⁰ Accordingly, the existence of assets set aside to meet benefits does not necessarily mean the related liabilities arise from insurance contracts.

Question S18

- 13.6 Do the Boards agree that the existence of assets being held in a separate fund, or an entity having access to earmarked assets, that are restricted to being used to provide benefits is a useful **indicator** for determining when AASB 17/PBE IFRS 17 would apply in the public sector?

²⁰ Superannuation liabilities accruing under the Commonwealth Superannuation Scheme, Defence Force Retirement Benefit Scheme, Military Superannuation and Benefits Scheme, and Public Sector Superannuation Scheme
<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22library/prspub/VMNF6%22>



Appendix A – Abbreviations used in this paper

PBE IFRS 4 *Insurance Contracts* [PBE IFRS 4]

PBE IFRS 17 *Insurance Contracts* [PBE IFRS 17]

AASB 4 *Insurance Contracts* [AASB 4]

AASB 1023 *General Insurance Contracts* [AASB 1023]

AASB 17 *Insurance Contracts* [AASB 17]

AASB Discussion Paper [Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities](#) (2017) [AASB DP]

NZASB [ED 2018-7 PBE IFRS 17 Insurance Contracts](#) [ED 2018-7]

IPSAS 42 *Social Benefits* [IPSAS 42]

AASB 7/PBE IFRS 7 *Financial Instruments: Disclosure* [AASB 7/PBE IPSAS 30]

AASB 9/IPSAS 41 *Financial Instruments* [AASB 9/PBE IPSAS 41]

AASB 132/PBE IPSAS 28 *Financial Instruments: Presentation* [AASB 132/PBE IPSAS 28]

AASB 137/PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*
[AASB 137/PBE IPSAS 19]

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* [AASB 9 & AASB 15] [AASB 2016-8]

AASB 15 *Revenue from Contracts with Customers* [AASB 15].

AASB 16 *Leases* [AASB 16]

Appendix B – Insurance accounting versus provision accounting in Australia

- B.1 The alternative to applying the insurance Standards is to apply other liability-related requirements, which could include the following.

<i>Australia</i>	<i>Comments</i>
<i>AASB 137 Provisions, Contingent Liabilities and Contingent Assets</i>	A provision is a liability of uncertain timing or amount
<i>Conceptual Framework for Financial Reporting [permitted per AASB 1057.BC7]</i>	Liability definition Application of ‘accrual accounting’

- B.2 It is generally accepted that applying AASB 17 rather than AASB 137 would result in higher liabilities for one or more of the following reasons:
- there could be a liability for remaining coverage under AASB 17
 - there is more likely to be a risk adjustment under AASB 17.
- B.3 Some stakeholders also consider that applying AASB 17 rather than AASB 137 would result in higher liabilities because there is potentially more flexibility around determining discount rates under AASB 137 versus AASB 17. However, the reverse could also be true.

Liability for remaining coverage

- B.4 As noted previously noted, Under AASB 1023 and AASB 17, each insurance contract is considered to potentially give rise to two liabilities:

- a liability for remaining coverage; and
- a liability for incurred claims.

For example, 10 policyholders each pay a premium of \$900 to insure the risk associated with the vehicle they own being involved in an incident in the period from 1 April 20X1 to 31 March 20X2 that causes personal injury to themselves or a third party.

- B.5 In this case, the insurer has:

- a liability for remaining coverage (similar to deferred revenue) – a liability to stand ready to provide coverage for personal injury risks, whether or not any relevant incidents arise – initially measured at \$9,000 (10 x \$900); and
- in the event that an incident arises and a valid claim is made, a liability to settle that claim (that is, a liability for incurred claims) – measured based on estimated future cash flows.

- B.6 the journal entries under AASB 17:

Debit: Cash \$9,000

Credit: Liability for remaining coverage \$9,000



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B.7 In contrast, cash received that will be used to help fund a provision is (probably) accounted for as follows under AASB 137:

Debit: Cash
Credit: Revenue

Risk adjustment

B.8 In measuring insurance liabilities, AASB 17 says:

37 An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

B.9 In measuring provisions, AASB 137 says:

36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
42 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

B.10 In practice, while some of the public sector entities under consideration for this project that are applying AASB 137 have included risk margins in their liabilities/provisions, most do not include.

Discounting

B.11 AASB 17 requires fulfilment cash flows to be discounted to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts [AASB 17.36]. This is typically interpreted as meaning a risk-free rate plus an illiquidity premium.

B.12 In measuring provisions, AASB 137 says:

47 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

B.13 In practice, at least one of the public sector entities under consideration for this project that is applying AASB 137 has applied a discount rate based on long-term rates of return on their investment performance. This has the effect of lowering the liability relative to AASB 17.

B.14 In practice, some of the public sector entities under consideration for this project that are applying AASB 137 have applied largely risk-free discount rates. It is possible that the discount rate under AASB 17 would be higher (and the liabilities lower) due to the addition of an illiquidity premium on top of the risk-free rate.



Appendix C – IFRS 17 practical expedients

- C.1 IASB's path to developing IFRS 17 has involved using a series of practical expedients. The practical expedients in IFRS 17 include:
- (a) **warranties** provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer
 - (b) **financial guarantees**
 - (c) **fixed-fee service contracts** activities.

Warranties

- C.2 Although product warranties sold by insurers could be identical to product warranties sold by the makers and sellers of the underlying products, IFRS 17 (and IFRS 4) specifically scopes out warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer [IFRS 17.7(a)].
- C.3 The IASB considered that applying IFRS 15 to warranties provided by a manufacturer, dealer or retailer would probably provide much the same accounting outcomes as applying the premium allocation approach under IFRS 17 [IFRS 17.BC90].

Financial guarantees

- C.4 Both insurers and banks issue 'financial guarantees' and stakeholders hold widely differing views on the nature of these contracts. The IASB agreed on a 'temporary' compromise when it issued IFRS 4 whereby an entity that previously asserted explicitly that it regards financial guarantees as insurance contracts and has used accounting applicable to insurance contracts can choose on a contract-by-contract basis to apply either IFRS 4 or IAS 32, IFRS 7 and IFRS 9 [IFRS 17.BC93]. Otherwise, IAS 32, IFRS 7 and IFRS 9 automatically apply.
- C.5 The IASB considered that the compromise had functioned in practice and agreed to retain it for IFRS 17 [IFRS 17.7(e) and IFRS 17.BC93].

Fixed-fee service contracts

- C.6 Responses to the consultative documents that preceded the issue of IFRS 4 included objections from roadside assistance providers to applying insurance accounting to roadside assistance contracts. The IASB agreed to permit "contracts [that] meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee" to be accounted for using either IFRS 4 or IFRS 15.
- C.7 The IASB decided to retain the practical expedient as it considered that applying IFRS 15 would probably provide much the same accounting outcomes as applying the premium allocation approach under IFRS 17 [IFRS 17.8 and IFRS 17.BC96].



Staff Paper

Project	Insurance Activities in the Public Sector	Meeting	AASB (M180)/NZASB April 2021
Topic	Risk adjustments for non-financial risk	Agenda item	AASB 10.3 NZASB 5.3
Contacts	Angus Thomson athomson@asb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@asb.gov.au	Date	31 March 2021
		Project priority	Medium
		Decision-making	High
		Project status	Addressing specific technical issues for board deliberation

Objective of this paper

The objective of this paper is for the AASB and the NZASB to **decide** whether public-sector-specific modifications or guidance is needed in AASB 17/PBE IFRS 17 *Insurance Contracts* regarding:

- (a) the requirement to include a risk adjustment for non-financial risk in measuring liabilities for incurred claims; and
- (b) the disclosure requirements about those risk adjustments.

Structure of this paper

This staff paper is set out as follows:

[Section 1](#): Comparison of risk adjustments¹ under AASB 17/PBE IFRS 17 versus AASB 1023/PBE IFRS 4

[Section 2](#): Proposals regarding risk adjustments in AASB DP and NZASB ED 2018-7

[Section 3](#): Current practices and recent stakeholder feedback

[Section 4](#): Suggested approaches to risk adjustments in the public sector

[Section 5](#): Other issues relating to risk adjustments in the public sector (including disclosure requirements).

Abbreviations used in this paper are referenced in full in [Appendix A](#) to this paper.

¹ Staff do not consider that there is any particular significance in AASB 17/PBE IFRS 17 using the term 'risk adjustment' (rather than 'risk margin' under AASB 1023/PBE IFRS 4) other than (perhaps) to help distinguish it from the 'contractual service margin' (which applies under the general measurement model in AASB 17/PBE IFRS 17).

Section 1: Comparison of risk adjustments under AASB 17/PBE IFRS 17 versus AASB 1023/PBE IFRS 4

- 1.1 Table 1.1 compares the risk adjustment requirements in AASB 17/PBE IFRS 17 with the risk margin requirements in AASB 1023/PBE IFRS 4 and includes staff remarks on the comparison.

Table 1.1 – comparison of risk adjustment requirements		
AASB 17/PBE IFRS 17	AASB 1023/PBE IFRS 4	Staff comments
<p>Risk adjustment for non-financial risk:</p> <p>The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk² as the entity fulfils insurance contracts [Appendix A].</p> <p>Notion of ‘compensation’:</p> <p>The risk adjustment ... measures the compensation that the entity would require to make the entity indifferent between:</p> <p>(a) fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and</p> <p>(b) fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts [B87].³</p>	<p>Description of risk margin:</p> <p>The outstanding claims liability includes, in addition to the central estimate of the present value of the expected future payments, a risk margin that relates to the inherent uncertainty in the central estimate of the present value of the expected future payments [5.1.6].</p>	<p>Effectively the same definition / description.</p> <p>AASB 1023/PBE IFRS 4 also distinguishes non-financial risk from financial risk.</p> <p>The main difference between the standards is that AASB 1023/PBE IFRS 4 has no equivalent to the AASB 17/PBE IFRS 17 notion of compensation – instead, the risks are regarded as being inherent in the cash flows.</p> <p>Conceivably, under AASB 17/PBE IFRS 17, an entity could have a risk adjustment of zero if the entity does not seek compensation for bearing non-financial risk.</p> <p>AASB 1023/PBE IFRS 4, assumes an entity includes a risk margin based on the inherent uncertainty around the cash flows.</p>
<p>Diversification and risk aversion:</p> <p>Because the risk adjustment ... reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:</p> <p>(a) the degree of diversification benefit the entity includes</p>	<p>Characteristics of the business:</p> <p>Risk margins are determined on a basis that reflects the insurer’s business. Regard is had to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry and the characteristics of the classes of business written [5.1.7].</p>	<p>A risk adjustment of zero under AASB 17/PBE IFRS 17 would imply the entity is not risk averse, which seems unlikely for any entity.</p> <p>Although the AASB 1023/PBE IFRS 4 commentary appears different from AASB 17/PBE IFRS 17, in practice, ‘characteristics of the business’ relates to diversification and entities have regard to risk</p>

2 Non-financial risks are all risks except ‘financial risks’, which are defined as: The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract [Appendix A].

3 For example, the risk adjustment for non-financial risk would measure the compensation the entity would require to make it indifferent between fulfilling a liability that—because of non-financial risk—has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110, and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from nonfinancial risk about the amount and timing of cash flows.



Table 1.1 – comparison of risk adjustment requirements		
AASB 17/PBE IFRS 17	AASB 1023/PBE IFRS 4	Staff comments
when determining the compensation it requires for bearing that risk; and (b) both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion [B88].	Risk margins adopted for regulatory purposes may be appropriate for the purposes of this Standard, or they may be an appropriate starting point in determining such risk margins [5.1.11].	aversion (see methodology in the next row of this table).
Methodology: An entity shall disclose the confidence level used to determine the risk adjustment ... If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique [119].	Methodology: The financial statements shall disclose ... (d) the probability of adequacy intended to be achieved through adoption of the risk margin; and (e) the process used to determine the risk margin, including the way in which diversification of risks has been allowed for [17.2]	Although terminology in AASB 17/PBE IFRS 17 is different from that used in AASB 1023/PBE IFRS 4, the same confidence level (or probability of adequacy) approach is likely to apply under both. Also see paragraph 1.2 below.
Reinsurance: Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts [64].	There is no counterpart requirement on reinsurance	Although there is no counterpart requirement in AASB 1023/PBE IFRS 4, current industry practice is to apply a counterpart risk margin to measure reinsurance assets and, in principle, achieve the same outcome as AASB 17/PBE IFRS 17.

Industry benchmark

1.2 Prudential Standard GPS 320 *Actuarial and Related Matters* (2013) issued by the Australian Prudential Regulation Authority (APRA) includes an industry (minimum) benchmark that must be applied by registered private sector Australian general insurers. The same benchmark is also widely used among public sector entities in Australia and New Zealand for determining risk margins under AASB 1023/PBE IFRS 4 and, in some cases, under AASB 137/PBE IPSAS 19.

21. The valuation of insurance liabilities reflects the individual circumstances of the insurer. In any event, the minimum value of insurance liabilities must be the greater of a value that is:
 - (a) determined on a basis that is intended to value the insurance liabilities of the insurer at a 75 per cent level of sufficiency; and
 - (b) the central estimate plus one half of a standard deviation above the mean for the insurance liabilities of the insurer.⁴

⁴ <https://www.apra.gov.au/sites/default/files/GPS-320-Actuarial-and-Related-Matters-January-2013.pdf>



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- 1.3 In practice, many public sector entities determine their risk margins as the amount that would be required to meet (or exceed) the actual claims liabilities 75% of the time – sometimes referred to as 75% ‘probability of adequacy’. Private sector entities (APRA-registered insurers) use the 75% threshold as a minimum and typically their capital levels put them in the range of an 80% to 95% probability of adequacy.
- 1.4 APRA benchmarks tend to be widely applied in New Zealand due to the high level of common ownership of insurers that are registered in both jurisdictions.

The basis for AASB 17/PBE IFRS 17 risk adjustments and a public sector perspective

- 1.5 Table 1.2 outlines the IASB’s thinking behind the way in which risk adjustments should be determined and includes staff remarks in a public sector context. Staff are not suggesting that the Boards should necessarily accept the IASB’s conclusions on how risk adjustments are determined – in the spirit of transaction neutrality, we are attempting to assess whether there are public sector specific factors that might make those conclusions less relevant to public sector entities.

Table 1.2 – determining risk adjustments under IFRS 17	
<i>IFRS 17 Basis for Conclusions</i>	<i>Staff comments</i>
The risk adjustment should be determined as the amount of compensation that the entity would require, not the compensation a market participant would require. Accordingly, it is not intended to measure the current exit value or fair value, which would reflect the transfer of the liability to a market participant [BC209(a)]	IFRS 17 uses a fulfilment cash flow model – that is the entity issuing the contracts will fulfil them, which seems as relevant in the public sector as it is for private sector registered insurers.
The risk adjustment should be an amount that would provide a high degree of certainty that the entity would be able to fulfil its contracts. This will help users of financial statements make decisions about providing resources to the entity [BC209(b)] by showing the entity’s view of the economic burden imposed by the non-financial risk associated with the entity’s insurance contracts [BC211(a)]	There may be a high degree of certainty among stakeholders that a public sector entity would be able to fulfil its contracts due to its government backing (whether or not there is an explicit government guarantee). Accordingly, it might be argued that this factor is less relevant as a reason for having a risk adjustment in a public sector context.



Table 1.2 – determining risk adjustments under IFRS 17	
IFRS 17 Transition Resource Group	Staff comments
<p>May 2018 Agenda paper 2 Determining the risk adjustment for non-financial risk in a group of entities involved the IFRS 17 TRG discussing how the IASB envisaged that risk adjustments would be determined.</p> <p>In that paper [paragraph A.2], the IASB staff view (supported by the IASB members who were present) was that the insurer issuing the contract would determine the compensation required for bearing risk at the time the contract is priced. Accordingly, there is only one risk adjustment, not different risk adjustments at a subsidiary level versus a consolidated group level.</p> <p>The significance of this logic is that, in theory, an entity which does not consider⁵ risk when it prices its contracts could have a risk adjustment of zero.</p> <p>Many of the Australian and New Zealand public sector entities that were the subject of staff research do not seek to price in risk.</p> <p>The alternative view, not supported by the IASB staff (or by the IASB members who were present), was that the view of risk at the original pricing point is not always relevant because the compensation an entity needs to bear risk would vary depending on the entity's circumstances. Hence, different risk adjustments might be calculated for the same contracts in different levels within a consolidated group.</p>	<p>The IASB staff logic around determining risk adjustments might seem to provide a neat solution for public sector entities applying AASB 17/PBE IFRS 17 – because it could allow some to have zero risk adjustment on the basis that they do not consider pricing risk into their arrangements.</p> <p>The IFRS 17 TRG members in general did not agree with the IASB staff logic and the Meeting Summary [paragraphs 15 & 16] for May 2018 records that a broader view of risk adjustments is acceptable (and there might be different risk adjustments at different levels in a consolidated group because risk appetites can be different depending on the context).</p> <p>One of the flaws in the IASB staff logic is that risk adjustments are not static – they change depending on the context, which can include (for example) the extent of diversification of risks, which can increase over time as more arrangements are entered into or can decrease as there are concentrations of similar risks.</p> <p>However, many of the relevant public sector entities with insurance arrangements have highly stable customer bases (because they are generally monopolies) and would have a predictable level of diversification (based on past experience). Accordingly, they might be better candidates for applying the IASB staff logic than most private sector insurers.</p>

- 1.6 Table 1.3 outlines the reasons for the IASB concluding on the need for a risk adjustment in measuring insurance contract liabilities and includes staff remarks on that reasoning in a public sector context. Staff are not suggesting that the Boards should necessarily accept the IASB's reasoning – in the spirit of transaction neutrality, we are attempting to assess whether there are public sector specific factors that might make that reasoning less relevant to public sector entities.

Table 1.3 – reasons for requiring risk adjustments under IFRS 17	
Basis for Conclusions to IFRS 17	Staff comments
<p>Requiring a risk adjustment provides a clear insight into the insurance contracts and distinguishes them from risk-free liabilities [BC211(a)]</p>	<p>This reasoning seems as relevant in the public sector as it is for private sector insurers.</p>

⁵ Please note that considering the impact of risk when pricing contracts is different from actually pricing into a contract the relevant risk. For example, under IFRS 17, due to competitive pressures, an entity might issue a contract at a loss because it deliberately underprices for risk.



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Table 1.3 – reasons for requiring risk adjustments under IFRS 17	
<i>Basis for Conclusions to IFRS 17</i>	<i>Staff comments</i>
Requiring a risk adjustment results in a profit recognition pattern that reflects both the profit recognised by bearing risk and the profit recognised by providing services [BC211(b)]	This reasoning would be less relevant in respect of public sector entities that are not seeking to profit from bearing risk (although, as previously discussed with the Boards, IFRS 17 specifically applies to not-for-profit mutual entities).
Requiring a risk adjustment faithfully represents circumstances in which the entity has charged insufficient premiums for bearing the risk that the claims might ultimately exceed expected premiums [BC211(c)]	This reasoning seems as relevant in the public sector as it is for private sector insurers.
Requiring a risk adjustment results in reporting changes in estimates of risk promptly and in an understandable way [BC211(d)]	This reasoning seems as relevant in the public sector as it is for private sector insurers.

- 1.7 Table 1.4 outlines the criticisms of risk adjustments from some stakeholders that the IASB considered in the process of concluding on the need for a risk adjustment in measuring insurance contract liabilities and includes staff remarks on those criticisms. Staff are not suggesting that the Boards should necessarily dismiss the criticisms – in the spirit of transaction neutrality, we are attempting to assess whether there are public sector specific factors that might make those criticisms more relevant to public sector entities.

Table 1.4 – criticism of risk adjustments considered in developing IFRS 17	
<i>Basis for Conclusions to IFRS 17</i>	<i>Staff comments</i>
There is no single well-defined measurement approach that would provide consistency and comparability of results [BC210(a)]	This criticism seems no more relevant in the public sector than it is for private sector insurers. As noted in paragraphs 1.2 and 1.3 (above), APRA benchmarks tend to be used by both public sector and private sector entities.
Some measurement techniques are difficult to explain to users of financial statements [BC210(b)]	This criticism may be more relevant in the public sector than it is for private sector insurers because the public sector users are likely to be relatively less familiar with actuarial techniques.
It is impossible to assess retrospectively whether a particular adjustment was reasonable, including whether (for example) a decision to set a confidence level at a particular percentile was appropriate [BC210(c)]	This criticism seems no more relevant in the public sector than it is for private sector insurers.
Developing systems to determine risk adjustments will involve costs that are not justified by the benefits [BC210(d)]	This criticism may be more relevant in the public sector than it is for private sector insurers because the public sector entities would probably not otherwise have to determine risk adjustments. In contrast, private sector entities must determine risk adjustments for prudential reporting purposes.



Table 1.4 – criticism of risk adjustments considered in developing IFRS 17	
<i>Basis for Conclusions to IFRS 17</i>	<i>Staff comments</i>
Including a risk adjustment in identifying any loss on initial recognition is inconsistent with IFRS 15 (on revenue) [BC210(e)]	This criticism seems no more relevant (and is possibly less relevant given the infrequent application of AASB 15/PBE IFRS 15) in the public sector than it is for private sector insurers.
If including a risk adjustment results in a loss, that loss will reverse in later periods as the entity is released from that risk, which may confuse some users of financial statements [BC210(f)]	This criticism may be more relevant in the public sector than it is for private sector insurers because many public sector entities would be aiming to break even over the long term, rather than earn profits or incur losses. In contrast, private sector entities would typically aim to profit from bearing risk.
A risk adjustment could be used to introduce bias into the measurement of insurance contracts [BC210(g)]	This criticism seems no more relevant in the public sector than it is for private sector insurers.

Section 2: Proposals regarding risk adjustments in AASB DP and NZASB ED 2018-7

- 2.1 AASB DP.E18 to E20 effectively emphasised applying the requirements of AASB 17 and did not propose any relief or additional measures to be applied (See Appendix A).
- 2.2 The Basis for Conclusions [AASB DP.BC8 to BC13] raised the possibility of a risk adjustment of zero based on a case of a public sector entity with a government guarantee and/or a monopoly position in which it can recoup current and past losses from its controlling government or via future contracts. However, the AASB concluded that, while the risk adjustment might differ from a for-profit private sector entity, it is unlikely to be nil because:
- (a) the uncertainties associated with outstanding claims cash flows in respect of past transactions, that would be reflected in a risk adjustment are a characteristic of the claims liability; and
 - (b) in respect of the current (usually annual coverage) transactions, the entity is bearing risk for that period and an entity's monopoly position is not relevant [AASB DP.BC10].
- 2.3 NZASB ED 2018-7 proposed no additional PBE modifications in respect of risk adjustments.

Responses to AASB DP

- 2.4 Some respondents considered that there would be risk adjustments (above zero) and also noted various considerations, including:
- (a) disclosures around the techniques used to determine risk adjustments should be required to help ensure transparency;
 - (b) if the AASB expects risk adjustments to be different from those in the private sector, the implication is that they would be lower (compared with the private sector) and guidance would be needed to help entities make those calculations; and



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- (c) whether it is appropriate to imply that risk adjustments in the public and private sectors should be aligned.
- 2.5 Other respondents consider that there would be circumstances in which a risk adjustment could be zero, such as:
- (a) when there is absolute certainty around the government backing of the best estimate liability; and
 - (b) the liability cash flows are so long term that the volatility is mitigated by long-term investment returns.
- 2.6 Staff note that, in concept, a risk adjustment of zero does not mean there has been no transfer of insurance risk from a scheme participant to the entity. This is because the entity can have a risk-pooling function that involves accepting risk from each scheme participant and sharing the risk with other participants and, possibly, the government 'owner' of the scheme.

Responses to NZASB ED 2018-7

- 2.7 There was a strong theme among respondents to NZASB ED 2018-7 that risk adjustments may not be relevant to many public sector entities. Some respondents also considered that, regardless of whether a zero risk adjustment is considered appropriate in some or all circumstances, explicit guidance on determining risk adjustments in the public sector would be needed.
- 2.8 Some respondents advocated that the requirement for a risk adjustment should be removed, or for guidance that the Standard should specify that risk adjustments are zero for public sector entities. The reasons for this view included:
- (a) risk adjustments are predicated on the liability being an estimated amount a third party would likely want to be paid to assume the risk of settling claims, which is akin to an exit price; however, the liabilities will be settled by the entity itself;
 - (b) if the entity seeks to fund a liability that includes a risk adjustment, in order to report a break-even result, the entity would need to set levies and other forms of income at amounts that (on average) would be higher than necessary; and
 - (c) if the entity is funded to meet a best estimate liability, including a risk adjustment in the liability would automatically result in reported losses, which may never eventuate.

Section 3: Current practices and recent stakeholder feedback

3.1 Table 3.1 outlines the practices of a number of Australian and New Zealand entities with respect to risk margins.

Table 3.1			
Entity		Risk margin ⁶	Currently applying
Accident Compensation Commission (NZ)		Yes – 75% PoA ⁷	PBE IFRS 4
Earthquake Commission (NZ)		Yes – 85% PoA	PBE IFRS 4
iCare (NSW):	Dust Diseases Care	None	AASB 137
	Lifetime Care	None	AASB 137
	Insurance for NSW – various Funds	Some at 75% PoA – some have none	Some apply AASB 1023 and others AASB 137
	Home Building Compensation	Yes – 75% PoA	AASB 1023
	Workers' Insurance	Yes – 80% PoA	AASB 1023
	Sporting Injuries Scheme	Yes – 75% PoA	AASB 1023
	Building Insurers' Guarantee	None	AASB 137
WorkSafe (QLD)		Yes – 75% PoA	AASB 1023
WorkSafe (VIC)		Yes – 75% PoA	AASB 1023
WorkCover [RiskCover Fund] (WA)		Yes – 75% PoA	AASB 1023
ReturnToWorkSA (SA)		Yes – 75% PoA	AASB 1023
ComCare (Australia)		Yes – 75% PoA	AASB 1023
Victorian Managed Insurance Authority (VIC)		Yes – 75% PoA	AASB 1023
South Australian Finance Authority (SA) [SAicorp Division]		Yes – 75% PoA	AASB 1023
Insurance Commission (WA)	Risk Cover Fund	Yes – 75% PoA	AASB 137
	Third Party Insurance Fund	Yes – 75% PoA	AASB 1023
	Motor Vehicle Catastrophic Injury	Yes – 75% PoA	AASB 1023
Transport Accident Commission (VIC)		Yes – 75% PoA	AASB 1023
Motor Accident Insurance Board (TAS)		Yes – 75% PoA	AASB 1023
Nominal Defendant (QLD)		None	AASB 1023
National Injury Insurance Agency (QLD)		None	AASB 137
Lifetime Support Authority (SA)		Yes – 81% PoA	AASB 137

⁶ Some entities refer to a 'prudential reserve'.

⁷ PoA = Probability of Adequacy. Some entities have a fixed percentage year-on-year; however, the PoA varies from year-to-year for others. In most cases, the PoA for 2020 annual reports is shown here.



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Table 3.1		
Entity	Risk margin ⁶	Currently applying
Australian Reinsurance Pool Corporation	None – currently has no claim liabilities	AASB 1023

3.2 Based on stakeholder feedback from interviews conducted by staff and through the review of financial statements, most public sector entities consider that:

- (a) AASB 1023/PBE IFRS 4 requires a risk margin to be included in measuring liabilities for outstanding claims ('liability for incurred claims' in AASB 17/PBE IFRS 17 language); and
- (b) AASB 137/PBE IAS 37 does **not require** a risk margin to be included in measuring provisions, **but permits** a risk/prudential margin to be included.

3.3 The stakeholder feedback also revealed that some public sector entities:

- (a) chose to apply AASB 137/PBE IAS 37 (rather than AASB 1023/PBE IFRS 4) because they do not regard risk margins as appropriate to their circumstances;
- (b) had assumed that their risk adjustments under AASB 17/PBE IFRS 17 would be the same as their risk margins under AASB 1023/PBE IFRS 4; and/or
- (c) have yet to consider whether they would have a risk adjustment under AASB 17/PBE IFRS 17 and, if they did, whether it would be more or less than any risk margin they currently apply.

What 75% probability of adequacy means in practice

3.4 To provide the Boards with some context, Table 3.2 sets out information about the magnitudes of a range of public sector entities' risk margins (based on a % level of adequacy) disclosed in their (2019 or 2020) financial statements. The risk margins are generally in the range of 7% to 20% – that is, for example, a \$100m best estimate of a claims liability is increased by \$7m to \$20m for risk. Accordingly, risk margins can have a material impact on the amounts of claims liabilities. In theory, the different percentages reflect the different levels of cash flow uncertainty.

3.5 Some of the entities that do not include risk margins in measuring their claim liabilities, nonetheless disclose the amount or percentage of those risk margins based on a particular percentage probability of adequacy (PoA).

Table 3.2		
Entity	Information ⁸	Currently applying
Accident Compensation Commission (NZ)	11.5% of claims liability at 75% PoA	PBE IFRS 4
Earthquake Commission (NZ)	21.5% of claims liability at 85% PoA	PBE IFRS 4

⁸ Staff have calculated some of these percentages from publicly-available information and most are rounded – they should be regarded as indicative.



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Table 3.2			
Entity		Information ⁸	Currently applying
iCare (NSW):	Dust Diseases Care	None – but would have been 18.5% of claims liability at 75% PoA	AASB 137
	Lifetime Care	None – but would have been 16.5% of claims liability at 75% PoA	AASB 137
	Insurance for NSW – various Funds	Less than 1% on an aggregate of claim liabilities at 75% PoA	Some apply AASB 1023 and others AASB 137
	Home Building Compensation	Yes – 75% PoA	AASB 1023
	Workers' Insurance	15.1% at 80% PoA	AASB 1023
	Sporting Injuries Scheme	25% at 75% PoA	AASB 1023
WorkSafe (QLD)		11% at 75% PoA	AASB 1023
WorkSafe (VIC)		7.5% at 75% PoA	AASB 1023
WorkCover [RiskCover Fund] (WA)		20.5% at 75% PoA	AASB 1023
ReturnToWorkSA (SA)		12.5% at 75% PoA	AASB 1023
Victorian Managed Insurance Authority (VIC)		18% at 75% PoA	AASB 1023
South Australian Finance Authority (SA) [SAicorp Division]		16.5% at 75% PoA	AASB 1023
Insurance Commission (WA)	Risk Cover Fund	8% at 75% PoA	AASB 137
	Third Party Insurance Fund	7% at 75% PoA	AASB 1023
	Motor Vehicle Catastrophic Injury	12% at 75% PoA	AASB 1023
Transport Accident Commission (VIC)		10% at 75% PoA	AASB 1023
Motor Accident Insurance Board (TAS)		20% at 75% PoA	AASB 1023
Lifetime Support Authority (SA)		Yes – 81% PoA	AASB 137
Australian Reinsurance Pool Corporation		N/A – currently has no claims liability	AASB 1023

Section 4: Suggested approaches to risk adjustments in the public sector

- 4.1 No matter which of the following approaches might be adopted by the Boards, the approach would need to be explained and justified in a Basis for Conclusions.



Approach 1: Require each public sector entity to apply AASB 17/PBE IFRS 17 with no modifications or guidance

4.2 Table 4.1 sets out advantages and disadvantages of this approach.

Table 4.1			
	Advantages	Disadvantages	Staff comments
4.1.1	Consistent with the principle of only making modifications to the IFRS Standards if there is a strong case based on substantive differences in circumstances of public sector entities (compared with the entities for which IFRS Standards are developed).	IFRS 17 was designed to be applied by private sector entities. The public sector context is often different; in particular, due to entities holding a monopoly position and being driven by public policy objectives.	Any public sector specific changes might be either requirements or simply guidance. The IPSASB has not sought to create an IPSAS that is a modified IFRS Standard.
4.1.2	Different public sector entities hold claim liabilities with different characteristics. The risk adjustment would usefully help reflect those differences. For example, very long-tail, relatively predictable claims (such as regular income support payments), would result in a relatively small risk adjustment. In contrast, claims subject to future legal judgements might result in a relatively large risk adjustment. Different public sector entities manage different types of risk.		Some stakeholders consider that benchmarking across different schemes in different jurisdictions is useful, while others do not. Virtually all the relevant public sector entities have long-tail claim liabilities, regardless of the different nature of the underlying risks they cover. However, the nature of the cash flows differs from risk to risk.
4.1.3	Different public sector entities hold different views on whether they should include a risk adjustment in measuring their claim liabilities. This approach would allow each entity to determine its position consistent with its own objectives, management philosophy, level of risk aversion, and the nature of their claim liabilities.	Different public sector entities may determine different outcomes even though they have similar operations. Accordingly, their reported financial position and financial performance would not be comparable.	Some stakeholders consider that benchmarking across different schemes in different jurisdictions is useful, while others do not.



Table 4.1			
	Advantages	Disadvantages	Staff comments
4.1.4	<p>A for-profit public sector entity could recognise a risk adjustment on the basis that it expects to profit from bearing risk.</p> <p>A not-for-profit entity might not recognise a risk adjustment because it does not seek to profit from bearing risk.</p>		<p>IFRS 17 does not distinguish between for-profit and not-for-profit entities.</p> <p>The pattern in which claim liabilities are reduced is based on the pattern of exposure to risk (regardless of whether the entity seeks to profit from bearing risk).</p>

Approach 2: Require public sector entities to have a zero risk adjustment

4.3 Table 4.2 sets out advantages and disadvantages of this approach.

Table 4.2			
	Advantages	Disadvantages	Staff comments
4.2.1	<p>All public sector entities would have a consistent approach, based on best estimate claim liabilities.</p>	<p>Many public sector entities hold strong views on the need to show their users that claim liabilities carry a level of uncertainty as to timing and amount.</p> <p>Consistency does not necessarily lead to comparability.</p> <p>There is no public sector specific basis for this modification.</p>	<p>Some stakeholders consider benchmarking across different schemes in different jurisdictions (and with private sector insurers) is useful, while others do not.</p> <p>Some public sector entities are required (via regulation imposed in that jurisdiction) to benchmark to APRA prudential requirements, which include a minimum risk margin.</p>
4.2.2	<p>Best estimates (with no risk adjustment) are relevant to user decision making because they provide a basis for determining how much levies or other charges need to be generated to sustain the entity in the long term.</p>	<p>There would be no information for users about the potential uncertainties in the cash flows, which may mislead government into making decisions on levies etc. that leave schemes, underfunded.</p>	<p>Some entities consider information about uncertainties in the cash flows are important, even in measuring provisions (under AASB 137).</p>



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Table 4.2			
	Advantages	Disadvantages	Staff comments
4.2.3	<p>All the relevant public sector entities are monopolies and/or have the power to adjust future levies and charges to meet any shortfalls in funding the existing claim liabilities.</p> <p>Accordingly, risk adjustments are not relevant because these entities have no reason to be risk averse.</p>	<p>There are often obstacles to exercising monopoly and other powers. For example, it might not be economically or politically feasible to increase levies in either the short, medium or long term to meet shortfalls in a timely manner.</p> <p>The accounting for existing arrangements should not necessarily be affected by possible future transactions.</p> <p>All entities are risk averse to varying degrees.</p>	<p>Most stakeholders interviewed by staff indicated that there are processes (including Ministerial decision-making) involved in changing levies and other charges that act as a constraint.</p>
4.2.4	<p>Would avoid misleading impact on the income statement – risk adjustments tend to create short term losses and longer-term gains as actual claims revert to the best estimate over the long term.</p>	<p>There would be no changes in risk adjustments to provide useful information about changes in the levels of uncertainty among cash flows over time.</p>	<p>Any tendency of risk adjustments to create short term losses and longer-term gains would generally be a ‘once-off’ impact and would not affect ongoing reported financial performance</p>
4.2.5	<p>Would reduce report preparation costs by removing the need for management (and auditors) to determine (and assess) risk adjustments and to make disclosures about risk adjustments.</p>	<p>It is normal commercial practice to determine risk adjustments and many managements would wish to have a risk adjustment for financial reporting purposes to match their management reporting.</p>	<p>Of itself, very little additional actuarial effort is likely to be needed to determine a risk adjustment – most of the relevant work would be performed to determine the best estimate.</p> <p>Some public sector entities have minimised the work involved in determining risk margins (under AASB 1023/PBE IFRS 4) by specifying the APRA minimum of 75% probability of adequacy.</p>

Approach 3: Require a particular probability of adequacy for determining risk adjustments for all public sector entities

4.4 Table 4.3 sets out advantages and disadvantages of this approach.

Table 4.3			
	Advantages	Disadvantages	Staff comments
4.3.1	All public sector entities would have a consistent approach, using a best estimate of claim liabilities plus a risk adjustment based on a common probability of adequacy.	<p>IFRS 17 was designed to have entities determine risk adjustments appropriate to each entity's circumstances.</p> <p>Consistency does not necessarily lead to comparability.</p> <p>There is no public sector specific basis for this modification.</p>	Most public sector entities that have a risk margin (under AASB 1023/PBE IFRS 4) use the APRA minimum of 75% probability of adequacy.
4.3.2		If there is a general shift in expectations about the uncertainty surrounding cash flows, the required probability of adequacy might need to be updated by the Boards.	The APRA minimum of 75% probability of adequacy has not changed for at least a decade (through a wide variety of economic conditions).

Disclosure approaches

4.5 Each of the three approaches outlined above could be supplemented with disclosures.

Approach 1 – If each public sector entity applies AASB 17/PBE IFRS 17 with no modifications or guidance, the entity could also be required to disclose a risk adjustment for benchmark probability of adequacy (such as 75% probability of adequacy) to provide a point of reference for comparison.

Approach 2 – If each public sector entity recognises a zero risk adjustment, the entity could also be required to disclose what the risk adjustment would have been if AASB 17/PBE IFRS 17 were applied unmodified.

Approach 3 – If each public sector entity recognises a risk adjustment for a particular probability of adequacy, the entity could also be required to disclose what its risk adjustment would have been if AASB 17/PBE IFRS 17 were applied unmodified.

Staff views

4.6 Staff consider that Approach 1 would be the most relevant approach – require each public sector entity to apply AASB 17/PBE IFRS 17 with no specific public sector modifications. However, staff note that the Boards' Basis for Conclusions could include reasoning that might assist public sector entities in applying the requirements.



4.7 Staff support this approach on the basis of the following.

- (a) Including a risk adjustment for the compensation the entity requires for bearing risk would mean the circumstances specific to each public sector entity can be taken into account in determining risk adjustments. Accordingly, the requirement itself can accommodate differences between:
 - (i) public sector entities and their particular insurance arrangements; and
 - (ii) public sector entities versus private sector entities, rather than having modified requirements for public sector entities to cater for differences from the private sector.
- (b) Different public sector entities manage their levels of risk differently from others – for example, some are actively reinsuring their claims,⁹ while others are retaining all the relevant risks – and the risk adjustment would reflect the impacts of those different management strategies.
- (c) Each entity's level of risk aversion would be affected by the extent to which it might have the power to manage its cash flows and has access to additional funding from government and scheme participants. The interviews that staff conducted with stakeholders from the potentially affected entities revealed that different entities have different levels of risk aversion. For example:
 - (i) the more constrained the entity is in pricing its services and in being able to access additional government funding, the more risk averse the entity tended to be – these entities were generally in favour of recognising a risk adjustment to reflect that the entity itself (including its board of management) is responsible for managing risk; and
 - (ii) those entities that were structured more along the lines of a compensation scheme for which there is a close involvement of policymakers from wider government and an ability to adjust pricing and benefits to meet a budget tended to be less risk averse – these entities were generally not in favour of recognising a risk adjustment or favoured only a minimal risk adjustment).
- (d) The level of diversification reflected in each entity's claims liabilities and the characteristics of the cash flows would be reflected in the level of the risk adjustment. The interviews that staff conducted with stakeholders from the potentially affected entities and staff reviews of their financial statements revealed that different entities have different levels of risk diversification and different levels of inherent uncertainty about their cash flows.¹⁰

9 IFRS 17 TRG April 2019 Agenda paper 2 [Reporting on other questions submitted](#) notes: "The risk adjustment for non-financial risk reflects the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk. Therefore, if an entity considers reinsurance when determining the compensation it requires for bearing non-financial risk related to underlying insurance contracts, the effect of the reinsurance (both cost and benefit) would be reflected in the risk adjustment for non-financial risk of the underlying insurance contracts" [page 17].

10 AASB 17.B92/PBE IFRS 17.B92 notes that a risk adjustment has the following characteristics:

- (a) risks with low frequency and high severity will result in higher risk adjustments than risks with high frequency and low severity;
- (b) for similar risks, contracts with a longer duration will result in higher risk adjustments than contracts with a shorter duration;
- (c) risks with a wider probability distribution will result in higher risk adjustments than risks with a narrower distribution;
- (d) the less that is known about the current estimate and its trend, the higher will be the risk adjustment; and



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- (e) There is potentially useful information for users of the financial statements in knowing the impact on a risk adjustment of a change in benefit arrangements, particularly those that might affect existing claims. Such changes might make the cash flows associated with claims more or less certain.
 - (f) A considerable amount of literature is being developed on determining risk adjustments under IFRS 17, including guidelines published by local and international actuarial associations. By having unmodified requirements for risk adjustments, public sector entities can take advantage of that literature in preparing their financial statements.
- 4.8 Staff do not consider the different circumstances of public sector entities would justify mandating a zero risk adjustment (Approach 2). However, it might be feasible for a public sector entity to have a risk adjustment that is zero or close to zero (within the bounds of materiality). An uncontroversial example might be a public sector scheme that manages a 'closed book' of claims in run off that, therefore, have highly certain cash flows.
- 4.9 Staff do not consider the different circumstances of public sector entities would justify mandating a particular probability of adequacy for public sector entity risk adjustments (Approach 3). However, public sector entities might continue to apply available industry benchmarks, such as those set by the APRA.
- 4.10 Staff do not consider there is a need for additional disclosures about risk adjustments for public sector entities – staff consider there are already sufficient disclosures required by AASB 17/PBE IFRS 17. Also see [Section 5](#) below.

Question R1

- 4.11 Do Board members agree that Approach 1 would be the most relevant approach – to require each public sector entity to apply AASB 17/PBE IFRS 17 with no specific public sector modifications?

5. Other issues relating to risk adjustments in the public sector

Group versus subsidiary level risk adjustments

- 5.1 Some entities in the public sector report on a number of different insurance activities that are often the subject of different schemes that each have their own enabling legislation.
- 5.2 If those financial statements are regarded as being a consolidation of those different insurance activities, a decision may need to be made about whether the risk adjustment for consolidated claims liabilities is:
- (a) a simple aggregation of the risk adjustment for each scheme; or
 - (b) a different amount (probably lower) based on the greater level of diversification at the consolidated level.

(e) to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments will decrease and vice versa.

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5.3 As noted in Table 1.2 in this paper, the IASB has conducted a process via its IFRS 17 Transition Resource Group that means either approach is regarded as acceptable. Accordingly, staff do not propose that the Boards develop a public sector specific requirement on this matter, but suggest that the Boards’ Basis for Conclusions might usefully reference the outcome of the TRG process.

Question R2

5.4 Do Board members agree that there is no need for public sector specific guidance on consolidated group level risk adjustments, but that a reference in the Basis for Conclusions could be helpful?

Disclosures about risk adjustments

5.5 Table 5.1 outline disclosures required about risk adjustments that staff consider would be relevant to the circumstances of public sector entities in Australia and New Zealand.

Table 5.1		
AASB 17/PBE IFRS 17	AASB 1023/PBE IFRS 4	Staff comments
All claim liability reconciliations must separately show movements for risk adjustments [100(c)(ii)]	Risk margin component within liabilities [17.2(b)]	Same disclosure in both standards – should be straight-forward to determine
Change in risk adjustment due to current service (recognised in the period) [104(b)(ii)]	No equivalent	Would often not be material as it relates to liabilities for remaining coverage, which are not generally large for public sector entities – should be reasonably straight-forward to determine
No equivalent	Percentage risk margin component within liabilities [17.2(c)]	This is the disclosure shown in column 2 of Table 3.2 – it can be calculated by a user in any case
The approach used to determine the risk adjustment [117(c)(ii)]	Process used, including the way in which diversification is allowed for [17.2(e)]	Same disclosure in both standards – should be straight-forward to explain
The confidence level used to determine the risk adjustment. If the entity uses a technique other than the confidence level technique, disclose the technique used and the confidence level corresponding to the results of that technique [119]	Probability of adequacy applied [17.2(d)]	Effectively the same disclosure in both standards – should be straight-forward to disclose



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- 5.6 Table 5.1 does not include risk adjustment disclosures relating to liabilities for remaining coverage determined using the general measurement model in AASB 17/PBE IFRS 17, which staff consider will not be relevant for public sector entities. This is because public sector entities in Australia and New Zealand are likely to be eligible to apply the simplified (premium allocation) approach to measuring liabilities for remaining coverage, rather than the more complex general measurement model. Staff note that the measurement model likely to be applied by public sector entities will be considered when the Boards deliberate on the topic of eligibility for the simplified (premium allocation) approach (at a future meeting).
- 5.7 Staff consider that the disclosures outlined in Table 5.1 are suitable for public sector entities applying AASB 17/PBE IFRS 17 and that no public sector modifications (either deletions or additions) are needed.

Question R3

- 5.8 Do Board members agree that it would be most relevant to require each public sector entity to apply the AASB 17/PBE IFRS 17 disclosures on risk adjustments with no specific public sector modifications?



Appendix A – Abbreviations

PBE IFRS 4 *Insurance Contracts* [PBE IFRS 4]

PBE IFRS 17 *Insurance Contracts* [PBE IFRS 17]

AASB 4 *Insurance Contracts* [AASB 4]

AASB 1023 *General Insurance Contracts* [AASB 1023]

AASB 17 *Insurance Contracts* [AASB 17]

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

AASB Discussion Paper [Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities](#) (2017) [AASB DP]

NZASB [ED 2018-7 PBE IFRS 17 Insurance Contracts](#) [ED 2018-7]



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 1 April 2021

To: NZASB Members

From: Joanne Scott, Judith Pinny and Tracey Crookston

Subject: **IPSASB Measurement**

Purpose and introduction¹

1. The IPSASB recently approved four measurement-related EDs for issue. We will circulate the EDs as late papers.
2. The purpose of this memo is to seek confirmation that the Board will comment on all four EDs. The EDs are expected to have a 180-day comment period.
3. This memo outlines the proposed changes and some of the issues the comment letters could focus on. We will seek feedback on which Specific Matters for Comment (SMCs) the Board wants to comment on at a future meeting.
4. Agenda item 6.2 contains the slides for the education session. Agenda item 6.3 seeks feedback on the proposed outreach.

Recommendation

5. We recommend that the Board AGREES to comment on EDs 76–79, being:
 - (a) ED 76 *Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update*;
 - (b) ED 77 *Measurement*;
 - (c) ED 78 *Property, Plant and Equipment*; and
 - (d) ED 79 *Non-current Assets Held for Sale and Discontinued Operations*.

Structure of this memo

6. The memo focuses first on why the Board should comment on the EDs. The rest of the memo, much of which is set out in tables, is for information. The background section outlines the projects that led up to these EDs and discusses earlier consultations. The ED sections summarise the proposals and highlight possible implications. The Appendices set out heritage and infrastructure issues previously raised with the IPSASB and considers whether they are being addressed in these EDs.

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).

7. The remaining sections in this memo are:
- (a) Reasons for commenting on EDs 76–79;
 - (b) Background;
 - (c) ED 76 *Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update*;
 - (d) ED 77 *Measurement*;
 - (e) ED 78 *Property, Plant and Equipment*;
 - (f) ED 79 *Non-current Assets Held for Sale and Discontinued Operations*;
 - (g) Next steps; and
 - (h) Appendices.

Reasons for commenting on EDs 76–79

8. Table 1 explains why we think the Board should comment on the EDs.² The key reasons are:
- (a) The measurement project is a high-priority project. Although the other projects are medium and low, all of the projects are related.
 - (b) Measurement is a fundamental financial reporting issue – most standards establish requirements for initial and subsequent measurement or measurement disclosures.
 - (c) ED 78 proposes to revise IPSAS 17 *Property, Plant and Equipment*. Most entities have property, plant and equipment and would be affected by the changes.
 - (d) Entities revaluing assets regularly engage valuers. The objective of measurement and the measurement requirements need to be clear, to ensure clear communications with valuers and consistency between entities.
 - (e) The NZASB has previously commented on CP *Measurement* and CP *Financial Reporting for Heritage in the Public Sector (CP Heritage)*. See the Background section of this memo for more information about issues raised and the extent to which they have been addressed.
 - (f) The AASB is planning to comment on EDs 76 and 77. The AASB is also planning to issue an Invitation to Comment, which will include AASB SMCs on specific aspects of current operational value and fair value.

² This memo is based on recent public drafts of the EDs.

Table 1 Reasons for commenting

ED 76 Conceptual Framework – Limited Scope Update
<p>Project priority: Medium</p> <p>The ED proposes to change the measurement bases in the IPSASB’s Conceptual Framework.³</p> <p>Some of the proposed measurement bases differ from earlier proposals.</p> <p>Some aspects of the ED are unclear. There will be an Alternative View.</p> <p><i>If the ED is finalised and amends the IPSASB’s Conceptual Framework, the PBE Policy Approach establishes a rebuttable presumption that the NZASB would propose equivalent changes to the PBE Conceptual Framework. Conceptual frameworks guide standard-setting debates and provide guidance in the absence of standards-level requirements. It is therefore important that the NZASB agrees with the proposed changes.</i></p>
ED 77 Measurement
<p>Project priority: High</p> <p>The ED proposes a new standard which would include guidance on the application of four commonly used measurement bases and standardise measurement disclosure requirements. The four measurement bases in the ED are:</p> <ul style="list-style-type: none"> • Fair value: Although some may welcome the proposed alignment with IFRS 13 <i>Fair Value Measurement</i>, this represents a change. Fair value is not currently in the IPSASB’s Conceptual Framework. Fair value is used in a number of IPSASs, but the definition of fair value in most of these standards is an older version than that in IFRS 13. • Current operational value: The proposed introduction of current operational value has major implications for IPSAS 17 <i>Property, Plant and Equipment</i> (see ED 78). Current operational value was not included in CP <i>Measurement</i>, and differs in several respects from the ‘replacement cost’ basis that was proposed in the CP. ED 78 contains an Alternative View about the proposed definition. • Historical Cost: There has not previously been any centralised guidance on the application of historical cost. We need to make sure that this does not lead to inadvertent changes. • Cost of fulfilment: The NZASB disagreed with a proposal in CP <i>Measurement</i> to replace this term with ‘fulfilment value’ (which would include a risk premium). The IPSASB has decided to keep the term ‘cost of fulfilment’ and that the inclusion of a risk premium should be determined at standards level. <p>The ED also includes amendments to the measurement requirements and measurement disclosures in a number of other standards.</p> <p>The NZASB will want to consider how the IPSASB has responded to some of the NZASB’s comments on CP <i>Measurement</i>, and to consider new proposals that were not in the CP.</p> <p><i>If the ED becomes a standard the PBE Policy Approach establishes a rebuttable presumption that the NZASB would adopt the new standard. As this standard would be used by most PBEs, it is important that the NZASB and constituents understand and comment on the proposals before the IPSAS is finalised. The proposals would have implications for assets currently measured using depreciated replacement cost.</i></p>

³ The IPSASB’s Conceptual Framework is the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. The PBE Conceptual Framework is the *Public Benefit Entities’ Conceptual Framework*.

ED 78 Property, Plant and Equipment

Project priority: Low

The ED proposes to revise IPSAS 17 *Property, Plant and Equipment*. It proposes to:

- allow entities that revalue assets to use fair value or current operational value. Assets held for operational capacity would generally be measured using current operational value. The guidance in ED 77 would also guide the choice of measurement basis;
- require that heritage assets be recognised (subject to the same requirements about reliable measurement as other assets) and require disclosures about unrecognised heritage assets. In contrast to PBE IPSAS 17, the current version of IPSAS 17 does not require that heritage assets be recognised; and
- add implementation guidance and examples on infrastructure and heritage assets.

Revaluation of some classes of property, plant and equipment (PPE) is common in New Zealand. Depreciated replacement cost (DRC) is often used for specialised assets or assets held for operational capacity. PBE IPSAS 17 *Property, Plant and Equipment* contains NZ-specific guidance on DRC. The proposed guidance in ED 77 would address some, but not all, of the issues covered by the NZ-specific DRC guidance.

If the ED becomes a standard the PBE Policy Approach establishes a rebuttable presumption that the NZASB would adopt the revised version of IPSAS 17. The NZASB would have to assess the need for any NZ-specific guidance on the application of fair value or current operational value.

Heritage issues: The NZASB has previously consulted with constituents about heritage asset issues in New Zealand (see Table 4 later in this memo and Appendix A). ED 78 addresses some, but not all, of these issues. Staff still see the definition of control and guardianship of Maori heritage as a major issue that has not been solved in ED 78.

Infrastructure issues: The IPSASB identified a list of infrastructure issues to consider (see Appendix B). The ED addresses some, but not all, of these issues.

ED 79 Non-current Assets Held for Sale and Discontinued Operations

Project priority: Low

The ED proposes to introduce a standard based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

We already have PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

If the ED becomes a standard the PBE Policy Approach establishes a rebuttable presumption that we would incorporate the new IPSASB requirements in PBE Standards. We would have to decide whether to amend PBE IFRS 5 or withdraw it and issue a new standard (PBE IPSAS XX). In either case we would need to know how PBE IFRS 5 differs from IPSAS XX. It would be better to identify any differences now, than to discover them later.

Question for the Board

Q1. Does the Board AGREE to comment on IPSASB EDs 76–79?

Background

9. This section discusses each project and prior IPSASB consultations listed in Table 2 (see below). The EDs are covered later in the memo.

Table 2 Projects, Consultations and EDs

Projects	Prior Consultation	EDs
Measurement (started 2017)	CP <i>Measurement</i> (2019)	ED 76, ED 77, ED 78
Conceptual Framework Limited-Scope Review (started 2020)	–	ED 76
Heritage (started 2015)	CP <i>Heritage</i> (2017)	ED 78
Infrastructure (started 2017)	Infrastructure outreach (2019)	ED 78
Non-current Assets Held for Sale and Discontinued Operations (started 2020)	–	ED 79

Measurement project (started 2017)

10. The objectives of the measurement project were to:
- (a) provide more detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which they will be used;
 - (b) address transaction costs and borrowing costs; and
 - (c) where necessary, issue amended IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure.
11. This project initially led to the publication in 2019 of CP *Measurement*. The project has since contributed to the development of EDs 76, 77 and 78.

CP *Measurement* (2019)

12. CP *Measurement* outlined the IPSASB's proposals to develop a general measurement standard which would explain how to apply the four most commonly used measurement bases. The CP mentioned four measurement bases (which differed somewhat from the measurement bases in the Conceptual Framework). The CP did not explain what this would mean for the Conceptual Framework, nor did it say what it would mean for the measurement requirements in IPSAS 17 and other standards. The NZASB responded to the CP (see Table 3).⁴

⁴ The NZASB's comment letter on CP *Measurement* is available on the XRB website (<https://www.xrb.govt.nz/accounting-standards/standards-in-development/submissions-by-the-nzasb/>)

Table 3 CP Measurement

NZASB comments on CP Measurement	IPSASB response
<p><i>Impact on the Conceptual Framework?</i></p> <p>The CP did not outline what effect the proposals would have on the Conceptual Framework. The IPSASB was going to consider this at a later date.</p> <p>The NZASB said the IPSASB should prioritise work on its limited-scope review of the Conceptual Framework and decide what changes, if any, were required to Chapter 7 of the Conceptual Framework.</p>	<p>The IPSASB began work on the limited-scope review of the Conceptual Framework.</p> <p>See ED 76 for the proposed changes to Chapter 7 of the Conceptual Framework.</p>
<p><i>Guidance on measurement bases</i></p> <p>The CP proposed to develop guidance on four measurement bases:</p> <ul style="list-style-type: none"> • historical cost • fair value • replacement cost • fulfilment value (liabilities only). <p>By contrast, Chapter 7 of the Conceptual Framework discussed eight bases. See the discussion of ED 76 for a comparison of current and previous bases.</p> <p>Key NZASB’s comments were:</p> <ul style="list-style-type: none"> • Why has the IPSASB changed its views on the appropriateness of fair value and what does this mean for the Conceptual Framework and various standards? • What is the difference between the cost approach under IFRS 13 and replacement cost as per the CP, and when would each be used? • In relation to fulfilment value: The IPSASB needs to consider in more detail whether it wants to adopt a measurement basis that includes a risk premium (as implied in the CP). • Moving historical cost guidance from individual standards into a general standard carries risks. • Need to see proposals in full, along with amendments and bases for conclusions. • Liaise with jurisdictions that have experience applying IFRS 13. 	<p>ED 76 proposes:</p> <ul style="list-style-type: none"> • historical cost • fair value • current operational value • cost of fulfilment (liabilities only). <p>ED 77 gives guidance on these bases.</p> <p>See ED 76 BC7.25 for why the IPSASB is using fair value. See ED 77 for the description of fair value.</p> <p>The IPSASB is no longer proposing to use replacement cost.</p> <p>Fair value would generally be used for assets held for financial capacity.</p> <p>Current operational value would generally be used for assets held for operational capacity.</p> <p>See EDs 76–78.</p> <p>The IPSASB is proposing to keep the term ‘cost of fulfilment’. It does not imply inclusion of a risk premium. Consider risk premium issues within individual standards. See ED 76.</p> <p>ED 77 includes general guidance on historical cost. However, the ED proposes less extensive changes to the historical cost guidance in individual standards than originally proposed in the CP. See ED 77.</p> <p>Now set out in full. See ED 77 and ED 78. For amendments to other standards see ED 77 Appendix E and ED 78 Appendix B.</p> <p>Yes, the IPSASB has liaised with AASB staff and received input from the UK.</p>

Conceptual Framework limited-scope review (started 2020)

13. Chapter 7 of the Conceptual Framework was first issued in October 2014. As this was the IPSASB's first conceptual framework, Chapter 7 represented the IPSASB's thinking, rather than the requirements in standards. For example, Chapter 7 did not identify fair value as a measurement basis, despite it being used in a number of standards. Constituents expected that measurement requirements in standards would be aligned with the concepts in the Conceptual Framework over time.
14. Although the rationale for the measurement project mentioned the inconsistency between standards and the Conceptual Framework, *CP Measurement* didn't address this issue. It actually exacerbated the issue by proposing to develop guidance on fair value, which was *not* mentioned in the Conceptual Framework. Constituents, including the NZASB, suggested that the IPSASB needed to indicate what its measurement proposals meant for the Conceptual Framework. The IPSASB therefore set up a new project – the Conceptual Framework limited-scope review.
15. This project led to ED 76 and influenced the development of ED 77 and ED 78.

Heritage project (started 2015)

16. This project's objective was to develop accounting requirements for heritage assets. The IPSASB issued the *CP Financial Reporting for Heritage in the Public Sector (CP Heritage)* in September 2017.
17. The heritage project fed into the development of ED 78.

CP Financial Reporting for Heritage in the Public Sector (2017)

18. *CP Heritage* sought feedback on the characteristics of heritage assets and whether they should always be recognised and measured. Unlike PBE IPSAS 17, the current version of IPSAS 17 does not require recognition of heritage assets. ED 78 is proposing that all heritage assets be recognised, subject to reliable measurement being possible. The NZASB commented on *CP Heritage*.⁵ Table 4 sets out the key issues raised by the NZASB. **Appendix A** of this memo provides more detail on these issues and other issues raised during the project.
19. Although the IPSASB is proposing some additional guidance on heritage assets, a number of issues remain unaddressed. This raises the question of whether a future domestic project to address New Zealand-specific issues would be desirable.

⁵ The NZASB's comment letter on *CP Heritage* is available on the XRB website (<https://www.xrb.govt.nz/accounting-standards/standards-in-development/submissions-by-the-nzasb/>)

Table 4 CP Heritage

Heritage issues	IPSASB response/ Possible NZASB actions
<p>Recognition – owner view</p> <p>1. Control over heritage assets – guardianship</p> <p>Māori people see themselves as guardians rather than owners of assets</p>	<p>The NZASB could comment on the proposed new guidance about control in paras IG6 and IG7.</p>
<p>Recognition – reporting entity view</p> <p>2. Control over heritage assets – guardianship</p> <p>Reporting entity has custodian and preservation responsibilities but no ownership rights or “control”</p>	<p>See issue 1</p>
<p><u>Initial measurement– owner view</u></p> <p>3. Cultural insensitivity – attributing value to <i>taonga</i></p>	<p>See issue 1</p>
<p><u>Initial measurement</u></p> <p>4. What is reliable measurement?</p>	<p>Reliable measurement could be part of a domestic standard-setting project.</p>
<p><u>Initial measurement and disclosure</u></p> <p>5. If no reliable measurement, consider disclosure</p>	<p>ED 78 para 79 proposes disclosures about heritage items that can’t be reliably measured, disclosing the difficulty with measurement and the significance of the unrecognised assets to entity objectives.</p> <p>We could support the proposed new disclosures.</p>
<p><u>Definitions</u></p> <p>6. Natural heritage should not specifically exclude living plants and organisms from scope of heritage items.</p>	<p>No change to scope exclusion for biological assets in ED 78 para 3(c). A biological asset is defined in PBE IPSAS 27 <i>Agriculture</i> as a “living animal or plant.”</p> <p>Propose no further action.</p>
<p><u>Initial measurement</u></p> <p>7. Unit of account</p>	<p>ED 78 para AG 45 allows for aggregation in disclosures provided aggregation does not obscure significant information.</p> <p>No further action required.</p>
<p><u>Initial measurement</u></p> <p>8. Useful life</p> <p>Difficulty of applying IPSAS 17 to assets held in perpetuity.</p>	<p>ED 78 paras 54–57 contemplate the possibility of indefinite useful lives (no proposed changes).</p> <p>IG28 outlines three factors to consider when assessing if a heritage asset has an indefinite life: period providing service potential, usage and preservation.</p> <p>Useful life for assets held in perpetuity could be part of a domestic standard-setting project.</p>
<p><u>Initial measurement</u></p> <p>9. What is replacement cost in a heritage context?</p>	<p>ED 78, paras IG15–IG18, covers the current value measurement of heritage assets. Deriving a current value is based on replacement of service potential and significance of the heritage asset.</p> <p>No further action required.</p>
<p><u>Subsequent measurement:</u></p> <p>10. Pragmatic approach to valuations:</p> <p>Regularity, and smaller classes of assets</p>	<p>ED 78 para 30 no change regarding qualifications of valuers.</p>

Heritage issues	IPSASB response/ Possible NZASB actions
	<p>Para 32 no change regarding frequency of valuations.</p> <p>Para 34 no change regarding revaluation of entire class of assets.</p> <p>Propose no further action on ED 78. An approach to valuations focussing on cost/benefits, other available valuations and regularity issues could be addressed in a domestic project.</p>

Infrastructure assets project (started 2017)

- 20. IPSAS 17 provides limited guidance on infrastructure assets. The objective of this project was “to research and identify issues preparers have when applying IPSAS 17 to infrastructure assets. Informed by this research the aim is to provide additional guidance on accounting for infrastructure assets.”
- 21. The IPSASB compiled a list of infrastructure issues which were considered during the development of ED 78. ED 78 proposes to add some infrastructure asset guidance to IPSAS 17.

Outreach on infrastructure issues (2019)

- 22. The IPSASB drew upon information provided by members and technical advisers to prepare a list of ‘approved issues’. See **Appendix B** to this memo for the IPSASB’s approved issues, an analysis of how they have been resolved and the issues submitted by New Zealand.
- 23. Appendix B shows that although the IPSASB has added some guidance in relation to infrastructure assets (both integral and non-integral) it has not addressed all of the issues raised. In some cases it decided that the requirements in standards were sufficient.

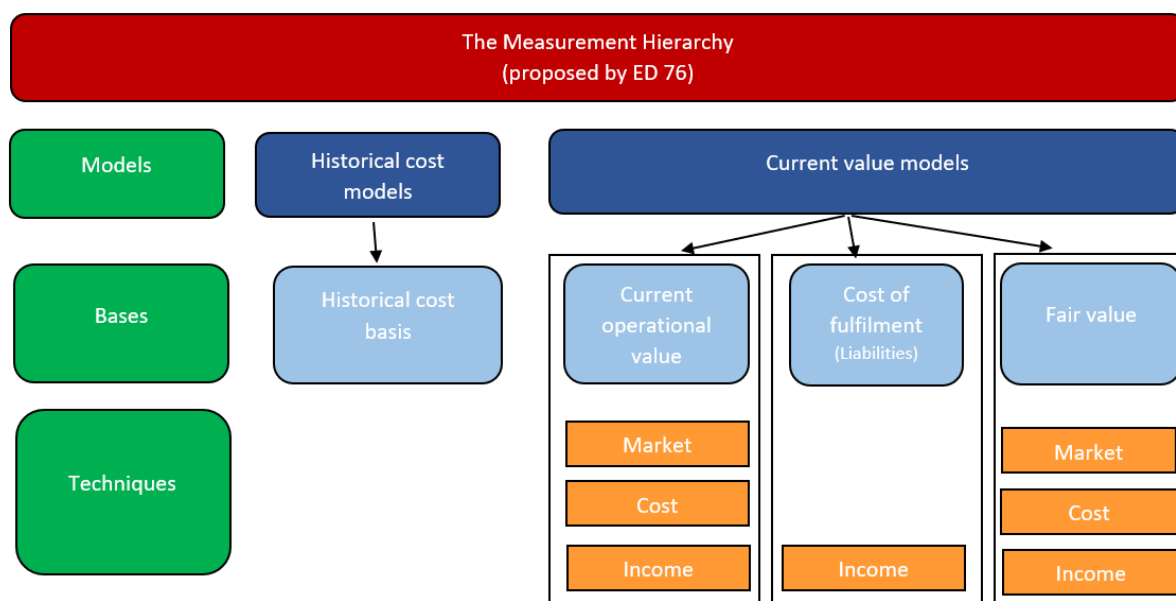
Non-current assets held for sale and discontinued operations project (started 2020)

- 24. There is no IPSAS equivalent to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, IPSAS 1 *Presentation of Financial Statements* requires the disclosure of information relating to discontinued operations.
- 25. The possibility of developing an IPSAS aligned with IFRS 5 was raised in several projects. Initially, in 2012, the IPSASB decided that IFRS 5 should remain outside the scope of the project on interests in other entities. Some acknowledged that disclosures regarding discontinued operations could be useful but, there were concerns about the difficulty of applying the requirements regarding assets held for sale in the public sector (where assets sales may occur over a period of years). The possible need for a standard based on IFRS 5 was raised again when developing IPSAS 40 *Public Sector Combinations* and then again in the measurement project.
- 26. In March 2020 the IPSASB agreed to undertake a project to develop an IPSAS aligned with IFRS 5. This was regarded as a minor project aimed at reducing any unnecessary differences between IPSAS and IFRS. It led to the development of ED 79.

ED 76 Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update

27. ED 76 proposes to update Chapter 7 of the IPSASB’s Conceptual Framework. Chapter 7 identifies the measurement concepts that guide the IPSASB in the selection of measurement bases for IPSAS and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS. As shown in Diagram 1, ED 76 refers to three levels of measurement– measurement models, bases and techniques. ED 76 discusses the measurement models and bases, while ED 77 describes the measurement bases in more detail and discusses the techniques.

Diagram 1



28. Table 5 highlights key differences between ED 76 and the current Chapter 7. The Table is intended to support our comments on ED 76 issues and implications. We will not go through the Table in any detail at the meeting.

Table 5

ED 76 sections	Comments
Introduction	Same as Chapter 7.
The Objective of Measurement	Same as Chapter 7.
<i>The Measurement Hierarchy</i>	New. Reflects the IASB’s use of three measurement levels in its Conceptual Framework.
<i>The Selection of Measurement Models and Measurement Bases</i>	Similar lead in to Chapter 7, but the bases differ.
<i>Entity-Specific and Non-Entity-Specific Measures</i>	Similar to Chapter 7. The tables summarising the measurement bases are less detailed than Chapter 7. ED 76 tables say entity or non-entity specific. Chapter 7 tables also say whether the bases are entry or exit, and whether they are observable in a market.

ED 76 sections	Comments
<i>Entry and Exit Values</i>	Similar to Chapter 7.
	Chapter 7 has a section on observable and unobservable measures. ED 76 doesn't.
<i>Level of Aggregation or Disaggregation for Measurement</i>	Same as Chapter 7.
<p>Measurement Bases for Assets</p> <ul style="list-style-type: none"> • Historical cost • Fair value • Current operational value <p><i>Value in use mentioned, but not as a measurement basis – only in context of impairment</i></p>	<p>The bases in ED 77 differ. Chapter 7 discusses:</p> <ul style="list-style-type: none"> • Historical cost • Market value • Replacement cost • Net selling price • Value in use <p>The Board will need to decide whether it supports the changes to the bases, especially the description of current operational value. This will be a key issue across ED 76, ED 77 and ED 78.</p>
<i>Historical Cost</i>	<p>Definition is the same as Chapter 7.</p> <p>The lead in discussion is similar. Other subsections are almost identical.</p> <p>Chapter 7 refers to historical cost as an entry value. ED 76 doesn't.</p>
<p><i>Measurement Bases for Assets under the Current Value Model</i></p> <ul style="list-style-type: none"> • Fair value • Current operational value 	<p>New.</p> <p>If assets have mixed purposes (service provision and economic benefits) an entity decides whether the asset is primarily held for operational capacity or financial capacity and selects the measurement basis accordingly.</p>
<p><i>Fair Value (for assets)</i></p> <p>The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. [same as IFRS 13]</p>	<p>New. This would replace Chapter 7's discussion of market value. The IPSASB's reasons for using fair value are that some assets and liabilities should be measured at fair value, and if the term fair value is to be used in IPSAS it should mean the same as in IFRS 13.</p> <p><u>Market value (for assets)</u></p> <p>The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.</p> <p>Compared to market value, fair value is explicitly an exit price with a market participant perspective.</p> <p>Note: the definition of market value in Chapter 7 (see above) is the same as the definition of fair value currently used in a number of IPSASs. It is based on a pre-IFRS 13 definition of fair value.</p> <p>If the Board supports fair value being a measurement basis in the Conceptual Framework, it will still have to consider whether it agrees with the proposed changes to standards (as per ED 77 and ED 78).</p>

ED 76 sections	Comments
<p><i>Current Operational Value</i></p> <p><u>Defined as:</u> The value of an asset used to achieve the entity's service delivery objectives at the measurement date.</p> <ul style="list-style-type: none"> • Based on an asset's current use • Assumes that an asset will continue to be used for service delivery • Entity specific 	<p>New</p> <p>Key area to focus on.</p>
<p><i>Value in Use</i></p> <ul style="list-style-type: none"> • No longer a measurement basis • ED 76 explains that it is used when assessing impairment 	<p>Section has been rewritten, much shorter.</p>
<p>Measurement Bases for Liabilities</p> <ul style="list-style-type: none"> • Historical cost • Cost of fulfilment • Fair value 	<p>The bases in ED 77 differ from Chapter 7 which discusses:</p> <ul style="list-style-type: none"> • Historical cost • Cost of fulfilment • Market value • Cost of release • Assumption price <p>The Board will need to decide whether it supports the changes to the bases.</p>
<p><i>Historical Cost</i></p>	<p>Same as Chapter 7.</p>
<p><i>Cost of Fulfilment</i></p>	<p>Same as Chapter 7, apart from the last paragraph which has been rewritten to avoid referring to measurement bases that are not in ED 76.</p> <p>No mention of a risk premium – this will be addressed in individual standards.</p>
<p><i>Fair Value (for liabilities)</i></p> <p>The price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. [same as IFRS 13]</p>	<p>New. This would replace Chapter 7's discussion of market value.</p> <p>Although the definition would change, the discussion would be the same.</p> <p><u>Market value (for liabilities)</u></p> <p>The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.</p>
<p>Basis for Conclusions</p>	<p>The Basis for Conclusions on Chapter 7 has been updated to explain why the IPSASB decided to change the measurement bases in the Conceptual Framework. It also notes that the IPSASB considered and rejected other bases such as symbolic value.</p>
<p>Alternative View</p>	<p>The Alternative View of Mr Beardsworth disagrees with the proposed definition of current operational value and proposes a definition that focuses on the cost of replacing an asset used for its service potential.</p>

ED 76 issues and implications

29. We anticipate the following key issues when commenting on ED 76.

ED 76 issues and implications

- Does the NZASB agree with the changes in measurement bases, especially the proposed description of current operational value?

Although preparers would be more likely to look directly to the requirements in ED 77 and ED 78, the discussion of measurement bases in the Conceptual Framework is still important. The Conceptual Framework discusses the objectives of measurement bases and the perspectives to be used when applying the bases.
- Does the NZASB agree with the proposals to drop some of the measurement bases (such as assumption price) from the Conceptual Framework?

ED 77 Measurement

30. ED 77 describes the measurement bases and identifies the measurement techniques that may be used in applying the bases. ED 77’s objective is shown below.

The objective of this [draft] Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The [draft] Standard identifies approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.

31. Table 6 outlines the contents of ED 77 and how the proposals have been developed. Although ED 77 incorporates most of IFRS 13 there are a couple of key differences.
- (a) ED 77 covers four measurement bases – not just fair value.
 - (b) ED 77 does not include the IFRS 13 fair value disclosure requirements – they will be included in individual standards.
32. Table 6 is intended to support our comments on ED 77 issues and implications. We will not go through the Table in any detail at the meeting.

Table 6 ED 77 contents⁶

ED 77 Measurement	Comments
Objective	
Scope	
Definitions	
Measurement <ul style="list-style-type: none"> • Initial measurement <ul style="list-style-type: none"> ▪ Transactions in an orderly market ▪ Transactions not undertaken in an orderly market ▪ Transaction costs at initial measurement 	

⁶ Based on the most recent public version of the ED. Some headings or requirements may differ to final ED.

ED 77 Measurement	Comments
<ul style="list-style-type: none"> ▪ Transaction occurring in stages ▪ Deferred payments • Subsequent measurement <ul style="list-style-type: none"> ▪ Measurement models ▪ Measurement bases <ul style="list-style-type: none"> -Historical cost -Current operational value -Fair value -Cost of fulfilment ▪ The asset or liability ▪ Measurement techniques <ul style="list-style-type: none"> -Market approach -Cost approach -Income approach ▪ Depreciation, impairment and other adjustments ▪ Transaction costs in subsequent measurement 	
Effective Date and Transition	
<p>Appendix A Historical Cost Measurement</p> <ul style="list-style-type: none"> • Initial measurement • Subsequent measurement • Amortised cost 	Completely rewritten since CP Measurement.
<p>Appendix B Current Operational Value Measurement</p> <ul style="list-style-type: none"> • Service delivery objectives • The value of an asset <ul style="list-style-type: none"> ▪ Location of the asset ▪ Entity-specific ▪ Surplus capacity ▪ Restrictions ▪ Least costly manner • Initial recognition • Measurement techniques <ul style="list-style-type: none"> ▪ Market approach ▪ Cost approach <ul style="list-style-type: none"> ▪ Modern equivalent asset ▪ Obsolescence ▪ Income approach 	<p>New measurement basis.</p> <p>Some paragraphs are based on the draft replacement cost guidance in CP Measurement.</p> <p>The IPSASB considered the AASB's tentative views on restrictions when drafting ED 77.</p>
<p>Appendix C Fair Value Measurement</p> <ul style="list-style-type: none"> • The transaction • Market participants • The price <p>Application to non-financial assets</p> <ul style="list-style-type: none"> • Highest and best use for non-financial assets • Valuation premise for non-financial assets 	Almost all of the text comes from IFRS 13.

ED 77 Measurement	Comments
Fair value at initial recognition Measurement techniques <ul style="list-style-type: none"> • Market approach • Cost approach • Income approach Inputs to measurement techniques <ul style="list-style-type: none"> • General principles • Fair value hierarchy • Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased • Identifying transactions that are not orderly • Using quoted prices provided by third parties 	
Appendix D Cost of Fulfilment Measurement <ul style="list-style-type: none"> • The least costly manner • Entity-specific value • The cost that the entity will incur • Settling its obligations Measurement techniques <ul style="list-style-type: none"> • Income approach <ul style="list-style-type: none"> ▪ Future outflows of resources ▪ Uncertainty and the expected value approach • Market Variables and Non-Market Variables <ul style="list-style-type: none"> ▪ Market variables ▪ Non-market variables • Estimating probabilities of future payments • Under current estimates • Future events • Time value of money Inputs to measurement techniques <ul style="list-style-type: none"> • General principles 	Uses some material from CP <i>Measurement</i> but substantially redrafted. A few paragraphs are based on paragraphs in the Conceptual Framework but most of it was written by IPSASB staff.
ED 77 Appendix E Amendments to other Standards	
IPSAS 1 Presentation of Financial Statements	Minor changes to align measurement bases and terminology with ED 77.
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	Minor changes to align measurement bases and terminology with ED 77.
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	Minor changes to refer to fair value <u>and</u> current operational value.
IPSAS 9 Revenue from Exchange Transactions	Minor change to delete the old definition of fair value.
IPSAS 10 Financial Reporting in a Hyperinflationary Economy	Minor change to refer to historical cost <i>model</i> and current cost <i>model</i> .
IPSAS 12 Inventories	Keep discussion of NRV.

ED 77 Measurement	Comments
	Update explanation of fair value. Add current value measurement disclosures.
IPSAS 16 Investment Property	Aligning terminology. It will continue to require that investment properties be measured at fair value or cost. Most of the section on fair value is deleted because it is covered in ED 77. Add current value measurement disclosures.
IPSAS 17 Property, Plant and Equipment	ED 77 does not amend IPSAS 17. See ED 78 for changes to IPSAS 17.
IPSAS 21 Impairment of Non-Cash-Generating Assets	Adds new scope paragraph about difference between fair value and fair value less costs of disposal. Deletes definition active market and fair value. Aligns text with post-IFRS 13 text in equivalent IFRS Standards.
IPSAS 22 Disclosure of Financial Information about the General Government Sector	Minor changes to align terms.
IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	Adds cross reference to ED 77. Deletes some fair value guidance.
IPSAS 26 Impairment of Cash-Generating Assets	Adds new scope paragraph about difference between fair value and fair value less costs of disposal. Aligns text with post-IFRS 13 text in equivalent IFRS Standards.
IPSAS 27 Agriculture	Keeps the fair value measurement requirement. Aligns text with post-IFRS 13 text in equivalent IFRS Standards. Adds fair value disclosures.
IPSAS 28 Financial Instruments: Presentation	Minor change.
IPSAS 30 Financial Instruments: Disclosures	Adds fair value disclosures. Aligns text with post-IFRS 13 text in equivalent IFRS Standards.
IPSAS 31 Intangible Assets	Aligns text with post-IFRS 13 text in equivalent IFRS Standards. Entities choosing the current value model must use fair value. Draft BC does not explain why current operational value is not added into IPSAS 31.
IPSAS 33 First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)	Amends the deemed cost requirements. Adds disclosures for assets and liabilities measured at current operational value or fair value.
IPSAS 34 Separate Financial Statements	Adds fair value disclosures.

ED 77 Measurement	Comments
IPSAS 38 Disclosure of Interests in Other Entities	Adds fair value disclosures.
IPSAS 39 Employee Benefits	Adds a reference to ED 77 (for definition of active market).
IPSAS 40 Public Sector Combinations	Adds a reference to ED 77 (for definition of fair value market). Aligns IE text with post-IFRS 13 text in equivalent IFRS Standards.
IPSAS 41 Financial Instruments	Significant changes to align fair value measurement requirements and AG with post-IFRS 13 text in equivalent IFRS Standards.
IPSAS 42 Social Benefits	Adds reference to ED 77 (for guidance on measuring liabilities at cost of fulfilment). Changes IE (to set up examples as forward looking estimates).

ED 77 issues and implications

33. We anticipate the following key issues when commenting on ED 77.

ED 77 issues and implications
<ul style="list-style-type: none"> • Section 1: Do we support a general measurement standard, which sets out guidance on four measurement bases? • Section 2: Do we agree with the definition of current operational value and the proposed guidance? This covers important issues such as location, obsolescence and restrictions. PBE IPSAS 17 has New Zealand-specific guidance on some of these matters. • Section 3: Do we agree that the income approach can be used for current operational value? • Section 4: Do we agree with the proposals for some standards to require the use of fair value and some to permit the use of fair value or current operational value? • Section 5: Do we agree with the proposed changes to other standards?

34. On adoption of the new IPSAS in New Zealand we would need to review all New Zealand-specific standards and requirements for consistency with the new IPSAS (for example PBE FRS 47 *First-time Adoption of PBE Standards* includes deemed cost requirements).

ED 78 Property, Plant and Equipment

35. ED 78 sets out proposals for a revised version of IPSAS 17. It builds on the work in three projects: measurement, heritage and infrastructure assets.

(a) Table 7 summarises the proposed changes to IPSAS 17.

(b) Table 8 summarises the contents of ED 78.

36. We will not go through these Tables in detail at the meeting. They are intended to support our comments on possible ED 78 issues and implications.

Table 7 Impact of IPSASB projects on revision of IPSAS 17

Measurement	Heritage	Infrastructure
<p>Reorganise requirements:</p> <ul style="list-style-type: none"> • Move generic measurement requirements from IPSAS 17 into ED 77. • Move some of the core text into application guidance. <p>Clarify initial measurement requirements.</p> <p>Current value model:</p> <ul style="list-style-type: none"> • Current operational value <i>generally</i> used for PPE held for operational capacity (ie most PPE). • Fair value <i>generally</i> used for PPE held for financial capacity. 	<p>Require recognition.</p> <p>Application Guidance on:</p> <ul style="list-style-type: none"> • Scope • Resource • Depreciation • Disclosures on unrecognised heritage assets 	<p>Application Guidance added on:</p> <ul style="list-style-type: none"> • Characteristics and examples of infrastructure assets (AG4–AG6) • Resource and control (AG8–AG15) • Identifying parts of infrastructure assets (AG31)
	<p>Implementation Guidance on:</p> <ul style="list-style-type: none"> • Control. • Recognition related to subsequent expenditure on unrecognised heritage assets. • Capitalisation thresholds. • Measurement at current value. • Depreciation related to useful lives. 	<p>Implementation Guidance added on:</p> <ul style="list-style-type: none"> • Control of land under or over infrastructure assets (IG1-IG5; IE1-IE5) • Capitalisation thresholds (IG10-IG14) • Depreciation (IG37-IG40) • Under-maintenance of assets (IG37-IG40) • Use of information in asset management plans for financial reporting (IG35-IG36) • Identifying parts of infrastructure assets (IG30-IG34)
		<p>No additional guidance on:</p> <ul style="list-style-type: none"> • <i>Definition</i> – Infrastructure assets are a subset of PPE.

Measurement	Heritage	Infrastructure
		<ul style="list-style-type: none"> • <i>Spare parts</i> – no additional guidance on how to classify spare parts. • <i>Costs to dismantle</i> – sufficient guidance in ED 78 and IPSAS 19. • <i>Separately accounting for land under or over infrastructure assets</i> –no extra application guidance but the IPSASB did add IG1-IG5 and IE1-IE5. • <i>Renewals accounting</i> – no definitive “renewals accounting” method. • <i>Impairment</i> – sufficient guidance in IPSAS 21 and IPSAS 26. • <i>Derecognition</i> – sufficient guidance exists and challenges identified appeared to be administrative and related to record keeping.

Table 8 ED 78 contents

ED 78 Property, Plant and Equipment	Comments
<p>Objective</p> <p>Scope</p> <p>Heritage assets</p> <p>Definitions</p> <p>Recognition</p> <p>Infrastructure assets</p> <p>Initial costs (heading gone but paragraph still there)</p> <p>Subsequent costs (moved to AG)</p> <p>Initial measurement at recognition</p> <p>Elements of cost</p> <p>Measurement of cost</p> <p>Subsequent measurement after recognition</p> <p>Historical cost model</p> <p>Current value Revaluation model</p> <p>Depreciation</p> <p>Depreciable amount and depreciation period</p> <p>Finite and indefinite useful lives</p> <p>Annual impairment reviews for assets with indefinite useful lives</p>	<p>We have used mark-ups to show differences between the section headings in ED 78 and IPSAS 17.</p> <p>Entities choosing the current value model will have to decide whether to measure that class of assets at current operational value or fair value.</p> <p>PBE IPSAS 17 already requires the recognition of heritage assets so the IPSASB’s proposals to require recognition are unlikely to be of interest to New Zealand constituents. However, the new IG sections might be of interest to New Zealand constituents.</p>

ED 78 Property, Plant and Equipment	Comments
Depreciation method Impairment Compensation for impairment Derecognition Disclosure	New current value disclosures.
ED 78 Appendix A Application Guidance	
Scope	
Resource	
Depreciation	
Disclosures on unrecognised heritage assets	
ED 78 Appendix B Amendments to Other IPSAS	
IPSAS 1 Presentation of Financial Statements	Replace references to IPSAS 17.
IPSAS 2 Cash Flow Statements	Replace references to IPSAS 17.
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	Replace references to IPSAS 17. Update references to cost model and revaluation model.
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	Replace references to IPSAS 17. Refer to PPE carried at HC, fair value or current operational value.
IPSAS 12 Inventories	Replace references to IPSAS 17.
IPSAS 16 Investment Property	Replace references to IPSAS 17. Replace references to cost model (with 'historical cost model'). Continues to refer to the fair value model.
IPSAS 18 Segment Reporting	Replace references to IPSAS 17. Replace references to revaluation model (with 'current value model').
IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	Replace references to IPSAS 17.
IPSAS 21 Impairment of Non-Cash-Generating Assets	Replace references to IPSAS 17. Replace references to revaluation model (with 'current value model').
IPSAS 26 Impairment of Cash-Generating Assets	Replace references to IPSAS 17. Replace references to revaluation model (with 'current value model').
IPSAS 27 Agriculture	Replace references to IPSAS 17.
IPSAS 31 Intangible Assets	Replace references to IPSAS 17.

ED 78 Property, Plant and Equipment	Comments
	Requires recognition of intangible heritage assets unless they cannot be measured reliably (IPSAS 31 does not currently require recognition).
IPSAS 32 Service Concession Arrangements: Grantor	Replace references to IPSAS 17. Replace references to fair value with current operational value. Replace <i>some</i> IE references to fair value with current operational value.
IPSAS 33 First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)	Replace references to IPSAS 17. Amends the deemed cost requirements to refer to fair value or current operational value.
IPSAS 34 Separate Financial Statements	Replace references to IPSAS 17. Replace references to <ul style="list-style-type: none"> • Fair value with 'current operational value' • Cost model with 'historical cost model' • Revaluation model with 'current value model'.
IPSAS 36 Investments in Associates and Joint Ventures	Replace references to IPSAS 17. Replace references to <ul style="list-style-type: none"> • Cost model with 'historical cost model' • Revaluation model with 'current value model'.
IPSAS 39 Employee Benefits	Replace references to IPSAS 17.
ED 70–ED 72 Revenue and Transfer Expense EDs	Replace references to IPSAS 17.
ED 74 IPSAS 5, Borrowing Costs	Replace references to IPSAS 17.
ED 75 Leases	Replace references to IPSAS 17. Replace references to <ul style="list-style-type: none"> • Cost model with 'historical cost model' • Revaluation model with 'current value model'.
ED 79 Non-current Assets Held for Sale and Discontinued Operations	Replace references to IPSAS 17.
ED 78 Basis for Conclusions	
ED 78 Implementation Guidance	
More IG guidance on heritage assets: <ul style="list-style-type: none"> • Control • Recognition related to subsequent expenditure on unrecognised heritage assets • Capitalisation thresholds • Measurement at current value • Depreciation related to useful lives 	

ED 78 Property, Plant and Equipment	Comments
More IG guidance on infrastructure assets <ul style="list-style-type: none"> • Control of land under or over infrastructure assets • Capitalisation thresholds • Depreciation • Under-maintenance of assets • Use of information in asset management plans for financial reporting • Identifying parts of infrastructure assets 	
ED 78 Illustrative Examples	
More IE on infrastructure assets <ul style="list-style-type: none"> • Control of land under or over infrastructure assets 	

ED 78 issues and implications

37. We anticipate the following key issues when commenting on ED 78.

<p>ED 78 issues and implications</p> <ul style="list-style-type: none"> • Do we agree with the change from ‘measurement at recognition’ and ‘measurement after recognition’ to ‘initial measurement’ and ‘subsequent measurement’? • Do we agree with the proposal that entities using the current value model should generally be required to use (i) current operational value for assets held for their operational capacity and (ii) fair value for assets held for their financial capacity? • Heritage assets: Do we agree with (i) the proposal to require recognition of heritage assets; (ii) the additional guidance on heritage assets; and (iii) the proposed disclosures for unrecognised heritage assets? Is the additional guidance sufficient? • Infrastructure assets: Do we agree with the additional guidance? Is it sufficient? • Do we have any concerns about the order of material in ED 78 (versus IPSAS 17)?

ED 79 Non-current Assets Held for Sale and Discontinued Operations

38. ED 79 is closely based on IFRS 5 and is very similar to PBE IFRS 5. We anticipate that we would support ED 79 as it will lead to greater alignment between PBE Standards and IPSAS.

39. IFRS 5 requires that:

- (a) assets that meet the criteria to be classified as held for sale be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets cease; and
- (b) assets that meet the criteria to be classified as held for sale be presented separately in the statement of financial position and the results of discontinued operations be presented separately in the statement of comprehensive income.

40. The main differences between the proposals in ED 79 and IFRS 5 are:
- (a) ED 79 requires disclosure of the fair value of a non-current asset (or disposal group) classified as held for sale if fair value is materially lower than the carrying amount. This disclosure proposal was prompted by the IPSASB Consultative Group. PBE IFRS 5 does not require this disclosure.
 - (b) ED 79 uses the IPSAS 26 definition of a cash-generating unit (which refers to assets held with the primary objective of generating a commercial return). PBE IFRS 5 also uses the IPSAS 26 definition of a cash-generating unit.
 - (c) ED 79 uses IPSAS-aligned terminology. So does PBE IFRS 5.

ED 79 issues and implications

41. We do not expect to have any major issues with the proposals in ED 79. However, once the new IPSAS is finalised, we will have to decide whether to amend PBE IFRS 5 to align it with the new IPSAS, or withdraw PBE IFRS 5 and issue a new standard (PBE IPSAS XX). Either way we will need to know how PBE IFRS 5 differs from the IPSAS. We will need to identify any such differences at some point. If we do it now, we have the option of commenting on the ED before the proposals are finalised.

<p>ED 79 issues and implications</p> <ul style="list-style-type: none"> • What are the differences between ED 79 and PBE IFRS 5? • Do we agree with them?
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Next steps

42. We have set out a tentative schedule for considering the EDs and drafting the comment letters (see Table 9). We will organise outreach taking into account the Board’s feedback on agenda item 6.3. We will continue to liaise with AASB staff.

Table 9

NZASB meetings	Proposed focus
This meeting	Agree to comment on EDs 76-79 Education session Feedback on outreach (see agenda item 6.3) Confirm comments due date (see agenda item 6.3)
NZASB 13 May (Virtual half day meeting)	Focus on current operational value (COV) proposals in ED 76, ED 77 and applying current operational value to various types of assets Consider: <ul style="list-style-type: none"> • Definition of COV • Should current value measurement be limited to the asset’s current use? • Should the income approach be permitted under COV? • How should restrictions be addressed under COV?

NZASB meetings	Proposed focus
	<ul style="list-style-type: none"> • What should the assumed location of an asset be when measuring its COV? • What component costs should be included in an asset's COV, including consideration of borrowing costs. • How do the EDs deal with surplus capacity, economic obsolescence and impairment? <p>Confirm which SMCs to focus on</p> <p>Confirm outreach details</p> <ul style="list-style-type: none"> • Decide which issues to highlight at webinar • Decide what to ask TRG (at meeting on 25 May) • Decide roundtable participants and issues
NZASB 16 June 60 minutes (in person, Wellington)	<p>Consider TRG feedback on selected issues</p> <p>Board discussion on other issues across the four EDs</p>
	Hold webinar and roundtables May – June
NZASB 12 August (120 minutes) (virtual)	<p>First draft of comment letter</p> <p>Consider constituents' comments</p> <p>Consider roundtable feedback</p> <p>Decide how to finalise letter (comments are expected to be due to the IPSASB by 1 October). Unless we have an extension we will need to finalise the letter out of session.</p>
NZASB 19 October (in person, Auckland)	Approve comment letter (if we have an extension).

Attachments

Agenda item 6.2: Education session (slides)

Agenda item 6.3: Outreach memo

Agenda item 6.4: IPSASB EDs (late papers)

6.4.1 ED 76 *Conceptual Framework – Limited Scope Update*

6.4.2 ED 77 *Measurement*

6.4.3 ED 78 *Property, Plant and Equipment*

6.4.4 ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

Agenda item 6.5: IPSASB At A Glance documents (late papers)

6.5.1 ED 76 *Conceptual Framework – Limited Scope Update*

6.5.2 ED 77 *Measurement*

6.5.3 ED 78 *Property, Plant and Equipment*

6.5.4 ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

Appendix A – Heritage issues raised with the IPSASB

Heritage Issue summary	XRB comments in submission on CP <i>Heritage</i> (2017) ⁷⁸	Addressed in ED 78?	IPSASB response/ Possible NZASB actions
<p><u>Recognition – owner view</u> (Māori context)</p> <p>1. Control over heritage assets – Guardianship</p> <p>Māori people see themselves as guardians rather than owners of assets</p>	<p>However, the unique characteristics of Māori heritage items in New Zealand can mean that attributing a financial value can be particularly challenging when applying the recognition and measurement principles for accounting purposes. The Māori people view themselves as custodians of Māori heritage for past, present and future generations. This is different to the one-dimensional concept of control by a reporting entity that is the accounting concept. Although a Māori heritage item may reside in a museum, “ownership” is still usually attributed to the Māori people. In the context of Māori guardianship, the Māori people consider attributing any monetary value to an item of Māori heritage unnecessary and in many cases, disrespectful.</p> <p>We have considered these Māori heritage matters in formulating our response to you. We note that other jurisdictions may also face challenges associated with the recognition and measurement of culturally sensitive items where the societal group responsible for such items see themselves as guardians rather than “owners”. Therefore, we have included comments on these challenges and the need to consider different forms of guardianships and ownership of heritage in financial reporting. In particular, we emphasise the need for good guidance on disclosure, either in the notes or in other reports, when appropriate financial values cannot be determined.</p>	<p>Issue of control discussed by Task Force and IPSASB but no change to address Maori concept of guardianship. AG13–15 cover control of an asset with no proposed changes.</p> <p>However, the example in IG3 on assessment of control suggests that professional judgement must be used on reaching a view on whether or not control exists.</p> <p>IG6 does acknowledge that the owners may be individuals or groups of individuals which would apply to groups of Maori people such as <i>iwi</i> or <i>hapu</i>.</p>	<p>This is our primary issue in the Heritage project, staff propose to include in submission on ED 78.</p> <p>The Board could submit on IG6 and IG7, which seem to have an arbitrary distinction:</p> <p>IG7: An entity has control if it doesn’t own the items, but has a right to hold the items (through an agreement) for an indefinite period.</p> <p>IG 6: In contrast, an entity does not have control if it doesn’t own the items but has a right to hold the items (through an agreement) for a definite period.</p> <p>Should museums set up agreements with time parameters that suit their willingness to disclose (or not)?</p>

⁷ Consultation Paper *Financial Reporting for Heritage in the Public Sector*, IPSASB, April 2017.

⁸ Unless otherwise noted, these comments come from the NZASB submission on the CP. The comment letter was dated 29 September 2017.

Heritage Issue summary	XRB comments in submission on CP <i>Heritage</i> (2017) ⁷⁸	Addressed in ED 78?	IPSASB response/ Possible NZASB actions
			As this is an NZ-specific issue, the Board may wish to consider a separate domestic project to recognise te ao Māori (Māori world view).
<p><u>Recognition-entity view</u></p> <p>2. Control over heritage assets – guardianship</p> <p>Reporting entity has custodian and preservation responsibilities but no ownership rights or “control”</p>	<p>Many Māori heritage items for which the concept of <i>Kaitiakitanga</i> applies are on loan to entities such as museums. Māori heritage represents a large proportion of many collections in New Zealand museums. For example, the largest museum in Auckland, New Zealand, has 70% of its Māori collection on loan from the Māori people.</p> <p>We note that there are many different forms of guardianship of heritage assets such as ownership, co-ownership, lease, loan⁹ and hybrid¹⁰ e.g. part-owned and part-leased. An entity would need to consider its rights, and the rights of others, in relation to a heritage item to make a decision about recognition of that item as a heritage asset.</p> <p>Our constituents would welcome guidance on the accounting for heritage items where the reporting entity has custodian and preservation responsibilities but may not necessarily have “control” or have ownership rights.</p>	<p>See response to Issue 1.</p> <p>In practice there are different interpretations of “control” across the NZ museum sector leading to differing recognition of Māori items.</p>	<p>See response to Issue 1.</p>
<p><u>Initial measurement-owner view</u></p> <p>3. Cultural insensitivity - attributing value to taonga</p>	<p>In particular, we consider it important to distinguish measurement of heritage items for financial reporting purposes and measurement for other purposes. In New Zealand there is particular sensitivity surrounding assigning any financial value to cultural assets. Recording individual financial value to <i>taonga</i>¹¹ invites a comparison of value that may be inconsistent or even offensive. Prioritising “only the most valuable” items raises further difficulty, because one significant source of value in a Māori framework is the <i>mana</i>¹² of the people connected to the artefact in question. Perception of value can depend on one’s relationship with that person and is something that will alter with context. Items of high</p>	<p>See response to Issue 1.</p>	<p>See response to Issue 1.</p> <p>Staff note that cultural insensitivity is a difficult subject to tackle through standard setting.</p>

⁹ Loans maybe for a specific period, or indefinite.

¹⁰ This occurs in Heritage New Zealand’s portfolio of Heritage properties.

¹¹ *Taonga* means valued items or treasure.

¹² *Mana* means power, prestige or status.

Heritage Issue summary	XRB comments in submission on CP <i>Heritage</i> (2017) ⁷⁸	Addressed in ED 78?	IPSASB response/ Possible NZASB actions
	<p>value to one <i>hapu</i>¹³ will not be significant to another so it becomes difficult to establish a hierarchy or any reliable or meaningful relativity.</p> <p>Therefore, we recommend providing guidance that clarifies the objective of measurement for financial reporting purposes, as distinguished from other purposes.</p>		
<p><u>Initial measurement</u></p> <p>4. What is reliable measurement?</p>	<p><u>Issue submitted in 2019 to IPSASB</u></p> <p>The cost or fair value of a heritage asset cannot be reliably measured.</p> <p>In practice, interpretation of “reliable measurement” based on interpretations of “control” under PBE IPSAS 17 has led to two divergent outcomes in two of New Zealand’s largest museums.</p> <ul style="list-style-type: none"> • NZ Museum 1 does not recognise its heritage assets. • NZ Museum 2 recognises all its heritage assets, but no depreciation allowance. 		<p>Reliable measurement could be part of a domestic standard-setting project.</p>
<p><u>Initial measurement, and disclosure</u></p> <p>5. No reliable measurement, consider disclosure</p>	<p>When a heritage asset cannot be reliably measured, we would encourage the disclosure of information about its nature and significance of any unrecognised heritage assets. In these instances it may be more appropriate to disclose non-financial information about the heritage asset. We note that the preparation of non-financial information is not without cost and has its own challenges, such as the application of materiality.</p> <p>...</p> <p>As discussed earlier, we acknowledge that the value obtained for financial reporting purposes is not the only value that a heritage item may have for a community. In particular, the significance of a heritage item to an ethnic group is not readily converted to financial value but is nonetheless an important indicator of heritage in the museum community. The seminal reference on significance is <i>Significance 2.0, a guide to assessing the significance of collections</i>, a publication of the Collections Council of Australia Ltd.¹⁴ This guide promotes the writing of a</p>	<p>ED 78 para 79 proposes disclosures on those heritage items that cannot be reliably measured, disclosing the difficulty with measurement and the significance of the unrecognised assets to the entity’s objectives.</p>	<p>No further action required.</p>

¹³ *Hapu* means a number of extended family groups that form a sub-tribe.

¹⁴ <https://www.arts.gov.au/sites/g/files/net1761/f/significance-2.0.pdf>

Heritage Issue summary	XRB comments in submission on <i>CP Heritage (2017)</i> ⁷⁸	Addressed in ED 78?	IPSASB response/ Possible NZASB actions
	<p>statement of significance for heritage collection items.¹⁵ The statement of significance would usually be a one-page summarised pictorial and written statement of the meaning and importance of the specific heritage item. Information from these statements could form the basis for some non-financial disclosures about heritage items. In some cases, it is the human context that gives an item its value. For example, a weapon has more significance when it has been used by a famous person, than when it is just an example of 19th Century weaponry.</p>		
<p><u>Definition</u> 6. Natural heritage should not specifically exclude living plants and organisms from scope of heritage items.</p>	<p>However, we do not necessarily agree that natural heritage should specifically exclude living plants and organisms from the scope of heritage items. It is difficult to come to a definitive conclusion without understanding:</p> <ul style="list-style-type: none"> (a) the implications of including or excluding particular items; and (b) the unit of account to be applied (i.e. the species or the individual plant/organism). <p>Living plants and organisms could, in some instances, be recognised as heritage assets when they meet the recognition criteria in the Conceptual Framework. For example, in New Zealand endangered species are often held in protected areas (within natural heritage sites) and are individually tagged. For these individual protected animals, there may be instances where control can be demonstrated and the recognition criteria satisfied. The kiwi, a native bird, and the tuatara, a native three-eyed lizard, are considered to be heritage animals in New Zealand.</p> <p>Another example provided during outreach events was the native Kauri trees in New Zealand. The Kauri trees are, in some cases, thousands of years old which would fulfil the “longevity criteria”. The Kauris are both rare and significant to New Zealanders, and particularly the Māori people, but are excluded from the description of natural heritage used within the CP.</p> <p>Historical items of this nature could, under specific circumstances, meet the current requirements for recognition as property, plant and equipment.</p>	<p>No change to scope exclusion for biological assets in ED 78 para 3(c). A biological asset is defined in PBE IPSAS 27 <i>Agriculture</i> as a “living animal or plant.”</p>	<p>Propose no further action. This was a “nice to have” suggestion but not one that is critical to recognition of Māori heritage.</p>

¹⁵ *Ibid* pp38-41.

Heritage Issue summary	XRB comments in submission on <i>CP Heritage (2017)</i> ⁷⁸	Addressed in ED 78?	IPSASB response/ Possible NZASB actions
<p><u>Initial measurement</u> 7. Unit of account with quantum of some collections</p>	<p>We also note the quantum of heritage items that some public sector entities hold. This suggests the need for pragmatic solutions to assist these entities. We also note that unit of account can be problematic, and indeed, judgements about the unit of account can change over time.</p>	<p>ED 78 AG 45 allows for aggregation in disclosures provided aggregation does not obscure significant information.</p>	<p>No further action required.</p>
<p><u>Initial measurement</u> 8. Useful life</p>	<p><u>Issue submitted in 2019 to IPSASB</u> Some heritage assets are intended to be held in perpetuity so no useful life can be determined for financial reporting purposes.</p>	<p>ED 78 paras 54-57 contemplate indefinite useful lives (no proposed changes). IG28 outlines three factors to consider when assessing if a heritage asset has an indefinite life: period providing service potential, usage and preservation.</p>	<p>Useful life could be part of a domestic standard-setting project.</p>
<p><u>Initial measurement</u> 9. What is replacement cost in a heritage context?</p>	<p>We also suggest guidance be provided on what is meant by replacement cost for heritage assets. In some cases, any replacement cost would be for a replica of the asset as the original could not be recreated. For example, in the case of replacement cost of an historic building, is the entity contemplating the replacement of what was already there, or a more modern version more suitable for contemporary needs? Following the 2010/11 Christchurch earthquakes the Christchurch Cathedral was severely damaged. The choice of how to replace Christchurch Cathedral lay with the Christchurch Anglican Diocese which considered whether it would rebuild the original (a replica), or build a modern 21st Century cathedral.¹⁶ The Diocese has now decided to rebuild the original.</p>	<p>ED 78, IG15-IG18 covers the current value measurement of heritage assets. Deriving a current value is based on replacement of service potential and significance of the heritage asset.</p>	<p>Consider how helpful ED 77 is. ED 77 B34 notes the need to carefully consider whether to replace an asset with a replica or a modern equivalent asset but does propose any criteria to assist in making this decision.</p>
<p><u>Subsequent measurement:</u> 10. Pragmatic approach to valuations:</p>	<p>However, we would encourage the IPSASB to take a pragmatic approach when developing the subsequent measurement approach requirements and guidance. This could include allowing for greater flexibility by giving consideration to the following.</p>	<p>ED 78</p>	<p>Propose no further action. An approach to valuations focussing on cost/benefits, other available valuations and regularity issues could</p>

¹⁶ A third option was to gift the currently damaged ruin “as is” to the people of New Zealand.

Appendix B –Infrastructure issues

There are two tables in this Appendix. The first outlines the IPSASB’s list of ‘approved infrastructure issues’ based on feedback from members and constituents.

The second table outlines infrastructure issues submitted in 2019 by New Zealand.

IPSASB’s approved infrastructure issues	IPSASB response
Scope and Definition	
<ul style="list-style-type: none"> There is insufficient guidance on the definition of infrastructure assets. 	<ul style="list-style-type: none"> Infrastructure assets do not need to be defined because they are a subset of PPE.
<ul style="list-style-type: none"> The list of characteristics and examples of infrastructure assets in IPSAS may not be relevant and not capture all the essential characteristics of infrastructure assets. 	<ul style="list-style-type: none"> Added AG4–AG6 – characteristics of infrastructure assets and some examples. Infrastructure assets are characterised as networks or systems that have long useful lives.
<ul style="list-style-type: none"> There is insufficient guidance on accounting for land under or over infrastructure assets. 	<ul style="list-style-type: none"> Added IG1–IG5 on control of land under or over PPE. Added IE1–IE5 on control of land under or over PPE. <p>No additional AG because:</p> <ul style="list-style-type: none"> It is clear that land and buildings are separable assets and are accounted for separately, even when they are acquired together. land, buildings, roads and electricity transmission networks are listed as examples of separate classes of PPE.
<ul style="list-style-type: none"> There is insufficient guidance on whether spare parts of infrastructure assets are capital or inventory. 	<ul style="list-style-type: none"> No change. Accounting for spare parts is a generic issue. Moved existing paragraph on spare parts (IPSAS 17.17) to paragraph AG17.
Recognition	
<ul style="list-style-type: none"> Application of the control requirements to infrastructure assets in the public sector. 	<ul style="list-style-type: none"> Added AG13–AG15 on control of an asset (which discuss indicators of control and substance over form). Added IG1–IG5 and IE1–IE5 on control of land under or over PPE.
<ul style="list-style-type: none"> Control requirements of infrastructure assets in a service concession arrangement may be difficult to apply. 	<ul style="list-style-type: none"> No change.

IPSASB's approved infrastructure issues	IPSASB response
Measurement	
<ul style="list-style-type: none"> • Measurement bases may be difficult to apply when valuing infrastructure assets. 	<ul style="list-style-type: none"> ○ No additional guidance in ED 78. ○ ED 77 current value measurement bases are current operational value and fair value. More detail on these in ED 77.
<ul style="list-style-type: none"> • Measurement of land under or over infrastructure assets may be difficult to apply. 	<ul style="list-style-type: none"> ○ Added IG19–IG21 on valuing land under or over infrastructure assets.
<ul style="list-style-type: none"> • Determining the costs to dismantle infrastructure assets may be difficult to apply. 	<p>No additional guidance necessary. The issue is not specific to infrastructure assets and there is already sufficient authoritative guidance in:</p> <ul style="list-style-type: none"> ○ ED 78 which states that the cost of an item of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and ○ IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> which requires a public sector entity to recognise a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify the damage already caused.
<ul style="list-style-type: none"> ○ Determining the threshold of <i>initial costs</i> to capitalise or expense may be difficult to apply when valuing infrastructure assets. 	<ul style="list-style-type: none"> ○ Added IG10–IG14 on the factors to consider when establishing capitalisation thresholds. This is general guidance – the IPSASB decided that capitalisation is a general PPE issue.
<ul style="list-style-type: none"> ○ Valuing network assets may be complex. 	<ul style="list-style-type: none"> ○ No additional guidance in ED 78. ○ ED 77 current value measurement bases are current operational value and fair value. More detail on these in ED 77.
Subsequent Measurement	
<ul style="list-style-type: none"> • There is insufficient guidance on the appropriate measurement bases for subsequently valuing infrastructure assets. 	<ul style="list-style-type: none"> ○ No additional guidance in ED 78. ○ Entities will select measurement bases using ED 77 and ED 78. Selection will depend on whether assets are held for financial capacity or operational capacity.
<ul style="list-style-type: none"> • Determining the threshold of <i>subsequent costs</i> to capitalise or expense may be difficult to apply when valuing infrastructure assets. 	<ul style="list-style-type: none"> ○ Same as response to request for additional guidance on capitalisation thresholds for initial measurement. ○ Added IG10–IG14 on the factors to consider when establishing capitalisation thresholds. This is general guidance – IPSASB decided that capitalisation is a general PPE issue.

IPSASB's approved infrastructure issues	IPSASB response
<ul style="list-style-type: none"> There is insufficient guidance for distinguishing subsequent expenditure as capital or expense when valuing infrastructure assets. 	<ul style="list-style-type: none"> See points immediately above.
<ul style="list-style-type: none"> There is insufficient guidance on the accounting treatment for planned/ backlog/ deferred maintenance costs. 	<ul style="list-style-type: none"> Added IG37–IG40 on under-maintenance of assets. This refers to need to consider impairment and residual values. IPSAS 17.68 (now ED 78.51) already discussed effect of poor maintenance. ED 78 does not use the terms “backlog maintenance” and “deferred maintenance” because they have several interpretations and applications.
Depreciation	
<ul style="list-style-type: none"> There is insufficient guidance for determining the appropriate depreciation method for infrastructure assets. 	<ul style="list-style-type: none"> No real change in ED 78. Judgement is required in determining appropriate units of account. Existing guidance on unit of account (in IPSAS 17.60) revised and moved to AG (section on depreciation). Added IG35–IG36 on asset management plans providing information useful for financial reporting purposes. ED 78 does not refer to “renewals accounting”, as suggested by some (see BC60–BC62).
<ul style="list-style-type: none"> There is insufficient evidence to determine whether infrastructure assets with long useful lives should be depreciated or not. 	<ul style="list-style-type: none"> There was already some guidance in IPSAS 17 about most land having a finite life. This has been expanded – see ED 78 paras 54–57. Assets with a finite useful life subject to an annual impairment test (ED 78 para 58).
<ul style="list-style-type: none"> There is insufficient guidance whether land under or over infrastructure assets should be depreciated. 	<ul style="list-style-type: none"> Revised the IPSAS 17 discussion of useful lives (see ED 78 paras 54–57 and BC45–BC48). ED 78 para BC 45 discusses situations where land should be depreciated: <ul style="list-style-type: none"> land is being consumed due to depletion (such as mines and quarries or landfill sites); or land is being lost or displaced as a result of natural phenomena such as climate change.
Componentisation	
<ul style="list-style-type: none"> The guidance on applying the componentisation approach may not be suitable for infrastructure assets because they are single networks and not individual assets. 	<ul style="list-style-type: none"> No change in ED 78. Roads and electricity transmission networks are examples of separate classes of PPE.

IPSASB's approved infrastructure issues	IPSASB response
<i>Impairment</i>	
<ul style="list-style-type: none"> • Assessment of impairment of infrastructure assets could be complex. 	<ul style="list-style-type: none"> ○ No additional guidance needed. There is sufficient guidance in IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i> and IPSAS 26 <i>Impairment of Cash-Generating Assets</i>. ○ Unless arrangements are in place that create an obligation to an external party for the entity to maintain infrastructure assets, no liability exists from the entity's plan or intention to do so.
<i>Derecognition</i>	
<ul style="list-style-type: none"> • There is insufficient guidance on the derecognition of infrastructure assets. 	<ul style="list-style-type: none"> ○ No additional guidance needed. ○ The challenges identified by constituents appear to be administrative and related to record keeping.
<i>Presentation and Disclosure</i>	
<ul style="list-style-type: none"> • There is insufficient guidance on the disclosure of infrastructure assets. 	<ul style="list-style-type: none"> ○ No real change in ED 78. ○ ED 78 PPE disclosures are for each class of PPE.

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>Issue 1 Unit of Account for Infrastructure Network Assets</p> <p>There is no guidance in IPSAS 17 on how to determine the “unit of account” for Infrastructure Network Assets. This has been identified as a particular issue when revalued infrastructure network assets are badly damaged from natural disasters. In these cases, the standard is not clear on how to assess whether the damaged part of the infrastructure network is written off (i.e. derecognised and expensed in the statement of financial performance under IPSAS 17) or impaired (reduction in value recognised in the statement of changes in net assets/equity under IPSAS 21).</p> <p>Current practice</p> <p>Damaged Infrastructure Assets</p> <p>Audit New Zealand (auditor of public sector organisations in New Zealand), developed guidance for its auditors and public sector clients following the devastating Christchurch Earthquakes in 2010 and 2011. This guidance has continued to be applied following another significant earthquake event in 2016. This guidance includes discussion on the unit of account for infrastructure assets, which can be found on page 12 in the document at the following link: https://auditnz.govt.nz/good-practice/information-updates/2017/earthquake-accounting-issues-paper/view?searchterm=earthquake</p> <p>State Highway Network</p> <p>In practice, for the New Zealand State Highway Network, the unit of account is not the network as a whole but rather sub-components of that network (e.g. 1-10km lengths of road) which are constructed, depreciated and maintained and at which level records are kept in the asset management database.</p> <p>The extract below from the NZTA June 2018 annual report demonstrates the need to identify and record state highways on a more detailed (e.g. 1-10km) basis for the purposes of management and asset valuation.</p> <p>Extract from New Zealand Transport Agency (30 June 2018 Annual Report)</p> <p>Unit costs are obtained from contract records of highway construction (1–10km lengths), which are then grouped into terrain types and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width including shoulder. (These quantities are recorded in the asset management database.)</p>	<p>Not addressed.</p> <p>Existing guidance on unit of account (in IPSAS 17.60) revised and moved to AG (section on depreciation).</p>

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>Issue 2 Costs relating to Road Infrastructure</p> <p>For road infrastructure (e.g. State Highways) there is no guidance in IPSAS 17 as to how certain costs (e.g. formation costs, brownfield costs etc.) should be treated for subsequent valuation purposes when estimating depreciated replacement cost.</p> <p>Formation is effectively measuring the cost of the earthworks and what has been removed to allow the roading construction to take place. Such costs are usually not incurred again and usually treated as a separate component within the roading valuation.</p> <p>A substantial amount of this work may have been performed prior to the adoption of accrual accounting and knowledge of pre-existing land conditions is not fully known, making historical estimates of costs difficult. There is no guidance on how formation costs should be estimated across an entire network as it is not practicable to determine this component for each meter of road and there are knowledge issues about the pre-existing condition of land prior to construction.</p> <p>If a DRC valuation does not factor in such costs appropriately, then this could result in recently capitalised formation costs being inappropriately adjusted or such historical costs not properly captured in the valuation resulting in undervaluation.</p> <p>Additionally, significant costs can be incurred in constructing a road due to the location of the road being in an already developed area. For example, if a new road is being built in an urban area, this may require the roading authority to purchase and demolish/relocate houses, require compensation payments, and incur significant traffic management/security costs. These are often referred to as brownfield costs. Some of these costs would be one off costs that would not be incurred again when the road is replaced, whereas other would be.</p> <p>Similarly, with formation costs, there can be challenges in reflecting such costs in the valuation, particularly for historical costs. If a DRC valuation does not factor such costs appropriately, then this could result in recent capitalised formation costs being inappropriately adjusted or such replacement costs not being captured at all resulting in undervaluation.</p>	<p>Not addressed.</p> <p>No specific guidance in ED 77 or ED 78 on how to treat certain costs (e.g. brownfield or formation costs).</p> <p>ED 77 current value measurement bases are current operational value and fair value. More detail on these in ED 77.</p>

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals					
<p>Current practice (see below)</p> <p>Extract from New Zealand Transport Agency (30 June 2018 Annual Report)</p> <p>Formation costs</p> <table border="1" data-bbox="203 427 1507 679"> <tr> <td>Formation (earthworks)</td> <td>Formation: 124,349,489m² Shoulder formation: 21,016,219m²</td> <td>Flat terrain: 24–43 per m² Rolling terrain: 40–60 per m² Mountainous terrain: 67–92 per m² Special unit rates applied to some sections Overhead rate: 54.11%</td> <td>N/A</td> <td>Unit costs are obtained from contract records of highway construction (1–10km lengths), which are then grouped into terrain types and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width including shoulder. (These quantities are recorded in the asset management database.)</td> </tr> </table> <p>Valuation inputs subject to estimation uncertainty</p> <p>....</p> <p>Brownfield cost</p> <p>...Brownfield cost is a generic term for the additional costs of constructing in a particular location because of the increased intensity of surrounding land use compared with the cost of constructing in a vacant greenfield situation. A major component of brownfield costs are one-off costs necessary to make the land freely available to build the state highway and are not part of the construction cost of the Transport Agency’s physical assets. They include capital works relating to the relocation and refurbishment of assets owned by other parties, work to protect the privacy and environment of adjoining properties, and compensation to land owners. Other components of the brownfield cost result from the increased constraints or requirements imposed when constructing in an already developed location. Examples include increased traffic management and security, limitations on available contractor areas for storage, parking, buildings and general operations, noise and dust limitations and restricted hours of work.</p> <p>The valuation does not include a specific allowance for historic brownfield costs for assets before 2014. However, it is estimated that a significant component of existing brownfield costs has been captured as a result of the 2017/18 review of P&G [Preliminary and general on-costs] costs. Further review of brownfield costs will be undertaken for 2018/19”.</p>	Formation (earthworks)	Formation: 124,349,489m ² Shoulder formation: 21,016,219m ²	Flat terrain: 24–43 per m ² Rolling terrain: 40–60 per m ² Mountainous terrain: 67–92 per m ² Special unit rates applied to some sections Overhead rate: 54.11%	N/A	Unit costs are obtained from contract records of highway construction (1–10km lengths), which are then grouped into terrain types and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width including shoulder. (These quantities are recorded in the asset management database.)	
Formation (earthworks)	Formation: 124,349,489m ² Shoulder formation: 21,016,219m ²	Flat terrain: 24–43 per m ² Rolling terrain: 40–60 per m ² Mountainous terrain: 67–92 per m ² Special unit rates applied to some sections Overhead rate: 54.11%	N/A	Unit costs are obtained from contract records of highway construction (1–10km lengths), which are then grouped into terrain types and adjusted for construction overhead costs. Formation area is calculated using treatment length (typically sections of a road that have the same pavement and material type, are of a similar age and condition, and are expected to have a similar rate of deterioration) multiplied by the road width including shoulder. (These quantities are recorded in the asset management database.)		

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>Issue 3 Land under Roads</p> <p>Some entities in the public sector value land that is under or beside infrastructure assets, such as road and railway corridor land. There is no consensus as to the approach to the valuation of such land.</p> <p>Current Practice</p> <p>Our understanding is that valuers generally established a proxy for corridor land value based on 'across the fence' land values. However, there are differing views as to how the across the fence values should then be adjusted for the purposes of establishing the value of the corridor.</p> <p>Arguments for a discount are primarily based on the fact that across the fence values would unlikely be able to be realised if the land was to be sold because there would be limited buyers (likely only neighbouring owners). The purchaser's assessment of the added value of securing the strip would also often be lower than the across the fence values.</p> <p>Accordingly, based on an 'exit' price, the infrastructure asset land owner would likely realise less than the across the fence value. This exit price notion would generally suggest some form of discount to the across the fence value. There is also the question of whether the cost of removing assets on the land (e.g. the physical road or rail tracks) and remediating the land should be factored into the valuation as a cost of conversion to the adjacent use.</p> <p>An alternative approach would be to consider the value of the corridor in terms of 'entry' price. The across the fence value would often represent the starting value, and there could be other development costs and enhanced value to reflect the corridor land "construction" (such as formation costs). Under this entry price approach, the corridor value would likely be greater than the across the fence value.</p> <p>We understand the NZ Railway Corporation in New Zealand had previously applied this entry price notion to railway corridor. However, it moved to an approach several years ago of adjacent land values with a small discount to reflect the rail corridor land's inferior characteristics (e.g. shape/contour).</p> <p>We understand that the road corridor for the statement highway network is valued using across the fence values with neither upward or downward adjustments. Refer to KiwiRail Annual Report 2019 (page 17 Note 5(ii) Revaluation).</p> <p>Also, refer to the Office of Auditor-General's results of local government audits for 2001/02 which provides a good overview of land under road issues when local government in New Zealand adopted a property, plant and equipment standard (extract provided).</p>	<p>Not addressed</p> <p>Added IG19–IG21 to clarify the existing "principles" related to the valuation of land under or over infrastructure assets.</p> <p>IG19 – Land under or over infrastructure assets accounted for under the current value model should be valued at current operational value or fair value.</p> <p>However, IG is non-integral.</p> <p>More detail on current operational value and fair value in ED 77.</p>

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>https://oag.parliament.nz/2003/2001-02/docs/part1.pdf</p> <p>Extract from Local Government: Results of the 2001–02 Audits – Office of the Controller and Audit-General</p> <p>Land Under Roads</p> <p>1.416 Land under roading networks has been dealt with inconsistently within the sector over past years. While most Councils included land under roads in their financial statements, some did not. There was also, and remains, no generally accepted method of valuation. We encourage the sector to devise an acceptable method that all Councils can apply.</p> <p>1.417 However, FRS-3 does not provide any basis to exclude such land from financial statements. Consequently, we expected local authorities to include these assets in 2001-02 on some reasonable valuation basis.</p> <p>1.418 Local authorities employed a range of valuation techniques – from classification of land in accordance with its associated environs and attributing a value based on that neighbouring land, through to attributing an average land value across the authority’s district. In some cases, the land value was subject to a discount factor recognising that the land under the road did not necessarily have the full value attributes of that neighbouring land.</p> <p>1.419 Generally, the valuation has had a significant impact on total reported asset values. However, because land does not depreciate, its inclusion in a local authority’s financial statements has no impact on the operating surplus or deficit.</p> <p>1.420 There will continue to be a range of valuation bases applied until an accepted valuation methodology is determined. Further, we will not expect these assets to be revalued until an accepted methodology is determined. In all cases, we will expect full disclosure of the basis of valuations</p> <p>1.421 When a methodology is agreed, there is potential for revaluation adjustments to have a substantial effect on the reported results of many local authorities. This will happen where a revaluation results in a downward adjustment, because FRS-3 requires valuation decrements which exceed the amount of any net cumulative past revaluation increments to be recognised in the statement of financial performance.</p>	

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>Other Valuation Issues</p> <ul style="list-style-type: none"> Depreciated Replacement Cost We note that further guidance could be developed by the IPSASB in relation to depreciated replacement cost. There is presently no substantive guidance in IPSAS standards in estimating the DRC for a revalued asset. Consequently, New Zealand has developed DRC guidance due to the prevalence of the use of this method in the public sector. Refer to the Application Guidance in the appendix to PBE IPSAS 17. Also refer to the Basis for Conclusions to New Zealand’s PBE IPSAS 17 <i>Property, Plant and Equipment</i>. 	<p>Not addressed</p> <p>ED 77 current value measurement bases are current operational value and fair value. More detail on these in ED 77.</p>
<ul style="list-style-type: none"> Asset Values – Condition Assessments There are challenges faced by Local Government (councils) in relation to valuing water, wastewater and storm water pipes. Councils often have incomplete information around what pipes are built with, when they were installed, how long they will last, and how deep they are. There needs to be condition assessments as the valuer has to work out a modern equivalent asset and remaining useful life to get a DRC valuation. Because these pipes are beneath the ground, you cannot always inspect them and you are reliant on council records. Some councils do CTV checkups because a lot of this infrastructure was constructed before proper records were kept. Because the quality of the asset data for some assets is limited, estimates and assumptions need to be made about the quality of the asset. A significant amount of judgement is required to value these assets. In these cases, we would expect good disclosure about key judgements. <u>Wellington City Council Annual Report 30 June 2018</u> Note 27 Revaluations <i>While assumptions are used in all revaluations, the most significant of these are in infrastructure. For example, where stormwater, wastewater and water supply pipes are underground, the physical deterioration and condition of the assets are not visible and must therefore be estimated. Any revaluation risk is minimised by performing a combination of physical inspections and condition modelling assessments.</i> Asset Valuation – DRC or Highest and Best Use? If you are revaluing a public sector asset e.g. a building, do you use DRC or discounted cashflows (based on market rental information)? For example, a university may own a building which it has modified for education delivery. If it is feasible 	<p>Not addressed.</p> <p>ED 77 current value measurement bases are current operational value and fair value. More detail on these in ED 77.</p>

Infrastructure issues submitted in 2019 by New Zealand (in response to an IPSASB information request)	IPSASB Subsequent action/proposals
<p>to convert the asset to a commercial use, such as office rental space, should the valuation be based on DRC or should it be a commercially-based valuation with adjustments?</p> <p>Similarly, if you have an airport (terminal building and runway). There will be cashflows from landing fees. The terminal will be used to provide airport services, but some of the space may be rented out commercially. Do you only use DRC in this instance or are there other cashflow based valuation methods that should be used?</p> <p>It would be useful if IPSAS 17 contained guidance in relation to these types of issues on valuation techniques.</p> <ul style="list-style-type: none"> • Asset Valuation – DRC or Highest and Best Use? <p>If you are revaluing a public sector asset e.g. a building, do you use DRC or discounted cashflows (based on market rental information)? For example, a university may own a building which it has modified for education delivery. If it is feasible to convert the asset to a commercial use, such as office rental space, should the valuation be based on DRC or should it be a commercially-based valuation with adjustments?</p> <p>Similarly, if you have an airport (terminal building and runway). There will be cashflows from landing fees. The terminal will be used to provide airport services, but some of the space may be rented out commercially. Do you only use DRC in this instance or are there other cashflow based valuation methods that should be used?</p> <p>It would be useful if IPSAS 17 contained guidance in relation to these types of issues on valuation techniques.</p>	
<p><i>Directly Attributable Costs</i></p> <p>We also note that it would be helpful if IPSAS 17 contained more guidance on directly attributable costs. We note that certain directly attributable costs are set out in paragraph 31 (a)-(e). However, application guidance could address other directly attributable costs.</p> <p>We note that a previous New Zealand accounting standard FRS 3 <i>Accounting for Property, Plant and Equipment</i> contained useful guidance in paragraph 5.6 as follows:</p> <p><i>“... Examples of directly attributable costs are borrowing costs, survey costs, the cost of obtaining resource consents, site preparation costs including land formation costs, installation costs including architectural and engineering fees, freight, and charges for installation, commissioning and testing...”.</i></p>	<p>Not addressed.</p> <p>ED 78 paragraph 15 contains examples of “directly attributable costs”.</p> <p>It does not mention the costs identified in previous NZ accounting standard FRS 3 (i.e. borrowing costs, resource consents, land formation costs etc)</p>

IPSASB Measurement EDs

NZASB April 2021



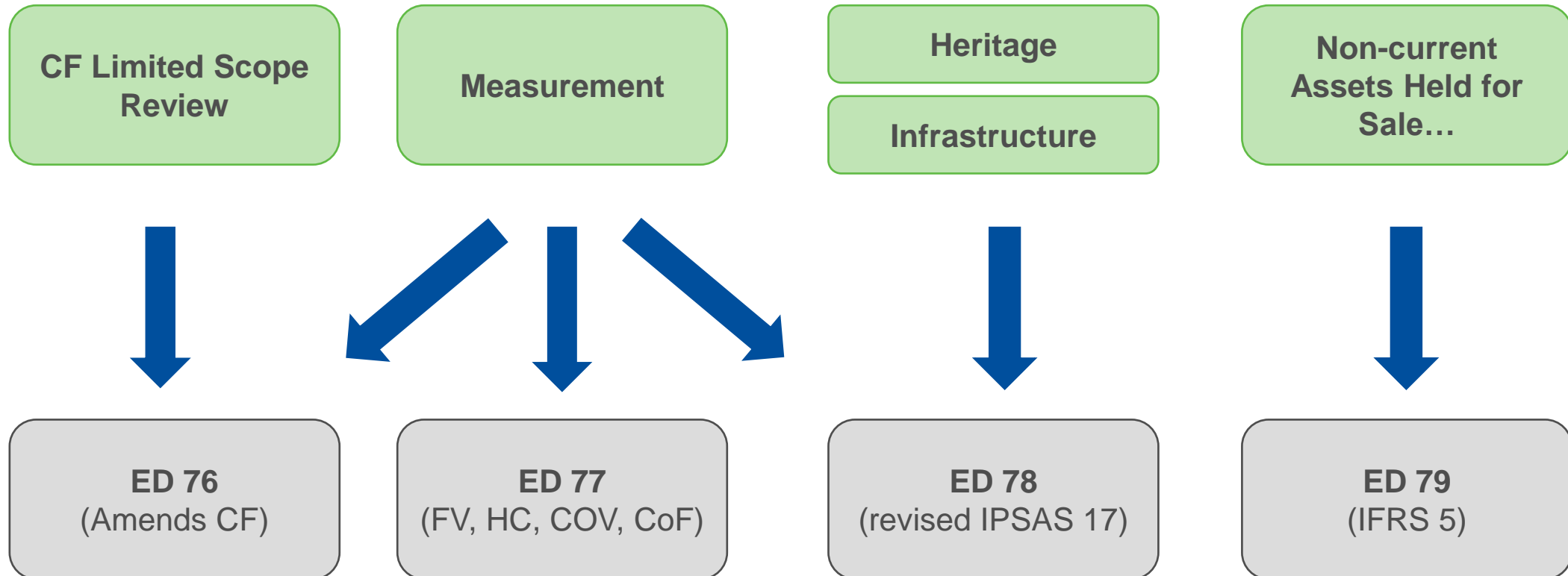
EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

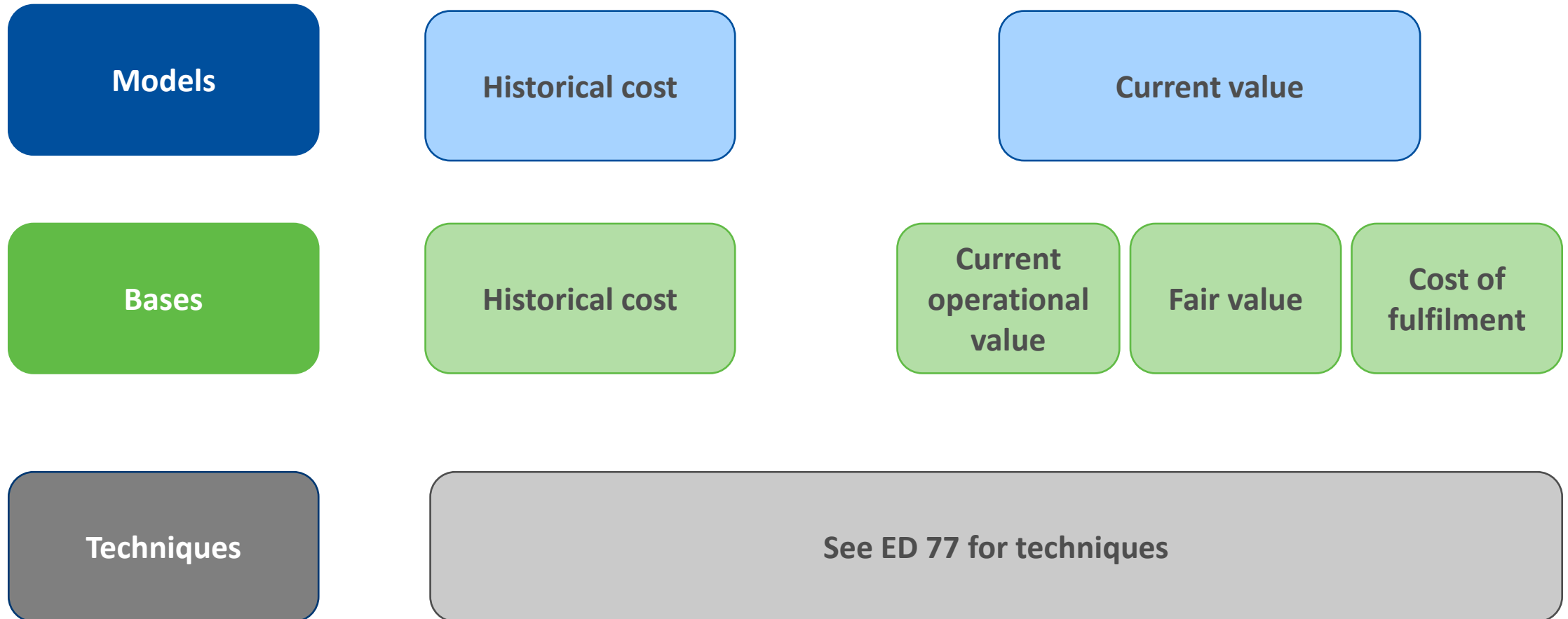
Four EDs

ED 76 Conceptual Framework – Limited Scope Update	Will amend Chapter 7 of the Conceptual Framework
ED 77 Measurement	New standard – FV, HC, COV, CoF (ie IFRS 13 and three more bases)
ED 78 Property, Plant and Equipment	Will revise IPSAS 17 PPE
ED 79 Non-current Assets Held for Sale and Discontinued Operations	New standard – based on IFRS 5

Five projects



ED 76 Models and bases



ED 76 Changes to measurement bases

2014 Conceptual Framework

Assets

Historical cost
Market value
Replacement cost
Net selling price
Value in use

Liabilities

Historical cost
Market value
Cost of fulfilment
Cost of release
Assumption price

ED 76

Assets

Historical cost
Fair value
Current operational value

Liabilities

Historical cost
Fair value
Cost of fulfilment

Impairment only

Value in use

Net selling price
Cost of release
Assumption price



ED 77 Measurement

ED 77

Initial measurement and subsequent measurement
Defines measurement bases

Appendix A
Historical cost

Appendix B
Current operational value

Market approach
Cost approach
Income approach

Appendix C
Fair value

Market approach
Cost approach
Income approach

Appendix D
Cost of fulfilment

Income approach

Appendix E
Amendments

Would amend
23 standards

Alternative Views on ED 76 and ED 77

- ED 76: one IPSASB member
 - COV definition is unclear
 - COV should be based on cost of replacing service potential
- ED 77: two IPSASB members
 - income approach is not appropriate for COV
 - other points

ED 78 Property, Plant and Equipment

- Current value model allows a choice between
 - Fair value (generally if assets held for financial capacity)
 - Current operational value (generally if assets held for operational capacity)
- Heritage and infrastructure changes (see following slides)
- Amends 23 standards

ED 78 Heritage

- Reliable measurement addressed
- Where Heritage items **can** be recognised and measured
 - Now included in IPSAS 17 requirements
- Where Heritage items **can't** be recognised and measured
 - New disclosure: explain why can't be reliably measured and significance to entity
- IPSASB has added integral (AG) and non-integral guidance(IG) but has not addressed all the issues raised:
 - *Kaitiakitanga* (guardianship) - *te ao Māori* (Māori world)
 - Control/guardianship, cultural sensitivity, perpetuity/useful life.

ED 78 Infrastructure

- No need for definition - infrastructure assets are a “subset” of PP&E
- Characterised as “networks or systems that have long useful lives”
- IPSASB compiled a list of “approved infrastructure issues”
- IPSASB has added integral (AG) and non-integral guidance(IG) but has not addressed all the issues raised
- In some cases the IPSASB decided the requirements in the standards were sufficient
- DRC traditionally used in New Zealand to value infrastructure – DRC is not equivalent to current operational value

ED 79 Non-current Assets Held for Sale and Discontinued Operations

- Very close to IFRS 5 and PBE IFRS 5
- **New disclosure**: disclose FV of assets held for sale if materially lower than the carrying amount
- Prudent to identify differences between PBE IFRS 5 and ED now

Issues and implications – what to focus on?



ED 76	Conceptual Framework – Limited Scope Update	<ul style="list-style-type: none">• COV (and AV)• Deleted bases
ED 77	Measurement	<ul style="list-style-type: none">• HC – any concerns?• COV guidance (and AV)<ul style="list-style-type: none">◦ Location, obsolescence, restrictions ...• Amendments to other standards
ED 78	Property, Plant and Equipment	<ul style="list-style-type: none">• Choice of COV or FV• COV vs PBE IPSAS 17 guidance• Heritage and infrastructure – will changes help?
ED 79	Non-current Assets Held for Sale and Discontinued Operations	<ul style="list-style-type: none">• Staff: perform detailed check• Board: few comments expected

IPSASB's timeline







NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 1 April 2021

To: NZASB Members

From: Joanne Scott, Judith Pinny and Tracey Crookston

Subject: **IPSASB Measurement: Outreach**

Purpose¹

1. This memo seeks feedback on outreach for IPSASB EDs 76 to 79. It also seeks feedback on the deadline for comments to the NZASB.

Recommendations

2. We recommend that the Board
 - (a) PROVIDES FEEDBACK on the proposed outreach; and
 - (b) AGREES to request comments to the NZASB by 6 July 2021.

Proposed outreach

3. The outreach proposals are set out in Table 1. We envisage these activities taking place in May and June. We would particularly like feedback on any groups we have missed and any groups that we should speak to collectively.

Table 1

Outreach	Objective
Webinar	<p>Short webinar</p> <p>To give a very high level overview of the proposals. By keeping it short we hope to encourage people to join and to encourage those with an interest in measurement issues to take a closer look at the EDs.</p> <p>Given the differences between PBE Standards and IPSAS² we suggest that this webinar be presented by XRB staff.</p>

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 Differences include the DRC guidance in PBE IPSAS 17 *Property, Plant and Equipment*, the requirement to recognise heritage assets in PBE IPSAS 17 and the existence of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Outreach	Objective
	<p>The key messages for the webinar are:</p> <ul style="list-style-type: none"> • If you revalue assets using replacement cost, read ED 77 and ED 78 – current operational cost is a new measurement basis. • If you have heritage assets or infrastructure assets, check out the proposals in ED 78. • There are Alternative Views on ED 76 and ED 77 – check them out. If you agree with the Alternative Views the NZASB and the IPSASB need to know.
TRG	<p>25 May meeting Seek feedback on selected issues.</p>
NZAuASB	<p>Offer to present short session to NZAuASB members, with a focus on current operational value (need for clarity) and the fact that, in some cases, entities would have to select either fair value or current operational value for revalued assets.</p>
CA ANZ and CPA Australia	<p>One on one discussions To assist CA ANZ and CPA Australia to understand the proposals, disseminate information about the proposals, engage with members, and form a view on the proposals.</p>
Property Institute New Zealand (PINZ)	<p>One on one discussions To assist PINZ to understand the proposals, disseminate information about the proposals, engage with members, and form a view on the proposals. Hold roundtable if requested.</p>
Treasury, OAG, Audit NZ, SOLGM	<p>Roundtable To discuss implications of proposals for public-sector specific measurement issues.</p>
Charities Services	<p>One on one discussions To assist in understanding the proposals. Offer to assist in disseminating information about the proposals.</p>
Major accounting firms	<p>Contact and offer to discuss proposals. To assist in understanding the proposals and facilitate contributions to international comment letters.</p>
Museums	<p>One on one discussions Museums Aotearoa – impact of proposals on museums and dissemination of information across the museum sector.</p>

4. We will also liaise with AASB staff as they conduct outreach in Australia.

Question for the Board

Q1. Does the Board have any comments on the proposed outreach for IPSASB EDs 76 to 79?

Comments due date

5. In order to have a first draft of the comment letter ready for mailout at the end of July (for the Board's 12 August meeting), we propose a comments due date of 6 July 2021. If we have an extension from the IPSASB, the Board will have two meetings to consider the draft comment letter. If we do not receive an extension, the August meeting will be the only meeting at which to discuss the comment letter.

Question for the Board

- Q2. Does the Board AGREE to request comments by 6 July 2021?

Date: 1 April 2021

To: NZASB Members

From: Gali Slyuzberg

Subject: ***IASB DP Business Combinations Under Common Control***

Recommendations¹

1. We recommend that the Board PROVIDES FEEDBACK on the questions raised in the IASB Discussion Paper DP/2020/2 *Business Combinations Under Common Control* (the DP).

Background

The IASB DP

2. The IASB issued the DP in November 2020. The DP explores possible reporting requirements for business combinations under common control (BCUCC).
3. IFRS Standards currently do not specify how to account for BCUCC transactions. This has resulted in diversity in practice, where similar transactions are accounted for in different ways. This diversity in practice and, in some cases, insufficient information about BCUCC transactions, makes it challenging for investors to assess the impact of these transactions.
4. To close this ‘gap’ in IFRS Standards and address the abovementioned challenges, the DP sets out the IASB’s preliminary views on how BCUCC transactions should be accounted for. While the DP does not propose a single accounting method for all BCUCC transactions, it proposes specific criteria for determining when to apply the acquisition method and when to apply a specified book value method (which would replace the variety of book value methods currently used).
5. In issuing the DP, the IASB aims to reduce diversity in practice, improve transparency in reporting on BCUCC transactions and provide users of financial statements with better information on these transactions.

Board discussion at this meeting

6. At its December 2020 meeting, the Board received an education session on the DP, agreed to comment on the DP and provided feedback on proposed outreach. At this meeting, we are seeking the Board’s preliminary feedback on the DP questions.

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7. On the day before this meeting, we will run a virtual outreach event on the DP, featuring presentations from IASB Vice-Chair, Sue Lloyd and IASB staff. The event gives New Zealand constituents the opportunity to hear about the DP directly from the IASB and to provide their feedback. We will share feedback received at the virtual event to help inform the Board’s discussion at this meeting.

Selection of DP questions

8. We acknowledge that the Board has previously assessed the priority of the BCUCC project as ‘medium’, and that the Board is currently working on several projects whose priority was assessed as ‘high’. Therefore, we recommend that the Board comment on some, but not all questions in the DP.

Structure of this memo

9. The table below lists the DP sections that we propose to discuss at this meeting, and the related DP references. Board members are kindly asked to read these DP sections. Rather than repeating the information provided in the DP, this memo provides brief information on the IASB’s preliminary views and makes reference to relevant paragraphs in the DP. The DP is included as agenda item 7.2.

Table 1 DP topics for discussion at this meeting

DP topic	DP reference
<ul style="list-style-type: none"> • Section 1: Objectives, scope and focus 	Paragraphs 1.1 – 1.30 Question 1
<ul style="list-style-type: none"> • Section 2: Selecting the measurement method 	Paragraphs 2.1–2.61 Question 2 and 3 <i>(Staff’s preliminary views on Question 4 are related to, and mostly covered by, the response to Question 3)</i>
<ul style="list-style-type: none"> • Section 3: Applying the acquisition method 	Paragraphs 3.1–3.20 Question 5
<ul style="list-style-type: none"> • Section 4: Applying the book value method 	Paragraphs 4.1–4.65 Questions 6 and 10 <i>(We propose not to respond to questions 7–9)</i>

10. Section 5 of the DP proposes disclosure requirements for BCUCC transactions. We will discuss this section of the DP with the Board at the June meeting.

Objectives, scope and focus of the DP (DP Section 1)

IASB’s preliminary view:

11. The DP uses the term ‘business combinations under common control’ (BCUCC) to refer to all transfers of a business between entities under common control.

12. The IASB's preliminary view is that it should develop reporting requirements to be applied by the *receiving entity*², i.e. the entity to which control of a business is transferred in a BCUCC transaction. The IASB's view is that these requirements should cover all BCUCC transactions, even if the transfer:
- (a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
 - (b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.

Questions for the Board: Scope of BCUCC requirements
Question 1
Do you agree with the IASB's preliminary view on the scope of the proposals it should develop?

Why should the Board comment on this question?

13. We recommend that the Board respond briefly to this question, to support the fact that the scope of the project helps close the current 'gap' in IFRS Standards, and to highlight a potential issue in relation to legal amalgamations.

Preliminary staff views

14. The proposed scope of the project seems to include all those transfers of businesses that are currently outside the scope of IFRS 3 and are not addressed by existing IFRS Standards. We think that the scope is comprehensive and consistent with the IASB's aim of 'closing the gap' that currently exists in IFRS Standards, which we view as a positive initiative.
15. However, we think that the scope can be clarified in the following respect. The DP refers to BCUCC transactions as 'transfers of a business' between entities under common control, and proposes accounting requirements for the 'receiving entity', which obtains control over the transferred business. However, we note that some group restructure scenarios involve the amalgamation of two entities under common control into a single legal entity. In some such amalgamations, it could be argued that there is no clear 'receiving entity' or 'transferring entity', and therefore no 'transfer of a business' from one entity to another. We think it would be useful for the IASB to clarify whether such transactions are in the scope of the proposed BCUCC requirements.
16. Given that the DP aims to 'close the gap' in IFRS Standards, we expect that such amalgamations would be included in the scope of the proposed requirements. However, we think this should be clarified. For example, the definition of 'business combination' in IFRS 3 (for combinations between unrelated parties) specifically includes 'true mergers' or 'mergers

² The DP uses the term 'receiving *company*'. In this memo we have used the term 'receiving *entity*', as IFRS Standards normally refer to entities (rather than companies), and the application of IFRS Standards is not limited to companies.

of equals'. It may be useful to specifically state that the proposed BCUCC accounting requirements also applies to 'true mergers' or 'mergers of equals' under common control.

17. We also note that in the New Zealand PBE sector, the definition of a 'PBE combination' in PBE IPSAS 40 *PBE Combinations* does not refer to a transfer from one entity to another, but rather to 'the bringing together of separate operations into one public benefit entity'. This definition clearly includes the abovementioned amalgamation scenario and other 'mergers of equals'. If the IASB intended to include such transactions in the scope of the proposed BCUCC requirements, perhaps using similar wording to the PBE IPSAS 40 definition may be helpful.
18. We also think that the IASB may need to give further consideration to how the requirements proposed in the DP would apply to the abovementioned amalgamations and other 'mergers of equals'.

Selecting the measurement method (DP Section 2)

The general model for selecting the measurement method

IASB's preliminary view:

19. The DP notes that some types of BCUCC transactions are similar to business combinations between unrelated parties in the scope of IFRS 3, whereas others are different.
20. Specifically, the DP notes that:
 - (a) In a BCUCC transaction where the 'receiving entity' has *non-controlling shareholders* (NCS), the NCS acquire new ownership interest in the transferred business – just as they would do in a business combination between unrelated parties. Therefore, such a BCUCC transaction is similar to a business combination in the scope of IFRS 3. In both cases, the transaction has a substantive effect both on the receiving entity (which obtains control over a business) and on its shareholders (NCS). Furthermore, the information needs of NCS (and other users of the receiving entity's financial statements) are similar in both cases.
 - (b) On the other hand, where the receiving entity does not have NCS, there is no change in the ultimate ownership interest in the transferred business. Such transactions are considered to be different to business combinations between unrelated parties – and different to BCUCC transactions where the receiving entity's NCS are affected. Furthermore, applying the acquisition method to such transactions can be challenging, and may result in very different accounting outcomes for similar transactions, depending on how the transaction is structured and which party is identified as the acquirer.
21. On this basis, paragraphs 2.15–2.34 of the DP discuss the IASB's preliminary views that:
 - (a) neither the acquisition method nor a book-value method should be applied to all BCUCC transactions.

- (b) in principle, the acquisition method should be applied if the BCUCC transaction affects NCS of the receiving entity, subject to the cost/benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 of the DP.
- (c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly-owned companies.

Questions for the Board: general model for selecting the measurement method

Question 2

Do you agree with the IASB’s preliminary view on when to apply the acquisition method and when to apply the book value method (see paragraph 21 above)?

If you think a single accounting method should apply to all BCUCC transactions, which method should this be?

If you disagree with the proposed criteria for determining when each proposed accounting method should apply, what criteria should be applied in your view?

Why should the Board comment on this question?

- 22. We recommend that the Board comment on this question, as this is a key question about the general proposed model for accounting for BCUCC transactions.

Preliminary staff view

- 23. We tend to agree that some BCUCC transactions are similar to business combinations between unrelated parties while others are different. Therefore, we tend to agree that some BCUCC transactions should be accounted for using the acquisition method and others should be accounted for using a book value method.
- 24. However, we note that under PBE IPSAS 40, the fact that a combination is a BCUCC indicates that the combination is an ‘amalgamation’, which is accounted for under a book value method (‘modified pooling of interests’). This means that under the DP proposals, for-profit entities would account for some BCUCC transactions using the acquisition method and others using the book value method, depending on whether NCS are affected – whereas PBEs would generally account for all BCUCC transactions using a book value method, regardless of whether NCS are affected or not. It would be important for the Board to consider whether this difference is justified and desirable.
- 25. We think the introduction of specific criteria for determining the accounting method for BCUCC transactions is useful. Such criteria should improve comparability between similar types of BCUCC transactions, and reduce arbitrary choice of accounting method.
- 26. We are not yet certain whether the existence NCS should be the only key criterion for determining what accounting method applies to a BCUCC transaction.

We think it will be particularly important to receive feedback from constituents on this proposal.

Our current thoughts in this area are as follows.

- (a) We acknowledge that if the receiving entity has NCS, these NCS are a key party that is affected by the transaction – given that they acquire new ownership interest in the transferred business, and the success of the transaction impacts the future dividends they will receive. Therefore, the information needs to NCS are important.
- (b) However, if the fair value information required by the acquisition method is useful to *existing* NCS, we think this could also be the case for *potential* NCS. The information needs of potential NCS would be relevant for an entity that is contemplating an IPO. Both TRG members and attendees at certain regional and international outreach events attended by staff noted that a forthcoming IPO could be a useful factor in determining how to account for a BCUCC. This could be an additional criterion for using the acquisition method.
- (c) Having said that, we also acknowledge the IASB's reasoning that when the receiving entity has NCS, a BCUCC transaction is similar to a business combination between unrelated parties, in the sense that there is a change in the ultimate ownership of the transferred business. There is no such change if the receiving entity does not have NCS. This supports the proposed accounting for BCUCC transactions where NCS are affected in the same way as business combinations covered by IFRS 3, and to account for BCUCC transactions where there are no NCS differently.
- (d) We also acknowledge the IASB's argument that applying the acquisition method to BCUCC transactions between wholly-owned entities could result in very different accounting outcomes, depending on the legal structure of the BCUCC transaction and which entity is recognised as the acquirer – yet in each case, potential investors are invited to invest in the same pool of resources. This could possibly negate the benefits to potential NCS from fair value measurement under the acquisition method.
- (e) In terms of lenders and creditors, the IASB notes that their information needs focus on the entity's cash flows and debt commitments – so that they can assess the entity's ability to repay its debt. The IASB notes that while fair value information provided by the acquisition method can be useful for lenders and creditors, it does not significantly affect the outcome of their assessment of the entity's ability to repay its debt. On this basis, the DP proposals on when to apply which accounting method focuses on the information needs of NCS. It may be useful to confirm whether the views of New Zealand banks and other lenders are consistent with the IASB's observation above.
- (f) We note that in current practice, the existence of NCS is generally not a factor in determining the accounting requirements for a BCUCC. While this does not invalidate the IASB's proposed approach, it could mean that one or more of the criteria currently used to select the accounting method for a BCUCC may be more appropriate.
- (g) As noted above, in PBE IPSAS 40 the existence of NCS is not a factor in determining how to account for a BCUCC transaction. Rather, if a transaction is a BCUCC, this indicates that the transaction is an 'amalgamation' that should be accounted for using a book value method. Under PBE IPSAS 40, if one party to the combination obtained control over an 'operation' (PBE analogue of 'business'), then the accounting method depends

on whether consideration was paid and what it represents, as well as indicators relating to the decision-making process. If consideration was paid, this can indicate that the combination is an ‘acquisition’ that should be accounted for under the acquisition method, unless the consideration is for something other than acquiring the operation. If the combination is imposed by another party (other than the combining parties), or if the combination is a BCUCC, this indicates towards the book value method. It will be important for the Board to decide whether this difference in indicators is justifiable and desirable.

27. The DP proposes that the acquisition method should be used when the receiving entity’s NCS are *affected* by the BCUCC transaction. This implies that when the receiving entity has NCS, they may not necessarily be affected by the transaction – and if they are not affected, then the transaction is accounted for using the book value method. We think it would be important for the IASB to explain clearly what is meant by NCS being ‘affected’ by the transaction – and in what circumstances would existing NCS not be affected by a BCUCC transaction.

Proposed exception and exemption from the acquisition method

IASB’s preliminary view:

28. The IASB consider that when a BCUCC transaction affects the receiving entity’s NCS, there could be instances where the cost of using the acquisition method could outweigh the benefits.
29. Paragraphs 2.35–2.47 of the DP discuss the cost/benefit trade-off and other practical considerations for BCUCC transactions that affect NCS of the receiving entity.
- (a) In the IASB’s preliminary view, the acquisition method should be required if the receiving entity’s shares are traded in a public market.
 - (b) In the IASB’s preliminary view, if the receiving entity’s shares are privately held:
 - (i) The receiving entity should be permitted to use a book-value method if it has informed all of its NCS that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).
 - (ii) The receiving entity should be required to use a book-value method if all of its NCS are related parties of the company (the related-party exception to the acquisition method).

Questions for the Board
Question 3
Do you agree with the IASB’s proposed exception and exemption from the acquisition method for privately-held entities, as per paragraph 29 above?

Why should the Board comment on this question?

30. We understand that many BCUCC transactions are conducted by privately-held entities (possibly as a precursor to becoming publicly traded). Therefore, we think it is important to

consider the proposed exception and exemption from the acquisition method for privately-held entities.

Preliminary staff view

General: the distinction between entities whose shares are publicly traded vs privately held

31. We acknowledge that applying the acquisition method can be more costly than applying the book value method, and that it is important to ensure that the benefits of using the acquisition method exceeds the costs of doing so. However, we are not certain whether the proposed exception and exemption from the acquisition method should be provided *based on whether an entity's shares are privately-held or publicly traded*.

We would be interested to receive feedback from the Board and constituents on whether it is appropriate to provides an exception/exemption from the acquisition method based on whether an entity's shares are publicly traded or not – or whether there are other possible criteria that could be used for providing exceptions/exemptions from the acquisition method.

32. On one hand, it could be argued that if an entity's shares are publicly traded, NCS are likely to hold a substantive interest in the entity and there is likely to be a large number of NCS – whereas this may not be the case for entities whose shares are privately-held. Therefore, it could be argued that the 'publicly-traded vs privately-held distinction' is a practical way to determine whether the benefits to NCS from the information provided under the acquisition method would outweigh the cost of applying the acquisition method.
33. However, we note that in general, IFRS Standards do not differentiate between entities whose shares are publicly traded and privately-held entities, for the purpose of measurement requirements.
- (a) IFRS 8 *Operating Segments* and IAS 33 *Earning per Share* effectively exempt privately-held entities from providing segment reporting disclosures and earnings-per-share disclosures respectively. However, these exemptions relate to disclosure requirements, rather than measurement and recognition requirements.
- (b) IFRS 10 *Consolidated Financial Statements* exempts privately-held entities that are subsidiaries and meet certain criteria from preparing consolidated financial statements. However, we think the decision on whether to prepare consolidated or separate financial statements is not quite the same as a measurement-related accounting policy. Furthermore, given that the New Zealand specific paragraph in NZ IFRS 10 that requires the 'top level' New Zealand subsidiary of a foreign parent to prepare consolidated financial statements despite the abovementioned exemptions in IFRS 10, it is possible that the use of this consolidation exemption is limited in New Zealand.
- (c) IAS 28 *Investment in Associates and Joint Ventures* exempts privately-held entities that are subsidiaries and meet certain criteria from applying the equity method to investments in associates and joint ventures. It could be argued that this measurement-related exemption is similar to the proposed exemption in the DP. However, we note that there is a New Zealand-specific paragraph in NZ IAS 28, which requires the 'top

level' New Zealand subsidiary of a foreign parent to apply the acquisition method, despite the abovementioned exemption.

34. Furthermore, if it is appropriate to mandate the acquisition method for entities whose *shares* are publicly traded, we question why a similar mandatory requirement is not proposed for entities whose *debt instruments* (e.g. bonds) are publicly traded. A similar question was raised by participants at a recent IFASS meeting. We note that the exemption from consolidation in IFRS 10 and the exemption from the equity method in IAS 28 requires that an entity's *debt or equity* instruments are not traded on the public market. Similarly, the exemption from IFRS 8 *Operating Segments* applies to entities whose *debt or equity* instruments are not traded on the public market.
35. In addition, we understand that BCUCC transactions often occur as a precursor to an IPO. If the fact that the entity's shares are publicly traded indicates that the benefits of the acquisition method outweigh the cost, we think this might also be true for an entity whose shares are *about to be* publicly traded. We note that both the exemption from consolidation under IFRS 10 and the exemption from segment reporting disclosures in IFRS 8 do not apply to an entity that *is in the process of filing* financial statements with a securities commission or similar organisation for the purpose of issuing shares (or debt) in a public market.

Optional exemption from the acquisition method if NCS do not object

36. We think there may be some challenges in applying the proposed exemption from the acquisition method in practice – particularly if there is a large number of NCS.
 - (a) The DP explains that for an entity to be able to apply the exemption, no action is required from NCS. Rather, NCS must be given the opportunity to object to using the book value. If they do not object, then the BCUCC can be accounted for using the book value method, instead of the acquisition method. From a preparer perspective, this is more practical as compared to a requirement that NCS must actively confirm that they do not object. However, practical issues could also arise if an NCS who initially remained silent actively objects to the book value method close to the date of the publication of the financial statements, or after that date. Would the accounting for the BCUCC transaction need to be restated in that case?
 - (b) Furthermore, some NCS might not understand the difference between the acquisition method and the book value method. When asking NCS whether they do not object to using the book value method, it would be important to explain to them clearly what this means, so that they are able to make an informed decision. Otherwise, there is a risk that the selected accounting method for the BCUCC transaction will not meet user needs (specifically, the needs of the NCS). We are not sure that an accounting standard can set requirements about this type of communication with shareholders. We acknowledge that IFRS 10 already contains an exemption from preparing consolidated financial statements for privately-held entities whose NCS do not object to the lack of consolidation. However, it is arguably easier to explain to NCS the difference between consolidated and separate financial statements, as compared to explaining the impact of using the book value method versus the acquisition method.

Exception from the acquisition method if all NCS are related parties

37. From the perspective of meeting the information needs of NCS, the exception from the acquisition method if all NCS are related parties seems to make sense, if these related NCS are indeed able to access the fair value information that would have been provided under the acquisition method. However, to the extent that the acquisition method is also useful to potential NCS, the related party exception could result in potential shareholders not receiving useful information. This comes back to whether a forthcoming IPO should be a consideration when determining the accounting method for a BCUCC transaction.

Whether the proposed exception and exemption from the acquisition method should also apply to entities whose shares are publicly traded

38. The IASB considered whether to extend the exception and exemption from the acquisition method to entities whose shares are publicly traded, but decided not to do so (see paragraphs 2.48–2.54 of the DP).
39. The DP has a specific question on whether the proposed exception and exemption should be made available to entities whose shares are publicly traded (Question 4 in the DP). However, as noted above, we are not sure that the application of measurement requirements in IFRS Standards should be determined by whether an entity's shares are publicly traded or privately held. Therefore, we propose not to answer Question 4 separately, but to discuss it as part of the Board's comments on Question 3 (the current question).
40. We have mentioned above some potential issues in relation to the practical application of the proposed exemption from the acquisition method if there is a large number of NCS. These challenges would also apply, and would probably be exacerbated, for an entity whose shares are publicly traded – as a publicly traded entity is likely to have a large number of NCS. Therefore, we do not think that this exemption needs to be made available to entities whose shares are publicly traded – but as noted above, we are also not sure that whether an entity's shares are currently listed or not should be the criteria for determining whether the exemption is available.
41. Our comments above on the related party exception for privately-held entities also applies to publicly-traded entities. That is, related parties may still be able to obtain fair value information from a publicly listed entity, by virtue of their relationship with the entity. However, we think it is unlikely that all of the NCS of an entity whose shares are listed will be the entity's related parties. Therefore, even if the related party exception is extended to entities whose shares are publicly traded, these entities are unlikely to qualify for this exception.

Applying the acquisition method (DP Section 3)*IASB's preliminary view:*

42. Paragraphs 3.11–3.20 of the DP discuss how to apply the acquisition method to BCUCC transactions.
43. The IASB proposes that when applying the acquisition method to a BCUCC transaction, the same requirements as in IFRS 3 should apply – including the requirements to recognise (most) assets and liabilities acquired at fair value, and to recognise goodwill at the amount by which the consideration paid exceeds the fair value of the net assets acquired.
44. However, the IASB proposes that in a ‘bargain purchase’ situation, where the consideration paid by the receiving entity is *lower* than the fair value of the net assets acquired, the difference between the fair value of the net assets acquired and the consideration paid should be recognised as a contribution to equity – rather than as a gain in profit or loss, as required by IFRS 3.
45. The IASB considers that a BCUCC transaction where the consideration price is lower than the fair value of the net assets acquired is different to a ‘bargain purchase’ situation in a business combination between unrelated parties. A ‘bargain purchase’ between unrelated parties tends to occur when the acquired entity (or its controlling party) is in financial distress. However, in the IASB’s view, the fact that the receiving entity in a BCUCC transaction paid less than the fair value of the net assets acquired tends to reflect a capital contribution from the ultimate controlling party – rather than a distress sale situation, or a ‘lucky purchase’ at below-market price. The IASB also thinks that such contribution is likely to be rare when the receiving entity has NCS (which is when the acquisition method would apply).
46. The IASB considers that when the consideration paid by the receiving entity exceeds the fair value of the net assets acquired, it is possible that *some* of this excess reflects a distribution to the controlling party, rather than goodwill. However, the IASB thinks that it is not possible in practice to determine how much of the excess should be allocated to goodwill and how much should be recognised as a distribution to the controlling party. Furthermore, the IASB considers that such distributions are likely to be rare when the receiving entity has NCS (which is when the acquisition method would apply).
47. For these reasons, the IASB’s preliminary view is that when applying the acquisition method to a BCUCC transaction, the receiving entity:
 - (a) should *not* be required to identify, measure and recognise a *distribution from equity* when applying the acquisition method to a BCUCC transaction, and;
 - (b) should be required to recognise any excess fair value of the identifiable acquired net assets over the consideration paid as a *contribution to equity, not as a bargain purchase gain* in profit or loss.

Questions for the Board

Question 4 (Question 5 of the DP)
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Do you agree with the IASB's preliminary view on how the acquisition method should be applied to a BCUCC transaction, as per paragraph 47 above?
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If you disagree, what alternative approach would you suggest?

Do you recommend that the IASB develop any other special requirements for the receiving entity on how to apply the acquisition method to BCUCC transactions?
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Why should the Board comment on this question?

48. We recommend that the Board comment on this question, as this is the only question on the recognition and measurement requirements of the acquisition method. The response to this question can be brief.

Preliminary staff views

49. We agree with the IASB that when the consideration exceeds the fair value of the net assets acquired, then it would generally not be possible to apportion this difference between goodwill and a distribution to the owners in a reliable manner. So, the options are either to recognise the full amount of the difference as goodwill (as per IFRS 3), or to recognise this full amount as a distribution to the parent. We tend to agree with the IASB that a distribution from the receiving entity to the ultimate parent would probably be unlikely when the receiving entity has NCS.
50. We are not certain whether the proposed modification to the acquisition method should apply to all 'bargain purchase' BCUCC transactions. This proposal seems to reflect the notion that in a BCUCC transaction, the ultimate parent is unlikely to transfer wealth to NCS. Therefore, any 'bargain purchase' amount is proposed to be recognised in equity – presumably as equity attributed to the ultimate parent. Conversely, recognising the 'bargain purchase' amount as a gain in profit or loss (as required by IFRS 3) would result in some of this gain being attributed to NCS.

It would be useful to receive feedback from the Board and constituents as to whether recognising the 'bargain purchase' in profit or loss, and therefore attributing some of the amount to NCS, could be appropriate in certain circumstances.
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Applying the book value method (DP Section 4)

Measuring transferred assets and liabilities at book value per the transferred entity's financial statements

IASB's preliminary view:

51. Paragraphs 4.10–4.19 of the DP discuss the IASB's preliminary view that, when applying a book value method to a BCUCC transaction, the receiving entity should measure the assets and liabilities received using the *transferred entity's* book values.

Questions for the Board
Question 5 (Question 6 of the DP)
Do you agree with the IASB’s preliminary view that when using the book value method to account for a BCUCC transaction, the book values of the transferred entity should be used?
If you disagree, what alternative approach would you suggest?

Why should the Board comment on this question?

52. In our view, this question covers one of the key aspects of the proposed book value method. Therefore, we propose that the Board comment on this question.

Preliminary staff views

53. We tend to agree with the IASB’s proposals to use book values as per the financial statements of the transferred entity. As the DP notes, the *Conceptual Framework for Financial Reporting* focuses on information about transactions and events from the perspective of the entity that prepares the financial statements—in this case, the receiving entity. The DP says that “from that perspective, the book values recorded by the controlling party, arguably, have no relation to the combination between the receiving entity and transferred entity”.
54. We also agree with the IASB that one of the key features of the book value method is that the same information is provided to potential shareholders about the combining entities, regardless of how the transaction is structured. Using the controlling party’s book values to measure the assets and liabilities of the transferred entities is not consistent with this feature. It would mean that the assets and liabilities of *one* of the combining entities would be measured at an ‘updated’ values – so the values in the consolidated balance sheet would depend on how the transaction is structured, i.e. which entity is the ‘receiving entity’ and which is the ‘transferred’ entity.
55. We agree that the book values per the controlling party’s financial statements could be more current than those in the transferred entity’s own financial statements. However, it could be argued that if the use of current values is important, then fair value would be even more useful than the book values in the parents’ financial statements. However, measuring acquired assets and liabilities at fair value is consistent with the acquisition method, rather than the book value method.
56. Nevertheless, we are aware that currently, some entities use book values as per the controlling party’s financial statements when accounting for BCUCC transactions. It would be important to consider whether book value information based on the controlling party’s financial statements is useful to users of financial statements, and whether this outweighs the above reasons for using the transferred entity’s book values.

Proposal not to restate pre-combination information

57. Paragraphs 4.57–4.65 of the DP discuss the IASB’s preliminary view that, when applying a book-value method to a BCUCC transaction, the receiving entity should include in its financial statements the assets, liabilities, income and expenses of the transferred company *prospectively from the combination date, without restating pre-combination information.*

Questions for the Board**Question 6 (Question 10 of the DP)**

Do you agree with the IASB’s preliminary view that under the book value method, pre-combination information should not be restated?

If you disagree, what alternative approach would you suggest?

Why should the Board comment on this question?

58. In our view, this question covers the second key aspects of the proposed book value method. Therefore, we propose that the Board comment on this question.

Preliminary staff views

59. We tend to agree with this proposal in general. As the DP notes, restating comparatives as if the receiving entity had always controlled the transferred entity would involve preparing financial statements for a ‘hypothetical’ group that did not exist in practice.
60. We note that further consideration may be required for situation where the BCUCC transaction involves setting up an intermediate parent, which obtains control over the existing subsidiaries (for example, in preparation for a spin-off/IPO). Some may view the new intermediate parent as merely a continuation of the subsidiaries that it acquired – and a continuation of the existing group structure. On this basis, it could be argued that comparatives should be restated.
61. The following points explain how the DP proposal to not restate pre-combination information compares with the book value-related requirements in PBE IPSAS 40.
- (a) Under PBE IPSAS 40, the entity that results from the combination of two or more operations is referred to as the ‘resulting entity’. When the book value method specified in PBE IPSAS 40 is applied, the treatment of pre-combination information depends on whether the resulting entity is a *new* reporting entity, or a *continuing* reporting entity. This in turn depends on whether one of the combining entities *obtained control* over the entity that it combined with.
 - (b) If neither of the pre-existing combining parties gained control over the other, then the resulting entity is considered a *new* reporting entity. For example, this might be the case in a legal amalgamation where none of the pre-existing entities obtained control over the other one, as well as other ‘true merger’/‘merger of equals’ situation. If one of the pre-existing combining parties controls the resulting entity, then the resulting entity is a *continuing* reporting entity.

- (c) Under PBE IPSAS 40, a *continuing* reporting entity presents pre-combination financial information only with respect to the pre-existing entity that obtained control over others as part of the combination. That is, it presents comparatives but does not restate pre-combination information. This is consistent with the proposed requirements in the DP not to restate pre-combination information when using the book value method.
- (d) However, under PBE IPSAS 40, a *new* reporting entity does not present any pre-combination information in its financial statements. Our understanding is that this is not consistent with the proposals in the DP as currently drafted. The IASB’s preliminary view says that in applying the book value method, the receiving entity should include in its financial statements the assets, liabilities, income and expenses of the transferred entity prospectively from the combination date. This assumes that it would always be possible to identify a ‘receiving entity’ and a ‘transferred entity’, and implies that the receiving entity should present pre-combination information with respect to its own operations (but it should not restate this information to include the transferred entity). The Board may wish to consider whether this difference is justified and desirable.

DP questions that we recommend not to comment on

- 62. Table 2 lists the DP questions that we recommend not to specifically comment on in the Board’s submission to the IASB. The table explains the reasons for our recommendations.

Table 2

DP question	Reason not to comment
<p>Question 4</p> <p>Paragraphs 2.48–2.54 of the DP discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the IASB’s preliminary view, publicly traded receiving companies should always apply the acquisition method.</p> <p>(a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving entities? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?</p> <p>(b) Do you agree that the related-party exception to the acquisition method should not apply to publicly traded receiving entities? Why or why not?</p>	<p>Staff’s preliminary views on Question 4 are related to, and mostly covered by, the response to Question 3</p>

DP question	Reason not to comment
<p>Question 7</p> <p>Paragraphs 4.20–4.43 of the DP discuss the IASB’s preliminary views that:</p> <ul style="list-style-type: none"> (a) the IASB should not prescribe how the receiving entity should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and (b) when applying that method, the receiving entity should measure the consideration paid as follows: <ul style="list-style-type: none"> (i) consideration paid in assets—at the receiving entity’s book values of those assets at the combination date; and (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards. <p>Do you agree with the IASB’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?</p>	<p>In staff’s view, Questions 6 and 10 cover the key aspects of the proposed book value method. By contrast, Questions 7–9 cover some of the more detailed aspects of the proposed book value method. Furthermore, based on an initial review of Questions 7–9, staff tend to agree with the IASB’s preliminary views with respect to these questions, some of which reflect current practice or do not suggest the development of specific requirements. Therefore, when commenting on the book value method, we recommend that the Board focus on Questions 6 and 10, without specifically commenting on Questions 7–9.</p>
<p>Question 8</p> <p>Paragraphs 4.44–4.50 of the DP discuss the IASB’s preliminary views that:</p> <ul style="list-style-type: none"> (a) when applying a book-value method to a business combination under common control, the receiving entity should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and (b) the IASB should not prescribe in which component, or components, of equity the receiving entity should present that difference. <p>Do you agree with the IASB’s preliminary views? Why or why not? If you disagree, what approach do you suggest and why?</p>	
<p>Question 9</p> <p>Paragraphs 4.51–4.56 discuss the IASB’s preliminary view that, when applying a book-value method to a business combination under common control, the receiving entity should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.</p> <p>Do you agree with the IASB’s preliminary view? Why or why not? If you disagree, what approach do you suggest and why?</p>	

Questions for the Board
<p>Question 7</p> <p>Does the Board agree not to provide specific comments on Question 4 and Questions 7–9 of the DP?</p>

Next steps

63. We will continue to undertake outreach with respect to the DP. This will include discussing the DP with the TRG in May.
64. We will also begin drafting the comment letter on the DP, based on the Board's feedback and outreach feedback to date.
65. We plan to seek the Board's views on the first draft of the comment letter at the Board's June meeting. This will include seeking feedback on the proposed disclosure requirements in the DP, which were not covered in this memo.

Attachments

- Agenda item 7.2: IASB DP/2020/1 *Business Combinations Under Common Control*
- Agenda item 7.3: IASB Snapshot summary document

Date: 1 April 2021

To: NZASB Members

From: Joanne Scott

Subject: **IASB Disclosure Initiative – Targeted Standards-level Review of Disclosures**

Recommendation¹

1. We recommend that the Board AGREES to comment on IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the ED).

Background

2. The IASB established the *Disclosure Initiative* (see Diagram 1) in 2013.² The initiative was set up in response to stakeholders’ concerns about information disclosed in financial statements (the ‘disclosure problem’). The three main concerns were not enough relevant information, too much irrelevant information and ineffective communication. Because the impetus for the current ED came from the *Principles of Disclosure* (POD) research project, we begin with some background about the POD project.

Diagram 1

Disclosure Initiative—overview of projects

Agenda ref 3



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 slides in this memo were prepared by IFRS Foundation staff last year. One of the active projects, *Disclosure of Accounting Policies*, was completed in February 2021. The complete slide set is available at [link](#).

POD project

3. The IASB’s 2017 Discussion Paper: *Disclosure Initiative—Principles of Disclosure* ([link](#) to the POD DP) sought feedback on possible approaches to address the disclosure problem. Two sections of the POD DP are particularly relevant for the current ED (see Table 1).

Table 1

2017 DP	IASB response
<p>Section 7 of the DP asked whether the IASB should develop a central set of disclosure objectives to provide a basis (or framework) for developing more unified disclosure objectives and requirements in standards. The DP explored two methods of developing centralised disclosure <i>objectives</i>. Section 7 also asked whether the IASB should consider having a single standard, or a set of standards, covering all disclosures in the financial statements.</p>	<p>The IASB decided not to pursue these topics further at this time. Instead, the IASB decided to take steps to improve the way it develops and drafts disclosure objectives at an individual Standards level.</p>
<p>Section 8 of the DP set out an NZASB staff approach to drafting disclosure <i>requirements</i> in IFRS Standards. The main features of the NZASB staff’s approach were:</p> <ul style="list-style-type: none"> (a) the inclusion of disclosure objectives, comprising an overall disclosure objective for each standard and more specific disclosure subobjectives for each type of information required to meet that overall disclosure objective; (b) the division of disclosure requirements into two tiers, with the amount of information to be disclosed depending on the relative importance of an item or transaction to the reporting entity and the extent of judgement required in accounting for the item or transaction. The two tiers were: <ul style="list-style-type: none"> (i) summary information, intended to provide users with an overall picture of the effect of the item or transaction. All entities would be required to disclose this information, subject only to materiality considerations (tier 1 disclosures); and (ii) additional information, which an entity would consider disclosing if that information is necessary to meet the overall disclosure objective in the Standard (tier 2 disclosures); (c) greater emphasis on the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives; and (d) less prescriptive wording in disclosure requirements. 	<p>The IASB will consider feedback received on the NZASB staff’s approach within its Disclosure Initiative—Targeted Standards-level Review of Disclosures (TSLR) project.</p>

4. The IASB summarised the feedback received on the DP and its response to that feedback in March 2019 ([link](#) to the project summary). Almost all respondents said that the way disclosure requirements are developed and drafted in IFRS Standards contributes to the disclosure

problem. The IASB added a project to its agenda to perform a targeted standards-level review of disclosure requirements.

- Diagrams 2 and 3 come from the POD project summary – they show the link between the POD project and the current TSLR project.

Diagram 2

Research findings and conclusions—overview

The main outcomes of the research project were:

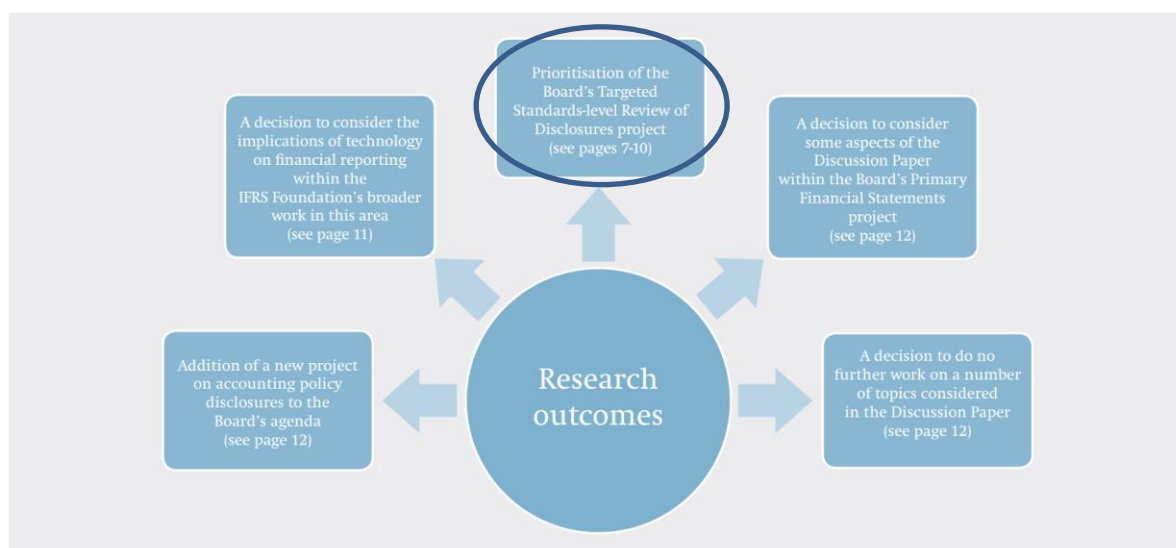
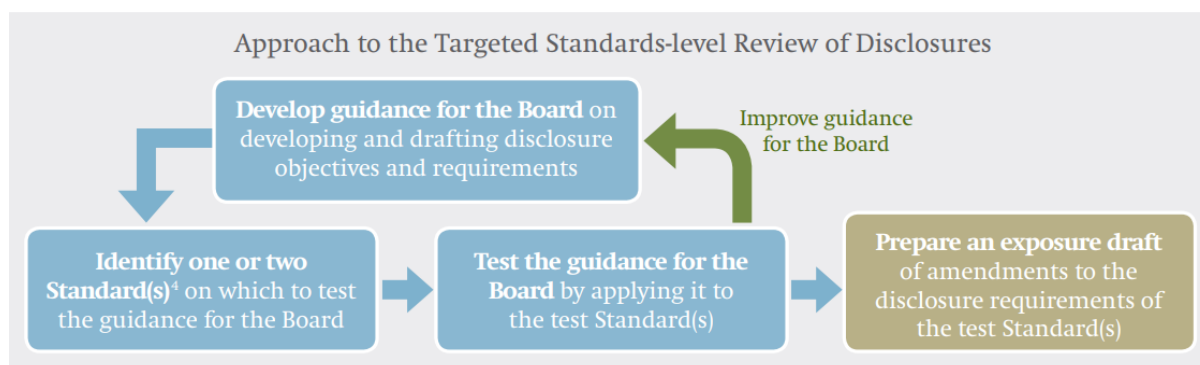


Diagram 3



TSLR project

- The IASB began work on the TSLR project in 2018. As shown in Diagram 3, the IASB developed guidance to use when developing and drafting disclosure sections in standards. The IASB tested that guidance on a couple of standards (being IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*). The 2021 ED is now seeking feedback about the draft guidance. Throughout this process the IASB met with consultative groups and IASB staff performed extensive outreach with users.

Structure of this memo

7. The remaining sections in this memo are:
 - (a) ED contents;
 - (b) IASB comment period and ongoing consultation;
 - (c) Why the NZASB should comment; and
 - (d) Proposed outreach.

ED contents

8. The ED seeks feedback about the proposed amendments to IAS 19 and IFRS 13 *and* the draft guidance used to develop the proposed disclosures. The ED package consists of:
 - (a) Invitation to Comment: This explains the project's objectives and sets out the questions for respondents.
 - (b) Guidance: this is being exposed for feedback. It explains how the IASB will develop disclosure requirements in future if, after testing on IFRS 13 and IAS 19, the Board decides to use the proposed approach in its standard-setting activities. It will eventually be an internal document.
 - (c) Amendments to IFRS 13. The illustrative examples are in a separate section.
 - (d) Amendments to IAS 19. The illustrative examples are in a separate section.
 - (e) Amendments to other standards.
 - (f) Basis for Conclusions: This is in a separate document. It includes the project history, the basis for conclusions on the draft guidance, the basis for conclusions on the proposed amendments to IFRS 13 and IAS 19 and an effects analysis. It also includes an Alternative View.
 - (g) Snapshot: This is in a separate document. It discusses the disclosure problem, how the new approach is expected to help and gives an overview of the proposed amendments. It also summarises the type of stakeholder input being sought by the IASB (see Diagram 4 below).

Diagram 4

The Board is seeking feedback on whether the proposals would be an effective catalyst for change, for example...

...would the proposals allow companies to:		...would the proposals:
avoid applying disclosure requirements like a checklist?	make effective materiality judgements?	lead to better information for investors?
eliminate immaterial disclosures?	identify when additional or different information needs to be disclosed?	give auditors and regulators a basis for challenging judgement instead of relying on a checklist?
better understand investor needs and identify information that would meet those needs?	determine how best to satisfy disclosure objectives in a company's own circumstances?	lead to benefits that exceed costs?

IASB comment period and ongoing consultation

9. Comments are due to the IASB by 21 October 2021. IASB staff recommended the longer comment period in order for stakeholders to have sufficient time to adequately assess the practical consequences of the draft guidance and the proposed amendments. In addition, IASB staff noted that the longer period would allow them more time to perform additional consultation activities such as:
 - (a) performing field work with preparers on the proposals in the two test standards;
 - (b) working with auditors and regulators to assess the practical enforceability of the proposals; and
 - (c) performing research and outreach activities on the implementation of the more objectives-based disclosure requirements of recently issued IFRS Standards.

Why the NZASB should comment

10. The Board has previously (August 2020) indicated that the project is medium priority. For medium priority projects the Board:
 - (a) considers whether to respond, and whether to limit the Board response to a general submission or to comment on selected questions only;
 - (b) considers targeted outreach activities (rather than broad outreach activities); and
 - (c) considers providing informal feedback directly to IASB staff, rather than making a formal submission.

11. We recommend that the NZASB comment because:
- (a) NZASB staff actively contributed to earlier phases of the IASB’s *Disclosure Initiative* ;
 - (b) the proposals have implications for most standards; and
 - (c) the proposed reworking of disclosure requirements is likely to be of general interest to constituents.

Question for the Board

Q1. Does the Board AGREE to comment on IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*?

Proposed outreach

12. Assuming that the Board agrees to comment on the ED we are seeking feedback on possible outreach activities (see Table 2). As always, we would make the ED available on the XRB website and advise constituents about the proposals via NZASB Updates.

Table 2 Proposed outreach

Groups	Affected?	How to reach
Users	The proposals are likely to affect all users of financial statements of Tier 1 and 2 for-profit entities.	Via NZ Shareholders’ Association, XRAP
Preparers	The proposals are likely to affect all Tier 1 and 2 for-profit entities. More judgement will be required.	Webinar Via Institute of Directors, TRG, CA ANZ and CPA Australia
Auditors	The proposals are likely to affect how auditors approach reviewing disclosures in financial statements.	Webinar Via CA ANZ and CPA Australia
NZAuASB	The proposals are likely to affect how auditors approach reviewing disclosures in financial statements.	Via NZAuASB meeting
Regulators	The proposals are likely to affect how regulators approach reviewing disclosures in financial statements.	Direct contact with FMA

Questions for the Board

- Q2. Does the Board agree that we should hold a webinar to promote interest in, and awareness of, the proposals?
- Q3. Does the Board have any comments on the proposed targeted outreach?

Next steps

13. The ED will be available on the XRB website and we will advise constituents via NZASB Updates.
14. If the Board agrees to comment, we will seek feedback on which aspects of the ED to focus on at a future meeting.

Attachments

- Agenda item 8.2: IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*
- Agenda item 8.3: IASB ED/2021/3 Basis for Conclusions
- Agenda item 8.4: Snapshot IASB ED/2021/3



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 1 April 2021

To: NZASB Members

From: Tracey Crookston

Subject: **IASB – *Third Agenda Consultation***

Note for the Board

The Request for Information *Third Agenda Consultation* (RFI) was issued by the IASB on 30 March 2021 (31 March 2021 NZT). Our Board papers for this item (agenda items 9.1 and 9.2) were prepared before the RFI was issued and reflect information obtained from IASB Board papers and an International Forum of Standard Setters (IFASS) presentation made by IASB staff.

Recommendations¹

1. The Board is asked to
 - (a) PROVIDE FEEDBACK on the proposed outreach for the project; and
 - (b) PROVIDE FEEDBACK on the draft comment letter at agenda item 9.2.

Background

2. On 30 March, the International Accounting Standards Board (IASB) published a request for information (RFI) on the *Third Agenda Consultation* (the Agenda consultation).
3. The IASB undertakes an agenda consultation every 5 years. The purpose of which is to seek feedback on:
 - (a) strategic direction and balance of the IASB's activities;
 - (b) criteria for assessing projects to be added to the IASB's work plan; and
 - (c) priority of financial reporting issues.
4. The Agenda consultation will seek feedback to help prioritise activities within the current scope of the IASB's work (i.e. general-purpose financial statements and supporting management commentary for profit-oriented companies).² The Agenda consultation will be used to develop the IASB's work plan for 2022 to 2026.

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 current scope of the IASB work is focused on the development of financial reporting standards that support the objective of general purpose financial reporting – that is the provision of financial information about a reporting entity

5. The IASB has conducted outreach in order to identify potential projects to describe in the RFI. The objective in describing potential projects is to provide a common understanding of the financial reporting issues that could be addressed through the IASB's future Work Plan. As part of the consultation, stakeholders are asked to prioritise the potential projects included in the RFI and are also encouraged to suggest other financial reporting issues for the IASB to explore.
6. A summary of the NZASB's response to the IASB's *2015 Agenda consultation* and *2011 Agenda consultation* is included in [Appendix A](#) and [Appendix B](#) respectively. We have also included copies of the comment letters in the supporting papers.

Scope of the Agenda consultation

7. At the same time as the IASB is undertaking the Agenda consultation, the Trustees of the IFRS Foundation are assessing future strategy for the Foundation through their five-yearly reviews of structure and effectiveness. As part of this review, the Trustees are considering whether to establish a new Board to set sustainability reporting standards. The Trustees intend to make a final determination on this matter in advance of the November 2021 United Nations COP26 Conference.
8. The Trustees' review of structure and effectiveness is being conducted separately from the Agenda consultation. The Agenda consultation is about the priority of each activity within the current scope of the IASB's work, whereas the Trustees' review is exploring a potential expansion of the Foundation's role into setting sustainability reporting standards. Therefore, the Agenda consultation does not seek feedback on issues related to sustainability reporting, except to the extent that those issues relate to the current scope of the Board's work.
9. The decisions from the Trustees' review could affect the scope of the IASB's future work. For example, if decisions from the Trustees' review identify the need for the IASB to support and coordinate with the work of any new Sustainability Standards Board, such a need will be considered in finalising the IASB's priorities for 2022 to 2026.

Structure of this memo

10. The remaining sections in this memo are:
 - (a) Outreach;
 - (b) Draft comment letter;
 - (c) Comment period; and
 - (d) Next steps.

Outreach

11. Both the NZASB and NZAuASB had the opportunity to provide some initial feedback on the Agenda consultation at the joint board meeting in February 2021.

that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

12. We have also sought feedback on the Agenda consultation from TRG members at the March 2021 TRG meeting.
13. We have summarised feedback received from the joint board meeting and the TRG in the draft comment letter at Agenda item 9.2.

Proposed outreach

14. In addition to the outreach already undertaken, we are planning the following outreach activities:
 - (a) advise constituents of the RFI using our normal communication channels (NZASB Updates, XRB website and social media);
 - (b) publish an online survey – to encourage feedback from constituents on the priority of projects included in the RFI and to inform us of any other potential projects;
 - (c) an XRB/IASB interactive virtual event with Sue Lloyd IASB Vice-Chair and IASB staff. We are planning to allow break-out rooms for roundtable discussions; and
 - (d) undertake targeted outreach with CA ANZ, CPA and IOD.

Question for the Board

1. Does the Board have any comments on the proposed outreach?

Draft comment letter

15. As the RFI was published on the same day as the finalisation of our board papers, the draft NZASB comment letter (agenda item 9.2) is based on IASB Board papers and a recent presentation by IASB staff to the IFASS meeting in early March 2021.
16. From this IFASS presentation we know that the RFI will focus on three areas:
 - (a) strategic direction and balance of the Board’s activities (including activities focused on improving the understandability and accessibility of the standards, and enhancing stakeholder engagement);
 - (b) criteria for assessing which projects to add to the work plan (derived from the *Due Process Handbook* and the *2015 Agenda Consultation*); and
 - (c) priority of financial reporting issues that could be added to the IASB Work Plan;
17. As this is the first discussion of the Board on the Agenda consultation, we have drafted the comment letter in a bullet point format.

Question for the Board

2. Does the Board have any comments on the draft comment letter?

Comment Period

18. The IASB has decided to extend the comment period on the forthcoming RFI to 180 days (previously signalled by the IASB as 120 days). As the RFI was published on 30 March comments are due to the IASB by 27 September 2021.

Next steps

19. Our planned next steps are to:
- (a) undertake outreach activities during the April–June period;
 - (b) take a draft comment letter to the June NZASB meeting; and
 - (c) take a final comment letter to the August NZASB meeting for approval by the Board.

Attachments

- Agenda item 9.2: Draft comment letter
- Agenda item 9.3: Request for Information *Third Agenda Consultation*
- Agenda item 9.4: NZASB comment letter on *2015 Agenda Consultation* (supp paper)
- Agenda item 9.5: NZASB comment letter on *2011 Agenda Consultation* (supp paper)

Appendix A – Summary of comments made by the NZASB on the IASB’s 2015 Agenda consultation

Part 1	
Question	NZASB response
<p>Balance of the IASB’s projects</p> <p>The IASB’s work plan includes five main areas of technical projects:</p> <ul style="list-style-type: none"> • research programme • standards-level programme • conceptual framework • disclosure initiative; and • maintenance and implementation projects <p>What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?</p>	<ul style="list-style-type: none"> • Agreed that the IASB should consider the factors listed in paragraph 15 of the <i>Agenda Consultation</i> when making resource allocation decisions. • Suggested “changes in the economic environment” should be a further factor that is taken into account. • Encouraged the IASB, when making resource allocation decisions, to think carefully before embarking on small amendments. • Encouraged a “batch” of minor amendments rather than issuing separate due process documents. • Agreed that the current activity level of the standards-level programme and maintenance and implementation projects was appropriate. • Agreed with increasing resources in the research programme as the demands of other standard-setting activities lessen. • Noted that a number of projects related to the <i>Conceptual Framework</i> were expected to continue during the period covered by the consultation. Encouraged the IASB to maintain the momentum on these related projects to ensure their completion in a timely fashion.
<p>Research projects</p> <p>Should the IASB:</p> <ul style="list-style-type: none"> • add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding? • remove from its research programme the projects on foreign currency translation and high inflation? • remove any other projects from its research programme? 	<ul style="list-style-type: none"> • Suggested the IASB should include a fourth category in its Research Programme in addition to assessment stage, development stage and inactive – “Thought Leadership” • Considered that the IASB should ensure that there is some resource available to address broader and developing issues in financial reporting. • Noted that IASB Research Forums are one initiative in this area. • Acknowledged the IASB’s resource constraints and suggested partnering with jurisdictional standard-setters to develop thought leadership papers may help achieve this forward thinking. • Noted the interrelationship between <i>Financial Instruments with Characteristics of Equity and Provisions, Contingent Liabilities and Contingent Assets</i> projects. Suggested that as both projects have a strong liability focus, that the IASB address them concurrently.

Part 1	
Question	NZASB response
	<ul style="list-style-type: none"> • Noted increasing interest in cryptocurrencies which are virtual decentralised currencies. Suggested the IASB undertake some preliminary scoping work in this area with a view to adding it to the Research Programme and attribute a medium level of importance to it. • Noted that on the question of adding IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> the Board was unaware of any significant issues with IFRS 5 in New Zealand that would warrant it being a priority for the Research Programme. • Recommended IFRS 5 not be included on the Research Programme. • Agreed with the proposal to remove the inactive foreign currency translation and high inflation projects from the IASB agenda. • Proposed that the inactive project on Extractive Activities/Intangible Assets/Research and Development be retained, but reframed as a disclosure project. • Considered that it is important that information on all assets is included in the financial statements. • Noted that the debate around “missing intangible assets” shows that financial statements in their current form may not be meeting the information needs of users. • Suggested that a disclosure project is the first step towards a better reflection of the economic reality of the entity.
<p>Research projects</p> <p>For each project in the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and its urgency (high/medium/low)</p> <p>Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.</p>	<ul style="list-style-type: none"> • The NZASB’s 2015 view of the relative importance of the research projects is set out in Part 2 of Appendix A. • Factors that affected the rankings included whether or not there were conceptual issues, practical issues with existing standards, or no current standards. • Matters that could affect the Conceptual Framework, such as Financial Instruments with the Characteristics of Equity, were ranked highly because of their conceptual nature and issues of classification in practice. • Disclosure was ranked highly because it has been an area of focus for New Zealand constituents for a number of years. Other areas, such as Business Combinations under Common Control, ranked highly because there are no current standards that adequately address these matters.

Part 1	
Question	NZASB response
<p>Major projects Do you have any comments on the IASB’s current work plan for major projects?</p>	<ul style="list-style-type: none"> • The Disclosure Initiative is a high priority for NZ, as is evidenced by New Zealand staff working with the IASB on the Principles of Disclosure project. Suggested that the IASB include a project for the Review of Disclosures in existing standards on the work plan. • Strongly encouraged the IASB to issue the Insurance and Leasing standards as soon as possible. • Noted that Dynamic Risk Management is a project of low importance and urgency for us.
<p>Maintenance and implementation projects Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders’ needs and is that support sufficient (see paragraphs 19–23 and 50–53)?</p>	<ul style="list-style-type: none"> • Agreed that while maintenance and implementation projects are a necessary part of standard-setting, the IASB should not devote too much of its time and attention to minor technical matters, at the expense of more significant projects. • Suggested that it would be helpful for the IASB to reduce the number of maintenance and implementation due process documents that it issues. • Acknowledged that the Agenda Consultation and the then current IFRS Trustees’ Review were designed to take a strategic review. Suggested that a more regular (limited scope) review of IASB priorities, during the Agenda Consultation cycle, would help to ensure that the IASB’s work plan is focused in the appropriate areas and responds to emerging financial reporting issues. • Noted that the work involved in making minor changes to a standard takes time and effort for the IASB, jurisdictional standard-setters and constituents. Due process is necessary, even for small changes, and standard-setting fatigue for all participants can result from continual small changes. • Encouraged the IASB not to make minor changes to a standard that has been issued but not yet implemented, especially in respect of detailed implementation issues. • Suggested that unless there is a particularly significant issue at a principle level, making such changes creates unnecessary uncertainty for constituents, and delays implementation. It can also call into question the robustness of the due process. • Noted that establishing Transition Resource Groups for major new standards can be helpful for educational purposes, but that they should not become a regular feature for all new standards, as they introduce a period of uncertainty while they are in progress.

Part 1	
Question	NZASB response
	<ul style="list-style-type: none"> • Encouraged the “batching” of minor amendments to standards. Suggested that this could be achieved by broadening the criteria for Annual Improvements to allow narrow-scope amendments to be incorporated in Annual Improvements Exposure Drafts. • Suggested that alternatively, narrow scope amendments could be grouped together in a single Exposure Draft.
<p>Level of change Does the IASB’s work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard setting? Why or why not?</p>	<ul style="list-style-type: none"> • Considered that (in general) the timespan for the development of a new standard is too long. • Acknowledged that separating research from the setting of standards should help to reduce the timeframe for developing standards and ensure that standards-level projects are addressing the right problem with a workable solution. • Encouraged the IASB to look at ways to refine the process.
<p>Any other comments on the IASB’s workplan?</p>	<ul style="list-style-type: none"> • Noted the importance of meaningful corporate performance reporting (including financial statements). • Suggested that a more holistic approach to reporting is gaining momentum internationally, and the integrated reporting movement is one example of this broadening of the scope of corporate reporting. • Suggested GPFR is broader than financial statements and the IASB needs to move towards increasing the relevance and usefulness of financial reporting by tackling financial reporting issues that go beyond the financial statements, and require corporates to tell a broader story about the entity. • Encouraged the IASB to play a leadership role in the wider corporate performance reporting area, and consider the possible future direction of corporate reporting and the implications for IFRS in meeting the needs of users. This is to ensure that the IASB and IFRS remain relevant globally and continue to do so in the future.
<p>Frequency of Agenda Consultations Do you agree that a five-year interval between Agenda Consultations is more appropriate than the three year interval currently required? Do you agree? Why or why not? If not, what interval do you suggest and why?</p>	<ul style="list-style-type: none"> • Suggested that the IASB needs flexibility when it comes to consulting on its agenda. That flexibility should include frequency of consultation as well as being able to consult on a subset of its agenda, such as research projects.

Part 1	
Question	NZASB response
	<ul style="list-style-type: none"> Suggested it would make sense to set a maximum timeframe within which consultation on all aspects of the agenda must be carried out. The proposed five-year interval between Agenda Consultations would be an appropriate maximum timeframe.

Part 2 – Research Project classification		
The IASB research projects as at 31 July 2015, with NZASB views on the relative importance of the projects are set out in the table below		
Project Stage	Project	Relative Importance
Assessment	Definition of a Business	Medium
	Discount Rates	Medium
	Goodwill and Impairment	High
	Income Taxes	Medium
	Pollutant Pricing Mechanisms	Medium
	Post-employment Benefits	Low
	Primary Financial Statements (formerly Performance Reporting)	High
	Provisions, Contingent Liabilities and Contingent Assets	Medium
	Share-based Payment	Low
Development Stage	Business Combinations under Common Control	High
	Disclosure Initiative-Principles of Disclosure	High
	Dynamic Risk Management	Low
	Equity Method	Medium

Part 2 – Research Project classification		
The IASB research projects as at 31 July 2015, with NZASB views on the relative importance of the projects are set out in the table below		
Project Stage	Project	Relative Importance
	Financial Instruments with the Characteristics of Equity	High
Inactive	Extractive Activities/Intangible Assets/R & D	Low
	Foreign Currency Translation	Remove
	High Inflation	Remove
Thought Leadership	Cryptocurrencies	Medium

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Appendix B – Summary of comments made by the NZASB on the IASB’s 2011 Agenda consultation

High Priority Projects

The issues and projects the NZASB considered should be “High” priority were:

- Reduce the complexity of IFRSs;
- Develop a presentation and disclosure framework;
- Complete work on the conceptual framework project;
- Review and update all the International Accounting Standards (IASs), prioritising:
 - IAS 12 *Income Taxes*
 - IAS 41 *Agriculture*
 - IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; and
 - IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- Strengthen its relationship with IPSASB;
- Complete and develop certain standards-level and limited scope projects.

The NZASB:

- considered that working on the first four topics above fitted with the IASB’s need to balance developing new standards with fixing existing standards. They were also considered to be a good balance of long, medium and short (standards-specific, limited scope) projects.
- encouraged the IASB to utilise the expertise and resources of national standard-setters through joint projects, particularly those that have a specific significance to particular jurisdictions.

Complete and develop Standards-level projects

- considered that the following two narrow-scoped, standards-level projects needed to be on the IASB’s high priority list:
 - Emissions Trading Scheme (ETS); and
 - Business combinations between entities under common control

Integrated Reporting

- Suggested the IASB consider integrated reporting – better, more concise communication about an entity’s use of resources, its activities, its impact on the environment/society and its ability to sustain itself in the short, medium and long term.

Projects that should not be on the IASB’s Agenda

- Earnings per share (EPS);
- Rate regulated activities;
- Country by country reporting

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Note for the Board

The Request for Information *Third Agenda Consultation* (RFI) was issued by the IASB on 30 March 2021 (31 March 2021 NZT). Our Board papers for this item (agenda items 9.1 and 9.2) were prepared before the RFI was issued and reflect information obtained from IASB Board papers and an International Forum of Standard Setters (IFASS) presentation made by IASB staff.

[date]

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
IFRS Foundation
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Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org or By email: commentletters@ifrs.org

Dear Andreas

Request for Information–*Third Agenda Consultation*

Thank you for the opportunity to comment on Request for Information–*Third Agenda Consultation* (RFI). The RFI has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

[The main points will be noted in the cover letter]

Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Tracey Crookston (Tracey.Crookson@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Questions 1—Strategic direction and balance of the Board’s activities

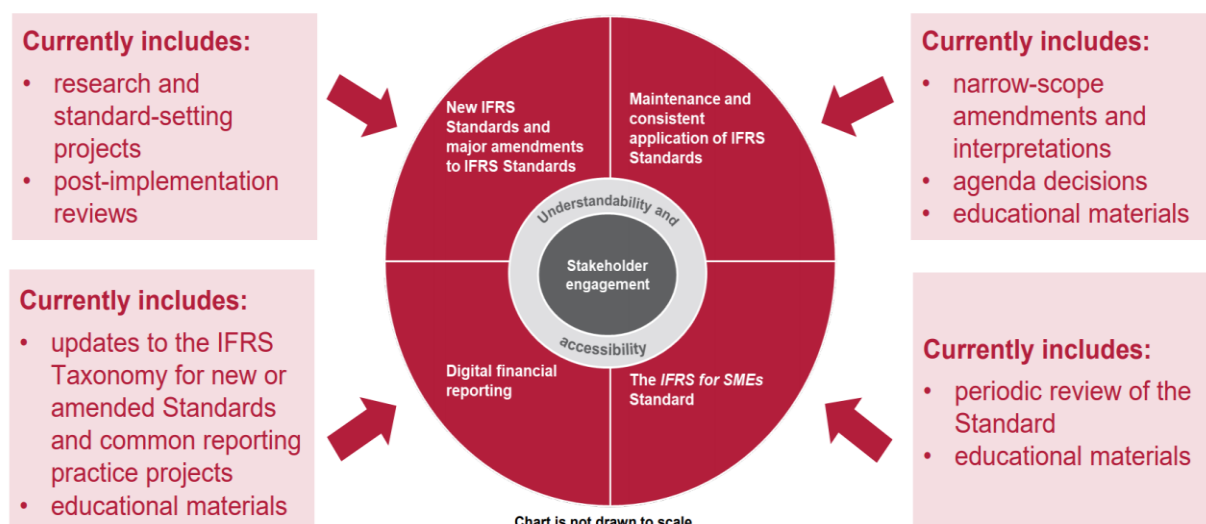
- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? If you think the Board should increase or decrease its current level of focus on each of its activities, could you please specify the types of work within each activity that the Board should increase or decrease.
- (b) Should the Board undertake any other activities within the current scope of its work?

Notes for the Board

- The diagram below shows the categories of IASB Activities.

1 Strategic direction and balance of the Board’s activities—overview

Agenda ref 9



Understandability & accessibility and **Stakeholder engagement** are cross-cutting activities that support the development and consistent application of high-quality Standards and their electronic representation (IFRS Taxonomy)

- IASB staff have indicated that to help stakeholders respond, the RFI will provide the following information:
 - a description of the Board’s activities;
 - examples of what more the Board could do in each activity; and
 - the current level of focus on each activity.
- IASB staff have also indicated they will be assuming that the IASB’s overall level of resources will remain substantially unchanged in the 2022 to 2026 period. Therefore, an increase in the level of focus on one activity would mean that fewer resources would be available for other activities.

- *The IASB engages in the following cross-cutting activities to improve understandability and accessibility across all its activities:*
 - *identifying complexities and inconsistencies across financial reporting;*
 - *research into how technological tools can improve the accessibility of IFRS Standards and related materials; and*
 - *quality control reviews.*
- *The feedback received will be used as a basis for the IASB to define the overall balance of its activities for 2022–2026.*

Feedback from Joint Board Meeting

- The IASB needs to fully consider the benefits versus the costs to preparers and auditors before proposing narrow-scope amendments to IFRS Standards.
- While it is important to improve the accessibility, clarity and understandability of IFRS Standards, it is also important to ensure that such improvements lead to improved accessibility and understandability of financial statements.

Feedback from TRG members

- Agreed with the staff view and commented that it was important to review the terminology used in older IASs. They noted that this can lead to confusion, especially when compared with the terminology used in the IFRS Standards.
- Acknowledged that reviewing IASs was more likely to involve major amendments, especially if this review includes IAS 12 *Income Taxes*, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 38 *Intangible Assets*.
- Were in support of trying to make IFRS Standards more understandable. They noted that it can be difficult to bridge the gap between what is technically right and what is intuitive.
- Suggested the IASB could take a targeted approach to its review of the older IASs. For example, the IASB could focus on the standard that is the most out of date or causing the most problems.
- From a mid-tier firm perspective, preparers need more education around the application of the standards.

Preliminary staff views

- We think the IASB should maintain and potentially increase its focus on:
 - activities relating to the consistent application of IFRS Standards – particularly education activities; and
 - activities to improve the understandability and accessibility of IFRS Standards.

Question 2—Criteria for assessing which projects to add to the work plan

(refer to the seven factors in diagram below)

- (a) Do you think the Board identified the right criteria to use? Why or why not?
- (b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

Notes for the Board

- The following slide summarises the seven factors the IASB considers in deciding whether to add a potential project to its work plan (see also Table 1 below).

2 Criteria for assessing which projects to add to the work plan

Agenda ref 9

The Board evaluates a potential project for its work plan primarily on the basis of whether the project will meet investors' needs, while also taking into account the costs of producing the information. The Board considers seven factors in deciding whether to add a potential project to its work plan.

- 1 The importance of the matter to investors.
- 2 Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports.
- 3 The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others.
- 4 How pervasive or acute the matter is likely to be for companies.
- 5 The potential project's interaction with other projects on the work plan.
- 6 The complexity and feasibility of the potential project and its solutions.
- 7 The capacity of the Board and its stakeholders to progress the project on a timely basis.

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- The IASB uses specified criteria to assess the potential financial reporting issues that could be added to its work plan to develop new IFRS Standards and major amendments to IFRS Standards.
- The criteria are derived from the Due Process Handbook and the 2015 Agenda Consultation.
- The relative importance of any specific criterion will vary depending on the particular circumstances.
- The IASB also considers the work streams of the major standard setters.
- The IASB evaluates a potential project for its work plan primarily on the basis of whether the project will meet investors' needs, while also taking into account the costs of producing the information.
- The IASB considers 7 factors when deciding whether to add a potential project to its work plan.
- We have summarised these factors in Table 1.

Table 1	
Factors Considered by the IASB when deciding whether to include a project in the work plan	
Factor	What is considered
1. The importance to investors	<ul style="list-style-type: none"> Whether addressing the issue improves financial reporting for the primary users of general purpose financial reports (as defined by the Conceptual Framework). The extent to which existing practice adequately addresses the issue for investors. If the issue is one of diversity in practice, how problematic is that for investors.
2. Deficiency in Reporting	<ul style="list-style-type: none"> Whether the issue is due to standard-setting or compliance. If there is a compliance problem, whether a standard-setting solution is feasible (criterion 6).
3. Companies affected, prevalence? (which jurisdictions?)	<ul style="list-style-type: none"> Data on prevalence of the issue. Types of companies affected and in what jurisdictions, regional or global?
4. How pervasive or acute is the matter?	<ul style="list-style-type: none"> Same as for (3) above.
5. Interaction with other projects	<ul style="list-style-type: none"> Updated information as current work plan projects progress.
6. Complexity and feasibility	<ul style="list-style-type: none"> Information about previous project(s) on the issue that was not finalised. If the issue concerns the need for judgement in the application of the Standards, whether a standard-setting solution is feasible.
7. Board capacity	<ul style="list-style-type: none"> Updated information as current work plan projects progress.

Feedback from Joint Board Meeting

- We did not ask for feedback on the criteria for assessing which projects to add to the work plan.

Feedback from TRG members

- We did not ask for feedback on the criteria for assessing which projects to add to the work plan.

Preliminary staff views

- The criteria are very comprehensive and have been derived from criteria used in the previous *2015 agenda consultation* and in the *Due Process Handbook*.
- The 2015 NZASB submission on the IASB Agenda Consultation suggested that the “economic environment” should be a factor that is taken into account. The IASB has recently responded to economic environment factors, due to the pandemic, when it added the *Covid-19-related rent concessions* project to its workplan.

Question 3—Priority of financial reporting issues

- (a) What priority would give each of the potential projects described in the RFI—high, medium or low. In particular, we would like to know if your prioritisation refers to all or only some aspects included in the project description—for example, a project on intangible assets may mean recognition and measurement of currently unrecognised intangible assets or improved disclosure requirements about unrecognised intangible assets.
- (b) Should the Board add any financial reporting issues not described in the RFI? Please explain:
- (i) the nature of the issue; and
 - (ii) why you think the issue is important.

Notes for the Board

- *The IASB conducted outreach to identify potential projects to describe in the RFI.*
- *The potential projects have a description included to provide a common understanding of the financial reporting issues that could be addressed in a potential project to ensure more focused feedback. IASB staff have noted that the list is not a draft work plan.*
- *Stakeholders can suggest other financial reporting issues for the IASB to consider.*
- *The IASB’s list of financial reporting issues to be prioritised is set out in the Table 2 below.*
- *To help stakeholders respond, the RFI is likely to provide:*
 - *The IASB’s estimated capacity to add new projects to its research and standard-setting work plan for 2022 to 2026.*
 - *Estimated size of each of the described potential projects.*
- *A summary of the NZASB’s response to the IASB’s Request for Views 2015 Agenda Consultation and IASB’s Request for Views Agenda Consultation 2011 is included in Appendix A and Appendix B of Agenda item 9.1 respectively. We have also included copies of the comment letters in the supporting papers.*

Feedback from Joint Board Meeting

- We have included the feedback from the meeting in Table 2.

Feedback from TRG members

- We have included the feedback from TRG members in Table 2.

Preliminary staff views

- Topics that staff think the IASB should focus on are as follows:
 - IAS 38 *Intangible Assets* – holistic review of the requirements for intangible assets
 - Going Concern
 - Climate-related risks and other emerging risks (as they relate to the user-needs of general purpose financial statements)
 - IAS 36 *Impairment of Assets* – holistic review of impairment requirements
 - IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
 - Pollutant pricing mechanisms
- We note from reviewing our previous comment letters on the IASB agenda consultations that we have made similar requests for projects to be added to the IASB’s agenda over the last decade. Upon reflection we recommend that once we have completed outreach, taking the feedback received into consideration, the Board determine its top three priorities for projects to be added to the IASB’s workplan for 2022 to 2026.

Prioritisation of potential IASB Projects

Table 2 on the following pages includes a list of all potential IASB projects as expected to be described in the RFI, together with feedback received to date from the joint board meeting and TRG.

At the April NZASB meeting we will provide the staff priority assessment of each potential IASB project as High, Medium, or Low. This will be based on our review of the RFI as issued on 31 March 2021 (NZT).

Questions for the Board

1. Does the Board have any comments on the preliminary staff views expressed in this draft comment letter (especially in relation to which topics from Table 2 the IASB should focus)?
2. Is the Board aware of any other important financial reporting issues that have not been described in the RFI (agenda item 9.3)?

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Potential IASB projects			
Borrowing costs	<ul style="list-style-type: none"> Review definitions of borrowing costs and qualifying asset in IAS 23 <i>Borrowing Costs</i>. Provide additional guidance on capitalisation of borrowing costs, including foreign currency borrowings. 		
Climate-related risks and other emerging risks	<ul style="list-style-type: none"> Address any gaps in current requirements that may apply to how climate-related risks and other emerging risks should be reflected in the financial statements. 		Sustainability issues – climate related disclosures will be important in our environment over the next 5 years.
Commodity transactions	<ul style="list-style-type: none"> Develop accounting guidance for commodity loan transactions and other transactions involving commodities. 		
Cryptocurrencies and related transactions	<ul style="list-style-type: none"> Develop accounting guidance for cryptocurrencies and related transactions. 		
Discount rates	<ul style="list-style-type: none"> Consider making requirements relating to discount rates consistent across IFRS Standards. 	<p><i>Agreed should be a priority.</i></p> <p>The inconsistency of discount rates across standards is a bigger issue than negative interest rates for the public sector.</p>	
Employee benefits	<ul style="list-style-type: none"> Develop accounting requirements for hybrid pension plans. Review the prohibition of recycling of actuarial gains and losses presented in other comprehensive income. 		

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Expenses: inventory and cost of sales, classification of expenses, and disclosure	<ul style="list-style-type: none"> • Develop an IFRS Standard for cost of sales (including cost of goods sold and the cost of providing services), using the principles from IFRS 15 Revenue <i>from Contracts with Customers</i>. Improve the accounting for inventory. • Develop detailed guidance on the classification of expenses by function in the statement of profit or loss. • Develop enhanced disclosures about expenses, so that users of financial statements (users) can distinguish ongoing maintenance spend from growth spend. 		
Foreign currencies	<ul style="list-style-type: none"> • Undertake a review of IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> and consider: <ul style="list-style-type: none"> ○ developing enhanced disclosures about the effect of changes in foreign exchange rates on the financial statements. ○ reviewing the factors used to determine an entity's functional currency and improving disclosure about those factors. ○ clarifying the accounting for foreign currency derivatives within the scope of IAS 21. 		
Going concern	<ul style="list-style-type: none"> • Develop enhanced disclosures about the going concern assumption. • Develop accounting requirements for entities that are no longer a going concern. 	<i>Agreed should be a priority.</i>	

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Government grants	<ul style="list-style-type: none"> Revise IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> using principles from IFRS 15 and the <i>Conceptual Framework for Financial Reporting</i>. 	<p><i>Agreed should be a priority.</i></p> <p>This could be widened to include non-exchange revenue and expenses.</p>	<p>IAS 20 bears no resemblance to the conceptual framework. It is a Standard that has been applied more frequently in recent times.</p> <p>If this IAS is reviewed it would more likely involve major amendments.</p>
Income taxes	<ul style="list-style-type: none"> Review the requirements for recognition of deferred tax liabilities considering the revised definition of a liability in the <i>Conceptual Framework for Financial Reporting</i>. Develop better disclosures to facilitate reconciliation of deferred, current and paid tax. Develop accounting guidance for emerging types of taxes. Develop disclosure requirements about an entity's tax planning and tax structures. 	<p><i>Agreed should be a priority.</i></p>	<p>There will be no “easy fixes” for some of the issues with IAS 12.</p> <p>If this IAS is reviewed it would more likely involve major amendments.</p>
Intangible assets	<ul style="list-style-type: none"> Consider how to address the following concerns raised by stakeholders about IAS 38 <i>Intangible Assets</i>: <ul style="list-style-type: none"> lack of guidance about some new types of intangible assets, including ones that are routinely sold/held for investment (e.g. cryptocurrencies, emission rights); IAS 38 is restrictive about the recognition of internally generated intangible assets; 	<p><i>Agreed should be a priority.</i></p> <p>There needs to be a holistic review of the requirements for intangible assets.</p>	<p>If this IAS is reviewed it would more likely involve major amendments.</p> <p>IAS 38 does not work in today's environment and is in need of a holistic review – there are a lot of questions out there regarding software.</p>

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
	<ul style="list-style-type: none"> ○ some intangible assets are treated differently depending on whether they are obtained through a business acquisition or generated internally through organic growth; ○ disclosures about expenditure on intangible resources that are not recognised on the balance sheet are insufficient and do not provide useful information. <p>Project size options – fundamental review of the standard vs development of disclosures only.</p>		
Interim financial reporting	<ul style="list-style-type: none"> ● Review IAS 34 <i>Interim Financial Reporting</i> for inconsistencies with other IFRS Standards. ● Clarify the definition of interim period. 		
Negative interest rates	<ul style="list-style-type: none"> ● Develop accounting requirements for negative interest rates 	<p><i>Agreed should be a priority.</i></p> <p>Revenue or expense is an issue particularly for banks.</p> <p>Consistency of presentation is needed.</p>	<p>Negative interest rates seem to be less of an issue in New Zealand. How much time and effort should be invested in something that could resolve itself in the short term? It might be a problem internationally but by the time standard-setting activity takes place it may well be resolved.</p> <p>Noted that negative interest rates are linked with discount rates.</p>

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Operating segments	<ul style="list-style-type: none"> Review the aggregation criteria for operating segments. Develop enhanced disclosures about segment assets and equity to help users calculate return on equity by segment. Develop enhanced disclosures about revenue, capital expenditures and business combinations by segment. 	<p><i>Agreed should be a priority.</i></p> <p>Segment reporting (IFRS 8 <i>Operating Segments</i>), particularly to disclose internet sales for retailers who have experienced increases in online sales due to COVID-19.</p>	Segment reporting is perhaps not well understood as there are a lot of companies which report on only one segment.
Other comprehensive income	<ul style="list-style-type: none"> Apply the principles from the <i>Conceptual Framework for Financial Reporting</i> for the classification of income and expenses in other comprehensive income and recycling consistently across IFRS Standards. 	<p><i>Agreed should be a priority.</i></p>	This is generally understood and accepted event if there is no overriding principle, so this is not something that needs to be high on the agenda.
Separate financial statements	<ul style="list-style-type: none"> Undertake a review of IAS 27 <i>Separate Financial Statements</i>. Develop additional requirements to clarify the accounting in separate financial statements for some transactions between a parent and its subsidiaries. Develop more effective disclosures, driven by the information needs of primary users of separate financial statements (e.g. disclosures on distributable profits or intragroup guarantees). 		

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Statement of cash flows and related matters	<ul style="list-style-type: none"> Undertake a review of the presentation and disclosure of information about cash flows including information about factoring, supply chain financing arrangements, capital expenditure and cash flows linked to operating expenses. Consider developing a standardised definition of and disclosures about free cash flows, and a separate statement of cash flows for financial institutions. 		
Research pipeline projects (these projects were identified as priorities in the previous Agenda Consultation but are currently inactive. The IASB will seek updated information about their priority)			
Discontinued operations and disposal groups	(We do not have a description for this but we note, IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> is listed on the IASB website as a forthcoming PIR.)		
Inflation	<ul style="list-style-type: none"> Assess whether it would be feasible to extend the scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> to cover economies subject to only high inflation, without amending other requirements of IAS 29. 		
Pollutant pricing mechanisms	<ul style="list-style-type: none"> Assess whether the IASB should consider addressing any diversity that may exist in accounting for pollutant pricing mechanisms (including emissions trading schemes). 		For example, the Emissions Trading Scheme (ETS) – guidance for accountants is needed. IFRIC 3 <i>Emission Rights</i> has been withdrawn, but is still available as a possible treatment.

Table 2			
Priority of financial reporting issues – described projects in the RFI (in alphabetical order)			
Described projects	Overview	Feedback from Joint Boards meeting	Feedback from TRG
Variable and contingent consideration*	<ul style="list-style-type: none"> • Consideration of the issues relating to variable and contingent payments for assets acquired outside of business combinations. • Research on risk-sharing and collaborative arrangements may be needed. 		
Other financial reporting issues suggested to the IASB (to be listed in the RFI’s Appendix)			
Other	<ul style="list-style-type: none"> • Converge IFRS 13 <i>Fair Value Measurement</i> with International Valuation Standards. • Develop accounting guidance for assets acquired at no cost (from related third parties). • Develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied. • Develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements. • Review the requirements of IAS 36 <i>Impairment of Assets</i>. • Review the requirements of IAS 41 <i>Agriculture</i>. 	<p><i>Agreed should be a priority.</i> Alignment with the international valuation standards, unit of account.</p> <p><i>Agreed should be a priority.</i> There should be a holistic review of the impairment requirements.</p>	<p>It would be helpful from an accounting perspective if IFRS 13 was aligned with the valuation standards – there are often discussions with valuers when conducting impairment reviews.</p> <p>It will be interesting to see where the IASB end up on the impairment of goodwill question.</p>

March 2021

International Accounting Standards Board

Request for Information
Third Agenda Consultation

Comments to be received by 27 September 2021

IASB[®]

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Request for Information

Third Agenda Consultation

Comments to be received by 27 September 2021

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Foreword by Hans Hoogervorst, Chairman of the IASB®

Help us shape financial reporting for the future

The covid-19 pandemic is affecting us all. Yet, the financial reporting community continues to work together to bring transparency, accountability and efficiency to financial markets. An important part of our work is understanding how to best serve our stakeholders and the public interest, so we are seeking your views on what we should prioritise from 2022 to 2026.

The last two agenda consultations provided valuable input that helped improve financial reporting globally. Over the past decade, we completed projects that our stakeholders identified as priorities—we introduced new major IFRS® Standards on financial instruments, revenue, leases and insurance contracts and we revised the *Conceptual Framework for Financial Reporting*. We also made progress on our Better Communication in Financial Reporting projects, increased our work to support consistent application of the Standards and responded swiftly to urgent issues.

So, after two decades of work, what next?

Some of the IASB's capacity until 2026 will be filled by completing its current projects and undertaking the required post-implementation reviews of the new financial instruments, revenue and leases Standards.

Given the trend towards digitalisation of financial reports and the growth in private equity investments, we have been asked to increase our efforts to develop the IFRS Taxonomy and the *IFRS for SMEs*® Standard. We have also been asked to improve financial reporting requirements on intangibles and climate-related risks, to take on projects that comprehensively address application questions and to make our Standards easier to understand. However, this agenda consultation provides an opportunity for everybody to share their views on the priorities of our activities and new projects for our work plan.

In parallel with this agenda consultation, the Trustees of the IFRS Foundation are considering a potential expansion of the Foundation's role through the possible creation of a new board to set sustainability reporting standards. I encourage you to follow and engage with their work.

While it will be for my successor Andreas Barckow to lead the delivery of the IASB's next five-year plan, I urge you to share your views as you have done before. Your feedback is important input to the IASB and will help shape the future of financial reporting.

We look forward to receiving your comments.



A handwritten signature in black ink, appearing to be 'Hans Hoogervorst', written in a cursive style.

Hans Hoogervorst
IASB Chairman

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Request for Information Third Agenda Consultation

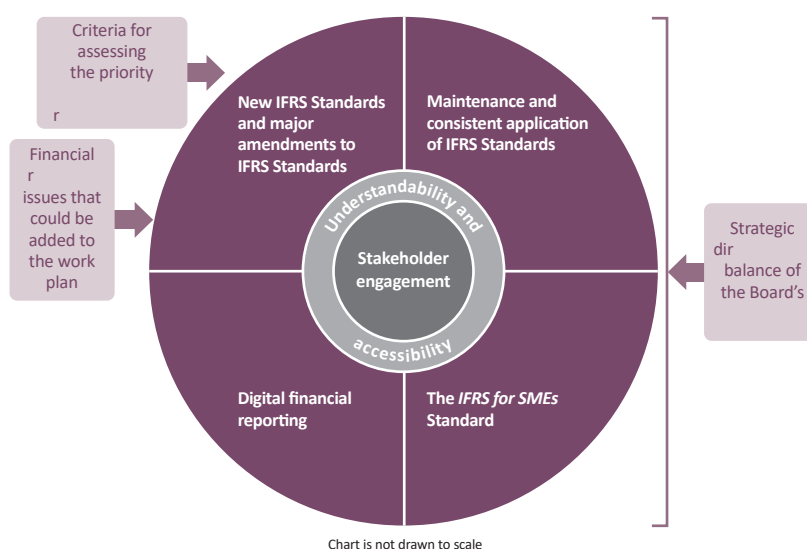
March 2021

Introduction

Objective of this Request for Information

- 1 The International Accounting Standards Board (Board) undertakes a public consultation on its activities and its work plan every five years (agenda consultation). The objective of this agenda consultation is to gather views on:
 - (a) the strategic direction and balance of the Board’s activities;
 - (b) the criteria for assessing the priority of financial reporting issues that could be added to the work plan; and
 - (c) new financial reporting issues that could be given priority in the Board’s work plan.

Diagram 1—An overview of this agenda consultation



How will responses to this Request for Information help the Board?

- 2 Responses to this Request for Information will help shape the Board’s thinking when determining how to prioritise its activities and new projects in its work plan for 2022 to 2026. This agenda consultation focuses on activities within the current scope of the Board’s work—financial statements and management commentary for profit-oriented companies.

This agenda consultation focuses on the current scope of the Board’s work—financial statements and management commentary for profit-oriented companies

Separate review of structure and effectiveness

- 3 The Trustees of the IFRS Foundation (Trustees) are assessing the future strategy for the Foundation through their five-yearly review of structure and effectiveness. As part of that review, the Trustees are considering whether to establish a new board to set sustainability reporting standards. The Trustees intend to make a final determination in advance of the November 2021 United Nations COP26 conference.¹
- 4 The Trustees’ review is different from this agenda consultation. This agenda consultation is about the priority of each activity in the current scope of the Board’s work, whereas the Trustees’ review is exploring a potential expansion of the Foundation’s role into setting sustainability reporting standards. Therefore, this agenda consultation does not seek feedback on issues related to sustainability reporting, except to the extent that those issues relate to the current scope of the Board’s work.
- 5 To the extent applicable to the Board, the decisions of the Trustees on their review of the Foundation’s strategy will be considered in finalising the Board’s activities and work plan for 2022 to 2026. For example, if decisions from the Trustees’ review identify the need for capacity from the Board to support any interaction between the work of the Board and any new sustainability standards board, such a need will be considered in finalising the Board’s priorities for 2022 to 2026.

Structure of this Request for Information

- 6 This Request for Information provides an overview of:
- (a) the Board’s activities;
 - (b) the criteria for assessing the priority of financial reporting issues that could be added to the work plan; and
 - (c) financial reporting issues that could be added to the Board’s work plan.
- 7 Further information to help you respond to this Request for Information is provided in:
- (a) Appendix A, which summarises the Board’s work plan as of March 2021;

¹ To stay up to date with the latest developments on the Trustees’ review, see: <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>.

THIRD AGENDA CONSULTATION

- (b) Appendix B, which describes frequently suggested financial reporting issues; and
- (c) Appendix C, which lists other financial reporting issues suggested to the Board.

Questions for respondents

- 8 The Board has discussed the matters in this Request for Information.² The Board has not, however, reached a view on its activities and work plan for 2022 to 2026.

Your feedback will help shape the Board's thinking when determining how to prioritise its activities and new projects in its work plan for 2022 to 2026

- 9 The Board invites comments on all matters in this Request for Information. You need not comment on all of the questions and you are encouraged to comment on any other matters relevant to this consultation.
- 10 The Board will consider all comments received in writing by 27 September 2021.

² To access agenda papers and summaries from discussions by the International Accounting Standards Board (Board) and to stay up to date with the latest developments on this agenda consultation, see: <https://www.ifrs.org/projects/work-plan/2020-agenda-consultation/>.

Question 1—Strategic direction and balance of the Board's activities

The Board's main activities include:

- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the *IFRS for SMEs* Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving the understandability and accessibility of the Standards; and
- engaging with stakeholders.

Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.
- (b) Should the Board undertake any other activities within the current scope of its work?

Question 2—Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

- (a) Do you think the Board has identified the right criteria to use? Why or why not?
- (b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

Question 3—Financial reporting issues that could be added to the Board's work plan

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

- (a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:
 - (i) the nature of the issue; and
 - (ii) why you think the issue is important.

Question 4—Other comments

Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

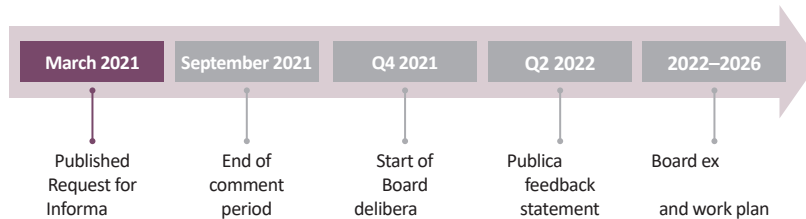
How to comment

- 11 Please submit your comments electronically:
 - Online <https://www.ifrs.org/projects/open-for-comment/>
 - By email commentletters@ifrs.org
- 12 Your comments will be on public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Next steps

- 13 The Board expects to start discussing feedback on this Request for Information at public meetings in the final quarter of 2021. In the second quarter of 2022, the Board expects to publish a feedback statement summarising that feedback and its 2022 to 2026 activities and work plan.

Diagram 2—Project timeline



Strategic direction and balance of the Board’s activities

- 14 The Board’s main activities are:³
- developing new IFRS Standards and major amendments to IFRS Standards;
 - maintaining IFRS Standards and supporting their consistent application;
 - developing and maintaining the *IFRS for SMEs* Standard;
 - supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
 - improving the understandability and accessibility of the Standards; and
 - engaging with stakeholders.
- 15 All of the Board’s activities are integrated to some degree; however, the activities relating to the understandability and accessibility of the Standards and to stakeholder engagement affect all aspects of the Board’s work. Diagram 3 illustrates the Board’s main activities—please note that this diagram is not drawn to scale.

³ Throughout this Request for Information, references to the Board’s activities or capacity relate to the technical resources of the IFRS Foundation, including the Board and technical staff.

Diagram 3—An illustration of the Board’s activities

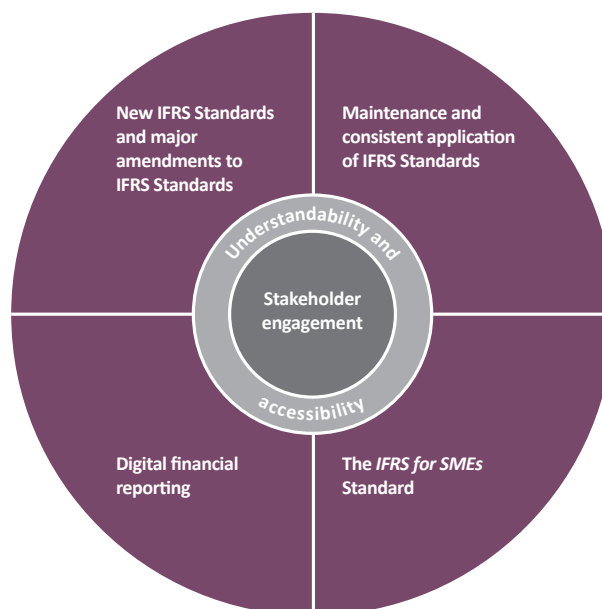


Chart is not drawn to scale

16 This Request for Information seeks your feedback on the overall balance of our main activities—that is, whether the Board should increase, leave unchanged or decrease its current level of focus on each activity. To help you provide feedback, Table 1 includes:

- (a) a summary of each main activity, including an indication of the Board’s current level of focus on the activity. The level of focus has been determined using estimates of the resources allocated to each main activity over the past three years.
- (b) descriptions of what the Board believes it could do if it were to increase its level of focus on each main activity. The descriptions of what the Board could do are examples and therefore do not constitute an exhaustive list. An increased level of focus on an activity does not necessarily mean that the Board will pursue all of the listed work.

17 The Board is of the view that its current level of resources will remain substantially unchanged from 2022 to 2026. In the Board’s view, the current level of resources is appropriate and sufficient to deliver timely improvements to financial reporting. If the Board were to significantly increase its resources and therefore its activities, stakeholders might have insufficient capacity to engage with the Board, provide high-quality feedback on proposals or implement changes that result from those proposals.

- 18 Therefore, an increase in the allocation of resources to one activity would mean that fewer resources would be available for other activities. For example, an increase in the resources allocated to activities that support the maintenance and consistent application of IFRS Standards might lead to a reduction in the number of new research and standard-setting projects the Board can take on.

Increasing the resources allocated to one activity will mean that fewer resources are available for other activities

Table 1—The Board’s main activities

New IFRS Standards and major amendments to IFRS Standards	
Objective: Research issues and, if appropriate, develop major new financial reporting requirements	
Current level of focus: 40%–45%	
What the Board currently does	Examples of what more the Board could do
<p>The Board develops new IFRS Standards and major amendments to IFRS Standards through research and standard-setting projects (see Appendix A for the current projects).</p> <p>The Board also undertakes post-implementation reviews of new IFRS Standards and major amendments to IFRS Standards. The objective of a post-implementation review is to assess the effects of a new Standard or major amendment to a Standard on investors, companies and auditors after the requirements have been widely applied for some time.⁴ The Board has started the required post-implementation review of (a) the classification and measurement requirements in IFRS 9 <i>Financial Instruments</i>, and (b) IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i>. Between 2022 and 2026, the Board intends to conduct the required post-implementation reviews of the impairment and hedge accounting requirements in IFRS 9, and the requirements in IFRS 15 <i>Revenue from Contracts with Customers</i> and IFRS 16 <i>Leases</i>.</p>	<p>The Board could take on new projects to address financial reporting issues (see paragraphs 24–28).</p>

⁴ Throughout this Request for Information, the term ‘investors’ refers to primary users of financial statements, defined in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* as existing and potential investors, lenders and other creditors, while the term ‘companies’ refers to entities that report applying IFRS Standards or the *IFRS for SMEs Standard*.

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Maintenance and consistent application of IFRS Standards	
Objective: Help stakeholders obtain a common understanding of financial reporting requirements	
Current level of focus: 15%–20%	
What the Board currently does	Examples of what more the Board could do
<p>Together with the Interpretations Committee (Committee), the Board maintains and supports the consistent application of IFRS Standards as a single set of high-quality global Standards by:</p> <ul style="list-style-type: none"> • monitoring the consistent application of IFRS Standards; • developing narrow-scope amendments to, and interpretations of, IFRS Standards; • publishing agenda decisions that improve consistency in the application of IFRS Standards; • using transition resource groups to support the implementation of new IFRS Standards; • providing educational materials such as webinars, webcasts and articles; and • supporting regulators and national standard-setters in their role to support consistent application of IFRS Standards. 	<p>Within the context of addressing application questions with widespread effect, and considering the Board's role as standard-setter in supporting consistent application of IFRS Standards, the Board could:</p> <ul style="list-style-type: none"> • work more with investors, companies, auditors, regulators and others to identify challenges in applying the Standards. • address those application challenges by: <ul style="list-style-type: none"> ○ providing more support for consistent application of IFRS Standards through agenda decisions published by the Committee, narrow-scope amendments to, and interpretations of, IFRS Standards. ○ providing more educational materials and initiatives on the application of IFRS Standards to support high-quality and consistent application of those Standards by companies, auditors, regulators and national standard-setters. Such materials and initiatives could relate to increased capacity-building efforts to support emerging economies, jurisdictions that have recently adopted IFRS Standards or jurisdictions that are planning to adopt IFRS Standards.

The <i>IFRS for SMEs</i> Standard	
<p>Objective: Provide financial reporting requirements tailored for companies that do not have public accountability (SMEs)</p> <p>Current level of focus: 5%</p>	
What the Board currently does	Examples of what more the Board could do
<p>Together with the SME Implementation Group (SMEIG), the Board:</p> <ul style="list-style-type: none"> develops and maintains the <i>IFRS for SMEs</i> Standard by undertaking a comprehensive review of the Standard no sooner than two years after the effective date of amendments from the previous review. Such a review may result in amendments to requirements in the <i>IFRS for SMEs</i> Standard. publishes educational materials, such as SMEIG Q&As that respond to application questions on the <i>IFRS for SMEs</i> Standard, and modules—with explanations, self-assessment questions and case studies—on each section of the Standard to support understanding and use of the Standard. 	<p>The Board could:</p> <ul style="list-style-type: none"> work with auditors, national standard-setters and regulators to support consistent application of the <i>IFRS for SMEs</i> Standard. provide more educational materials and programmes to support the understanding and use of the <i>IFRS for SMEs</i> Standard, including for micro-sized entities that are not publicly accountable. work more with national standard-setters and other bodies to increase global adoption of the <i>IFRS for SMEs</i> Standard.

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Digital financial reporting	
Objective: Facilitate the digital consumption of financial information	
Current level of focus: 5%	
What the Board currently does	Examples of what more the Board could do
<p>The Board develops and maintains the IFRS Taxonomy, which facilitates the effective and efficient electronic communication and analysis of financial reports prepared applying the Standards (IFRS Standards and the <i>IFRS for SMEs</i> Standard) and IFRS Practice Statement 1 <i>Management Commentary</i>. These activities include:</p> <ul style="list-style-type: none"> • updating the IFRS Taxonomy to reflect new or amended requirements in IFRS Standards, the <i>IFRS for SMEs</i> Standard and IFRS Practice Statement 1; • updating the IFRS Taxonomy to reflect common reporting practice that is consistent with the requirements of IFRS Standards; and • publishing educational materials to support companies, regulators and others who use the IFRS Taxonomy. 	<p>The Board could:</p> <ul style="list-style-type: none"> • explore how advances in technology are changing the way investors consume information and assess the extent to which improvements are needed to the IFRS Taxonomy and the way in which the Board writes the Standards. • work more with regulators and other bodies to increase global adoption of the IFRS Taxonomy. This work would support the transparency, accountability and efficiency of financial markets given the trend towards digital financial reporting. • work more with companies, regulators, auditors, investors, data aggregators and others to improve the quality of electronic data and consistency in application of the IFRS Taxonomy. • provide more educational materials and programmes to support the understanding and use of the IFRS Taxonomy.

Understandability and accessibility of the Standards	
Objective: Improve the understandability and accessibility of our financial reporting requirements	
Current level of focus: 5%	
What the Board currently does	Examples of what more the Board could do
Understandability	
<p>In undertaking its activities, the Board focuses on understandability by:</p> <ul style="list-style-type: none"> • reducing unnecessary complexity so the Standards are less onerous and costly for companies to apply, while improving the quality of information provided to investors. • drafting clear Standards. The Board does this through the involvement of editorial and translation teams and external reviewers. • developing supporting materials such as snapshots, project summaries, feedback statements and Board member articles. 	<p>A 2017 survey report on the reputation of the IFRS Foundation identified stakeholders' need for simple, practical and workable Standards.⁵ To respond comprehensively to such needs, the Board could:</p> <ul style="list-style-type: none"> • create an inventory of possible areas of unnecessary complexity in applying financial reporting requirements, and assess whether improvements can be made to those areas. • improve the understandability of the Standards in those areas by undertaking projects that: <ul style="list-style-type: none"> ○ amend existing requirements to reduce unnecessary complexity. ○ make changes to the way in which Standards are drafted so that Standards are more clearly articulated and consistent terminology and structure are used. This approach could be applied to amend existing Standards or to develop new Standards.
Accessibility	
<p>The Board also strives to make the Standards and related materials accessible. The Board does so, for example, by:</p> <ul style="list-style-type: none"> • publishing Annotated IFRS Standards (IFRS Standards with annotations and cross-references to other materials); • publishing semi-annual compilations of Committee agenda decisions; and • providing tools to make IFRS Standards and other materials easier to navigate. 	<p>The Board could further improve accessibility by using technology and other tools to help stakeholders find materials that are most relevant to them, and understand how those materials relate to each other.</p>

⁵ See *Perceptions of the IFRS Foundation – Reputation Research Findings*, published in July 2017, at: <https://www.ifrs.org/-/media/feature/groups/trustees/ifrs-reputation-research-report-jul-2017.pdf?la=en>.

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Stakeholder engagement	
<p>Objective: Obtain views to support the development of high-quality financial reporting requirements and promote acceptance of the Standards</p> <p>Current level of focus: 20%–25%</p>	
What the Board currently does	Examples of what more the Board could do
<p>The Board engages with stakeholders affected by the Standards through:</p> <ul style="list-style-type: none"> • general and project-specific meetings with stakeholders from various backgrounds and regions. These engagements include meetings with the Board’s advisory bodies and consultative groups, external events and conferences, project outreach, the IFRS Foundation annual conference and the World Standard-setters conference.⁶ • materials that support meetings with stakeholders and dedicated stakeholder content on the IFRS website. • comments letters received from stakeholders in response to formal consultation documents. 	<p>The Board could:</p> <ul style="list-style-type: none"> • increase engagement with a broader range of stakeholders through standing consultative groups, informal dialogue and events. • increase engagement on formal consultations by further exploring, and using, digital-friendly approaches, such as surveys to supplement the comment letter process. • arrange more investor-focused educational materials and initiatives to increase investor engagement across the Board’s activities.

⁶ For more information on the Board’s advisory bodies and consultative groups, see: <https://www.ifrs.org/about-us/consultative-bodies/>.

Questions for respondents

Question 1

The Board's main activities include:

- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the *IFRS for SMEs* Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving the understandability and accessibility of the Standards; and
- engaging with stakeholders.

Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.
- (b) Should the Board undertake any other activities within the current scope of its work?

Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

- 19 The Board adds new projects to its work plan when projects already on the work plan are near completion. The Board intends to continue prioritising the completion of projects on its current work plan because:
 - (a) stakeholders have previously identified these projects as priorities;
 - (b) re-prioritising projects could lead to inefficient starts and stops; and
 - (c) some projects, such as post-implementation reviews, are required by the Board's due process.⁷
- 20 Appendix A summarises the Board's current projects as of March 2021.

We developed our current work plan by listening to stakeholders' priorities, so we will continue to prioritise those projects

⁷ The Board's due process is outlined in the *Due Process Handbook*, available here: <https://cdn.ifrs.org/-/media/feature/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf?la=en>.

21 The Board evaluates a potential project for inclusion in its work plan primarily by assessing whether the project will meet investors' needs, while taking into account the costs of producing the information. Table 2 lists the criteria the Board currently considers when deciding whether to add a potential project to its work plan.

Table 2—The Board's proposed criteria

The Board considers seven criteria in deciding whether to add a potential project to its work plan	
1	The importance of the matter to investors
2	Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports
3	The type of companies that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others
4	How pervasive or acute the matter is likely to be for companies
5	The potential project's interaction with other projects on the work plan
6	The complexity and feasibility of the potential project and its solutions
7	The capacity of the Board and its stakeholders to make timely progress on the potential project

22 Determining the priority of potential projects that could be added to the work plan requires judgement. The relative importance of a criterion is likely to vary depending on the circumstances surrounding the potential project.

23 The criteria in Table 2 are the primary consideration for determining the priority of projects to be added to the Board's work plan, but the Board also considers the work streams of other major standard-setters.

Questions for respondents

Question 2	
Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.	
(a)	Do you think the Board has identified the right criteria to use? Why or why not?
(b)	Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

Financial reporting issues that could be added to the Board's work plan

24 This Request for Information seeks your feedback on which financial reporting issues the Board could add to its work plan for 2022 to 2026 that would result in new IFRS Standards or major amendments to IFRS Standards.

Potential projects

- 25 In preparing for this agenda consultation, the Board conducted outreach (mainly with its advisory bodies and standing consultative groups) to identify potential projects to describe in this Request for Information. The Board's objective in describing potential projects is to provide a common understanding of the financial reporting issues that could be addressed in a potential project to elicit more focused feedback. Descriptions of these potential projects are included in Appendix B. Appendix C lists financial reporting issues suggested by only a few stakeholders—these issues are not described in detail in this Request for Information. The list of potential projects is not intended to be exhaustive and does not represent a draft work plan for the Board. You are welcome to suggest other financial reporting issues for the Board to explore.

The list of potential projects is not exhaustive and does not represent a draft work plan for the Board. You are welcome to suggest other financial reporting issues for the Board to explore.

Remaining research pipeline projects

- 26 Table 3 lists the remaining research pipeline projects that arose from the 2015 Agenda Consultation. These projects are also described in Appendix B. The Board would like your feedback on whether these projects are still a priority. These projects were not started because of the need to devote resources to other projects, including:
- (a) projects not originally on the work plan for 2016 to 2021, such as:
 - (i) time-sensitive projects on amendments to IFRS 17 *Insurance Contracts* and amendments resulting from IBOR Reform and its Effects on Financial Reporting; and
 - (ii) a revised IFRS Practice Statement 1;
 - (b) amending IFRS 16 in response to urgent issues arising from the covid-19 pandemic; and
 - (c) maintaining momentum on other major projects.

Table 3—Research pipeline projects

Research pipeline projects	
1	Discontinued operations and disposal groups (Post-implementation Review of IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>)
2	Inflation (High Inflation: Scope of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>)
3	Pollutant pricing mechanisms
4	Variable and contingent consideration

Capacity indicators

- 27 Information about the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 may help you in responding to this Request for Information. If the current level of focus on activities related to new IFRS Standards and major amendments to IFRS Standards remains unchanged (see paragraphs 14–18), the Board expects to be able to start two to three large projects, or four to five medium-sized projects, or seven to eight small projects (or an equivalent combination of large, medium and small projects), after setting aside capacity to:⁸
- (a) continue projects already on its work plan as described in Appendix A, assuming that all the research and standard-setting projects will result in new IFRS Standards or major amendments to IFRS Standards. If the Board decides to expand the scope of any current project—for example, by undertaking a wider-scope Equity Method research project that fundamentally reviews the equity method of accounting, or a comprehensive review of disclosure requirements in IFRS Standards applying the proposed new approach to developing and drafting disclosure requirements being explored and tested in the Disclosure Initiative—Targeted Standards-level Review of Disclosures project—less capacity would be available to add potential new projects to the work plan.
 - (b) conduct the required post-implementation reviews of IFRS 9, IFRS 15 and IFRS 16.
 - (c) undertake some time-sensitive projects that may arise after this agenda consultation—for example, possible follow-on projects from the required post-implementation reviews, if those projects are determined to be priorities.
- 28 Projects focusing on the financial reporting issues described in Appendix B could vary in size. To help you provide feedback, each project described in Appendix B that would result in new IFRS Standards or major amendments to IFRS Standards includes an estimate of its size.

⁸ See paragraphs 3–5 for information about capacity in relation to any new sustainability standards board.

Questions for respondents

Question 3

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board’s work plan.

- (a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:
 - (i) the nature of the issue; and
 - (ii) why you think the issue is important.

Question 4

Do you have any other comments on the Board’s activities and work plan? Appendix A provides a summary of the Board’s current work plan.

Appendix A—The Board’s work plan as of March 2021

- A1 This appendix summarises the active projects on the Board’s work plan as of March 2021. The work plan includes:
- (a) projects that could result in new IFRS Standards or major amendments to IFRS Standards. These are:
 - (i) research projects that gather evidence about the problem to be solved and assess whether a feasible solution can be found before the Board starts a standard-setting or maintenance project; and
 - (ii) standard-setting projects that develop a new Standard or substantially amend an existing Standard.
 - (b) projects on the maintenance and consistent application of IFRS Standards. These projects address application questions about IFRS Standards. Such projects involve the Board or the Committee developing narrow-scope amendments to, and interpretations of, IFRS Standards.
- A2 As described in paragraph 19, the Board intends to continue prioritising the completion of projects on its work plan.
- A3 Further information on the Board’s work plan is available at <https://www.ifrs.org/projects/work-plan/>.

Table 4—Work plan projects as of March 2021

Project	Description
Research projects	
Business Combinations under Common Control	<p>Business combinations under common control are mergers and acquisitions involving companies within the same group. No IFRS Standard specifically applies to how the company that receives the transferred business (the receiving company) should account for the combination. This lack of guidance has resulted in diversity in practice. In addition, companies often provide insufficient information about these combinations. The objective of this project is to explore whether the Board can develop requirements that would improve the comparability and transparency of reporting by the receiving company in a business combination under common control.</p> <p>The Board published a Discussion Paper setting out its preliminary views in November 2020 with a comment deadline of 1 September 2021.</p>

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Project	Description
Dynamic Risk Management	<p>Many companies use hedging to manage exposure to financial risks such as changes in foreign exchange rates, interest rates or commodity prices. However, companies manage those risks ‘dynamically’—for example, the hedged position frequently changes as new financial assets and liabilities are added and others mature over time. Companies sometimes struggle to reflect their risk management adequately in their financial statements, so investors cannot easily understand the effects of hedging on a company’s financial position and future cash flows. The objective of this project is to explore whether the Board can develop an approach that would enable investors to understand a bank’s dynamic management of interest rate risk and evaluate the effectiveness of those activities.</p> <p>The Board has developed a core accounting model which it is discussing with stakeholders before determining how to proceed.</p>
Equity Method	<p>IFRS Standards require investors with significant influence over an investee, or joint control of a joint venture, to apply the equity method. Stakeholders have reported problems in applying the equity method of accounting set out in IAS 28 <i>Investments in Associates and Joint Ventures</i> in investors’ financial statements. The objective of this project is to assess whether these application problems can be addressed by identifying and explaining the principles of IAS 28.</p> <p>The Board is conducting outreach on the equity method concurrently with its consultation activities on the post-implementation review of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i>.</p>
Extractive Activities	<p>Extractive activities consist of exploring for, evaluating, developing and producing natural resources such as minerals, oil and gas. Companies use various accounting models to report the resources and expenditures associated with these activities. IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>, an interim Standard, allows companies adopting IFRS Standards to continue to apply some aspects of their previous accounting policies for exploration and evaluation expenditures until the Board reviews the accounting practices of companies engaged in extractive activities. The objective of this project is to gather evidence for the Board to decide whether to amend or replace IFRS 6, and the scope of such a project.</p>

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THIRD AGENDA CONSULTATION

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Project	Description
<p>Goodwill and Impairment</p>	<p>As part of the post-implementation review of IFRS 3 <i>Business Combinations</i>, stakeholders raised concerns about the accounting for acquisitions, including that investors receive insufficient information about acquisitions and their subsequent performance. The objective of this project is to improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make. To achieve this objective, the Board is exploring whether improvements can be made to the disclosures companies provide about the performance of acquisitions and whether to change how a company accounts for goodwill subsequent to acquisition, including whether to reintroduce amortisation of goodwill.</p> <p>The Board published a Discussion Paper setting out its preliminary views in March 2020, and is considering the feedback on that document.</p>
<p>Pension Benefits that Depend on Asset Returns</p>	<p>The objective of this project is to explore whether the Board could feasibly develop targeted amendments to how companies determine the ultimate cost of pension benefits that vary with the returns of a defined pool of assets, applying IAS 19 <i>Employee Benefits</i>.</p>
<p>Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12</p>	<p>The Board developed IFRS 10, IFRS 11 and IFRS 12 to provide a single basis for consolidation and robust requirements for a company applying that basis to assess control, improve the accounting for joint arrangements and provide enhanced disclosure requirements for consolidated and unconsolidated structured companies. The objective of this post-implementation review is to assess the effects of these Standards on investors, companies and auditors after the requirements have been widely applied for some time.</p> <p>The Board published a Request for Information in December 2020 with a comment deadline of 10 May 2021.</p>

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Project	Description
Post-implementation Review of IFRS 9—Classification and Measurement	IFRS 9 <i>Financial Instruments</i> includes requirements for classifying and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. When developing IFRS 9, the Board divided the project into three phases—classification and measurement, impairment and hedge accounting. The Board also decided to divide the post-implementation review of the Standard into phases, starting with the review of the classification and measurement requirements. The objective of this post-implementation review is to assess the effects of this aspect of IFRS 9 on investors, companies and auditors after the requirements have been widely applied for some time.
Second Comprehensive Review of the IFRS for SMEs Standard	<p>The Board is carrying out its periodic comprehensive review of the <i>IFRS for SMEs</i> Standard. As a first step, the Board published a Request for Information in January 2020 to seek views on whether and how aligning the <i>IFRS for SMEs</i> Standard with IFRS Standards would benefit investors, without causing undue cost for companies applying the <i>IFRS for SMEs</i> Standard.</p> <p>The Board is considering feedback on that document. If the Board were to identify possible amendments to the <i>IFRS for SMEs</i> Standard, it would publish an Exposure Draft inviting comments on proposed changes to the Standard.</p>
Standards-setting projects	
Disclosure Initiative—Subsidiaries that are SMEs	<p>When a parent company applies IFRS Standards in preparing its consolidated financial statements, its subsidiaries also apply IFRS Standards when reporting to the parent for consolidation purposes. However, for their own financial statements, those subsidiaries may find it costly to apply all the disclosure requirements in IFRS Standards, which are designed for publicly accountable companies. The objective of this project is to develop an IFRS Standard that permits subsidiaries that do not have public accountability to apply IFRS Standards with reduced disclosure requirements.</p> <p>The Board expects to publish an Exposure Draft in the third quarter of 2021.</p>

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Project	Description
Disclosure Initiative— Targeted Standards- level Review of Disclosures	<p>Stakeholders have expressed concerns about the usefulness of disclosures provided in financial statements. The objective of this project is to improve the usefulness of disclosures for investors by improving the way the Board develops and drafts disclosure requirements in IFRS Standards. The Board has developed draft guidance for itself to use when developing and drafting disclosure requirements in future (proposed approach) and is testing that approach by applying it to the disclosure sections of IFRS 13 <i>Fair Value Measurement</i> and IAS 19. After testing on IFRS 13 and IAS 19, the Board will decide whether, and how, to use the proposed approach in its future standard-setting activities—that is, activities to amend the disclosure sections of other IFRS Standards or to develop a disclosure section for a new IFRS Standard.</p> <p>The Board published an Exposure Draft in March 2021 with a comment deadline of 21 October 2021.</p>
Financial Instruments with Characteristics of Equity	<p>IAS 32 <i>Financial Instruments: Presentation</i> does not always provide a clear rationale for its classification requirements and presents challenges in determining whether to classify some complex financial instruments as financial liabilities or equities. These challenges have resulted in diversity in practice. The objective of this project is to address those challenges by clarifying some underlying principles in IAS 32 and adding application guidance to facilitate consistent application of those principles. The Board is also exploring whether to develop additional presentation and disclosure requirements to help investors understand the effects that financial instruments have on a company's financial position and financial performance.</p>
Management Commentary	<p>Since the Board issued IFRS Practice Statement 1 <i>Management Commentary</i> (Practice Statement) in 2010, narrative reporting has evolved. Demand has increased for information about intangible resources, environmental, social and governance matters, and matters affecting a company's long-term prospects. The objective of this project is to revise the Practice Statement to help companies prepare management commentary that better meets the information needs of investors. The Practice Statement would remain principle-based so a company could meet some of those investor information needs by applying industry- or topic-specific guidance published by other bodies.</p> <p>The Board expects to publish an Exposure Draft in April 2021.</p>

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Project	Description
Primary Financial Statements	<p>Investors have expressed concerns about the comparability and transparency of performance reporting. The objective of this project is to improve the way information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. The Board has developed proposals that would require companies to present new defined subtotals in the statement of profit or loss, disaggregate information in a better way and disclose information about some management-defined performance measures.</p> <p>The Board published an Exposure Draft in December 2019 and is considering the feedback on that document.</p>
Rate-regulated Activities	<p>Some companies are subject to rate regulation that determines the amount of compensation to which a company is entitled for goods or services supplied in a period. Such rate regulation can cause differences in timing when part of that compensation is included in the regulated rates charged to customers, and hence in revenue, in a period other than the period in which the company supplies the goods or services. The objective of this project is to develop requirements for companies to provide information about the effects of those differences in timing on their financial position and financial performance. That information would supplement the information companies currently provide by applying IFRS 15 <i>Revenue from Contracts with Customers</i> and other IFRS Standards, and provide investors with a clearer and more complete picture of the relationship between the revenue and expenses of those companies.</p> <p>The Board published an Exposure Draft in January 2021 with a comment deadline of 30 July 2021.</p>
Maintenance projects	
Availability of a Refund	<p>The objective of this project is to clarify how a company determines the economic benefits available in the form of a refund when other parties, such as trustees have rights to make particular decisions about the company's defined benefit plan.</p> <p>The Board published an Exposure Draft in June 2015 setting out its proposals to amend IFRIC 14 <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>. The Board has decided not to finalise those proposed amendments to IFRIC 14 and is considering whether to develop new proposals to address the matter.</p>

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THIRD AGENDA CONSULTATION

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Project	Description
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	<p>The objective of this project is to amend the requirements in IAS 12 <i>Income Taxes</i> to clarify how a company accounts for deferred tax on transactions such as leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability.</p> <p>The Board expects to issue final amendments in May 2021.</p>
Lack of Exchangeability	<p>IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> specifies the exchange rate to use in reporting foreign currency transactions when exchangeability is temporarily lacking. However, there are no specific requirements on the exchange rate to use in other situations in which exchangeability is lacking, which has resulted in diversity in reporting practices. The objective of this project is to specify requirements for companies to determine whether a currency is exchangeable and if it is not exchangeable, the exchange rate to use.</p> <p>The Board expects to publish an Exposure Draft in April 2021.</p>
Lease Liability in a Sale and Leaseback	<p>Sale and leaseback transactions occur when a company sells an asset and leases that same asset back from the new owner. IFRS 16 <i>Leases</i> includes requirements for accounting for sale and leaseback transactions at the time those transactions take place; however, the Standard does not specify how to measure the lease liability when reporting after that date. The objective of this project is to improve the sale and leaseback requirements in IFRS 16 by providing greater clarity for the company selling and leasing back an asset both at the date of the transaction and subsequently.</p> <p>The Board published an Exposure Draft in November 2020, and is considering the feedback on that document.</p>
Provisions—Targeted Improvements	<p>The objective of this project is to develop proposals for three targeted improvements to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. These improvements would align the requirements for identifying liabilities in IAS 37 with the <i>Conceptual Framework for Financial Reporting</i>, clarify which costs to include in measuring a provision and specify whether the discount rates a company uses should reflect that company's own credit risk.</p>

Appendix B—Descriptions of frequently suggested financial reporting issues

- B1 As discussed in paragraphs 24–28, this appendix describes financial reporting issues (potential projects) that were suggested to the Board during outreach conducted to help prepare this Request for Information.
- B2 Feedback from this outreach generally indicates that few gaps remain in IFRS Standards. However, stakeholders have identified opportunities to comprehensively address application questions in some areas.
- B3 This appendix:
- (a) does not provide an exhaustive list of potential projects. You are welcome to suggest other financial reporting issues for the Board to explore.
 - (b) is not a draft work plan for the Board. The Board has limited capacity to take on new projects, so it can add only a small number of projects to its work plan (see paragraphs 27–28).
 - (c) does not filter out suggested projects for which a standard-setting solution may be unnecessary or unworkable. For example, it does not filter out projects suggested because of non-compliance with requirements or inappropriate exercise of judgement, or projects for which the solution may undermine the principle-based nature of IFRS Standards.
- B4 The scope of any project that would be added to the Board’s work plan could differ from the scope of the potential projects described in this appendix.
- B5 This appendix describes 22 potential projects, arranged in alphabetical order. Projects marked with an asterisk (*) are currently research pipeline projects (see paragraph 26).

Table 5—Financial reporting issues that could be addressed in a potential project

Potential project title	
1	Borrowing costs
2	Climate-related risks
3	Commodity transactions
4	Cryptocurrencies and related transactions
5	Discontinued operations and disposal groups*
6	Discount rates
7	Employee benefits
8	Expenses—Inventory and cost of sales
9	Foreign currencies
10	Going concern
11	Government grants
12	Income taxes
13	Inflation*
14	Intangible assets
15	Interim financial reporting
16	Negative interest rates
17	Operating segments
18	Other comprehensive income
19	Pollutant pricing mechanisms*
20	Separate financial statements
21	Statement of cash flows and related matters
22	Variable and contingent consideration*

Borrowing costs

B6 Some stakeholders perceive problems with the application of IAS 23 *Borrowing Costs*. These stakeholders said:

- (a) the definition of borrowing costs may be outdated and incomplete. For example, interest expense on lease liabilities is explicitly mentioned, but other costs that may be considered borrowing costs are not. Stakeholders also said they do not understand which exchange differences arising from foreign currency borrowings should be included in capitalised borrowing costs.
- (b) the definition of a qualifying asset in paragraph 5 of IAS 23 may be too restrictive—for example, in excluding borrowing costs incurred to construct goods for sale to customers, as discussed in the agenda decision published in March 2019.⁹
- (c) challenges may arise in applying the Standard when a qualifying asset is funded from a pool of general borrowings because it may be difficult to determine the amount of the borrowing costs eligible for capitalisation and the appropriate capitalisation rate.
- (d) borrowing costs capitalised by a subsidiary that borrows from its parent are required to be eliminated on consolidation. Eliminating such borrowing costs may be costly for preparers.

⁹ For this agenda decision, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-23-over-time-transfer-of-constructed-good-mar-19.pdf>.

- (e) the capitalisation of borrowing costs results in assets measured at different amounts depending on whether the company financed the construction of the asset using surplus funds or borrowed funds. Such variations may reduce comparability among companies.

Indicative size of the project

- B7 To address these concerns, the Board could undertake:
- (a) a targeted project to improve, clarify or simplify aspects of IAS 23 (likely to be a *small* project); or
 - (b) a comprehensive review of IAS 23 (likely to be a *medium-sized* project).

Climate-related risks

- B8 The Trustees are considering whether to establish a new board to set sustainability reporting standards (see paragraphs 3–5). The Trustees' consideration of sustainability reporting is outside the scope of this agenda consultation.
- B9 However, during outreach to develop this Request for Information, investors commented on information about climate-related risks that could result in a project within the current scope of the Board's work (see paragraph 2). These investors said:
- (a) they need better qualitative and quantitative information about the effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements. The disclosures and information should be comparable and consistent.
 - (b) climate-related risks are often perceived as remote, long-term risks and may not be fully considered in areas of financial statements that require estimates of the future (for example, in testing assets for impairment).
- B10 In November 2020, the IFRS Foundation published educational material on the effects of climate-related matters on financial statements.¹⁰ This document explained how IFRS Standards require companies to consider climate-related matters when those matters have a material effect on the financial statements. The educational material complements a November 2019 article, *IFRS Standards and climate-related disclosures*.¹¹

¹⁰ For Educational Material—*Effects of climate-related matters on financial statements prepared applying IFRS Standards*, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf?la=en>.

¹¹ For this article, see: <https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>.

Indicative size of the project

- B11 To address the concerns raised, the Board could:
- (a) lower the threshold for disclosing information about sources of estimation uncertainty in paragraph 125 of IAS 1 *Presentation of Financial Statements*. Paragraph 125 of IAS 1 requires a company to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. A lower threshold for disclosing information about sources of estimation uncertainty—such as elimination of the reference to ‘the next financial year’—could result in the disclosure of more information about climate-related risks than companies currently disclose and improve the information available to investors. Such a change would have a pervasive effect on the requirements in IFRS Standards beyond just climate-related risks (likely to be a *medium-sized* project).
 - (b) broaden the requirements in IAS 36 *Impairment of Assets* for cash flow projections to be used in measuring value in use when testing assets for impairment. Paragraph 33(b) of IAS 36 requires cash flow projections to cover a maximum period of five years, unless a longer period can be justified. This requirement may be misinterpreted as restricting the consideration of material, long-term climate-related effects on the value in use measurement (likely to be a *small* project).
 - (c) consider combining the projects described in (a) and (b) to create a single project (likely to be a *large* project).
 - (d) develop accounting requirements for various types of pollutant pricing mechanisms, as described in paragraphs B68–B71 (likely to be a *large* project).

Commodity transactions

- B12 Commodities are held or used for various purposes and take a variety of forms (such as gold and other precious metals, oil, natural gas and agricultural produce). Stakeholders identified a range of transactions involving commodities and various reasons why companies enter into those transactions. Some stakeholders said:
- (a) IFRS Standards lack or provide only limited specific requirements for some types of commodity transactions—for example, commodity loans discussed in the agenda decision published in March 2017.¹²

¹² For this agenda decision, see: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-ias-2-ias-8-ias-39-ifrs-9-commodity-loans-march-2017.pdf>.

- (b) in the absence of a Standard that applies specifically to a transaction involving commodities, companies apply paragraphs 10 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing an accounting policy for that transaction. These policies vary between companies, sometimes reflecting the differing circumstances of the companies. For example, to account for commodity loan transactions that involve gold, companies have developed accounting policies based on:
- (i) the requirements of IFRS 9 *Financial Instruments*;
 - (ii) the requirements of IAS 2 *Inventories* and IFRS 15 *Revenue from Contracts with Customers*; or
 - (iii) the *Conceptual Framework for Financial Reporting (Conceptual Framework)* to determine whether to recognise assets and liabilities.

Indicative size of the project

- B13 To address these concerns, the Board could:
- (a) develop requirements for some of the most common types of transactions involving commodities—for example, commodity loans (likely to be a *medium-sized* project).
 - (b) undertake a broader project on commodity transactions (likely to be a *large* project).
 - (c) develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, commodities and emission allowances).^{13,14} This project is likely to be a *large* project.

Cryptocurrencies and related transactions

- B14 Stakeholders said cryptocurrencies are becoming more prevalent. In June 2019, the Committee published Agenda Decision *Holdings of Cryptocurrencies*.¹⁵ However, many stakeholders raised further concerns, saying:
- (a) the accounting required by IAS 38 *Intangible Assets* for cryptocurrencies may not provide useful information, because the economic characteristics of cryptocurrencies are similar to cash or other financial instruments, rather than to intangible assets.

¹³ Cryptocurrencies and related transactions are described in paragraphs B14–B16 and emission allowances are described in paragraphs B68–B71 (pollutant pricing mechanisms).

¹⁴ IAS 40 *Investment Property* applies in the recognition, measurement and disclosure of investment property.

¹⁵ The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, a company applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

- (b) cryptocurrencies should be measured at fair value, but IAS 38 only permits fair value measurement in an active market and changes in fair value are recognised in other comprehensive income without subsequent recycling.
- (c) the agenda decision may be too narrow in scope. Some stakeholders suggested that the Board develop educational materials or amend IFRS Standards to provide specific requirements for direct holdings of cryptocurrencies as well as other related transactions—for example, indirect holdings of cryptocurrencies or initial coin offerings.

Indicative size of the project

- B15 To address these concerns, the Board could:
- (a) develop educational materials, as part of its maintenance and consistent application activities.¹⁶
 - (b) make targeted amendments to IAS 38—for example:
 - (i) develop additional disclosure requirements in IAS 38 about the fair value of cryptocurrencies (likely to be a *small* project); or
 - (ii) permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (likely to be a *medium-sized* project).
 - (c) consider amending the scope of the Standards for financial instruments to include cryptocurrencies (likely to be a *medium-sized* project).
 - (d) develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (including some cryptocurrencies, commodities and emission allowances).^{17,18} This project is likely to be a *large* project.
- B16 Some national standard-setters and other professional bodies have already conducted work on cryptocurrencies and related transactions, which could inform the Board's work.

Discontinued operations and disposal groups

- B17 Many stakeholders—most of them investors and accounting firms—expressed concerns about the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and the usefulness of information provided by companies applying that Standard. The Committee has discussed several

¹⁶ Educational materials are part of the Board's activities on maintenance and consistent application; therefore, we have not provided a project size estimation (see paragraph 27).

¹⁷ Commodity transactions are described in paragraphs B12–B13 and emission allowances are described in paragraphs B68–B71 (pollutant pricing mechanisms).

¹⁸ IAS 40 applies to the recognition, measurement and disclosure of investment property.

issues relating to the application of the Standard. In January 2016, the Committee published an agenda decision on issues related to IFRS 5 and concluded that the number and variety of unresolved issues might warrant a broad project on IFRS 5.¹⁹ Some stakeholders said:

- (a) they do not understand whether the Standard applies to:
 - (i) particular types of planned loss-of-control events, besides loss of control through sale or distribution—for example, loss of control of a subsidiary because of dilution of the shares held by the parent;
 - (ii) a disposal group that consists mainly, or entirely, of financial instruments; or
 - (iii) some sales that require regulatory approvals.
- (b) they do not understand some of the measurement requirements, including:
 - (i) paragraph 15 of IFRS 5, which sets out measurement requirements for a disposal group, and paragraph 23 of IFRS 5, which requires the impairment loss recognised for a disposal group to be allocated to non-current assets in the disposal group; and
 - (ii) whether an impairment loss previously allocated to goodwill in a disposal group can be reversed (paragraph 22 of IFRS 5).
- (c) they do not understand some of the presentation requirements, including:
 - (i) how to present intra-group transactions between continuing and discontinued operations;
 - (ii) how to apply the presentation requirements in paragraph 28 of IFRS 5 when a disposal group—consisting of a subsidiary, and other non-current assets—ceases to be classified as held for sale; and
 - (iii) how to apply the notion of ‘separate major line of business or geographical area of operations’ in the definition of ‘discontinued operation’ (see paragraph 32 of IFRS 5).
- (d) the single line-item presentation of disposal groups or discontinued operations in the primary financial statements may not provide useful information. Investors said they needed more detailed information in the primary financial statements and better disclosures.²⁰

¹⁹ This agenda decision is available at: [https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-5-january-2016-\(2\).pdf](https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ifrs-5-january-2016-(2).pdf).

²⁰ Statement of cash flows and related matters are described in paragraphs B76–B79.

- B18 Many of these concerns were raised in the 2015 Agenda Consultation at which time the Board decided that a post-implementation review of IFRS 5 would be the most effective way to address them. However, the Board has not yet started that project (see paragraph 26).

Indicative size of the project

- B19 To address these concerns, the Board could:
- (a) reconsider the single line-item presentation and develop more effective disclosures (likely to be a *medium-sized* project); or
 - (b) undertake a comprehensive review to address all concerns (likely to be a *medium-sized* project).

Discount rates

- B20 The time value of money is a core concept in finance. Present value measurement techniques apply this concept to link future amounts to a present amount using a discount rate. Present value measurement techniques require two main sets of inputs: an estimate of the amount, timing and uncertainty of future cash flows, and discount rates to translate those cash flows to an equivalent amount of cash held at the measurement date. However, IFRS Standards developed over the years have required that various inputs be reflected in such present values. Variations in inputs required by IFRS Standards mean that the permitted or required discount rates also vary. Comments received in previous agenda consultations and subsequently suggest that stakeholders often fail to understand the reasons why these discount rates vary.
- B21 The Board has conducted research on discount rates in IFRS Standards and found that some of the variations in discount-rate requirements arise because measurement bases differ between IFRS Standards (for example, historical cost, fair value, value in use).²¹ Other variations arise because IFRS Standards were developed at different times and focused on different areas. The Board uses the discount rate research findings in considering whether and how to resolve some differences as they arise on projects. For example, in the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*, the Board proposed to allow the use of post-tax discount rates and post-tax cash flows to estimate value in use.²²

Indicative size of the project

- B22 A project to reconsider requirements in all IFRS Standards and, when appropriate, eliminate variations in present value measurement techniques is likely to be a *large* project.

²¹ See: <https://cdn.ifrs.org/-/media/project/discount-rates/project-summary.pdf>.

²² IAS 36 *Impairment of Assets* requires companies to estimate value in use on a pre-tax basis. Stakeholders have said that pre-tax discount rates are unobservable, so the test is usually performed on a post-tax basis.

Employee benefits

- B23 Some stakeholders raised concerns about the accounting for employee benefits. These stakeholders said:
- (a) they do not understand how to apply paragraph 83 of IAS 19 *Employee Benefits* to determine the rate used to discount post-employment benefit obligations in the absence of a deep market in high-quality corporate bonds. In the absence of a deep market in such bonds, IAS 19 requires companies to use market yields on government bonds instead.
 - (b) the requirements of IAS 19 do not deal effectively with post-employment benefit plans (for example, pension plans) with characteristics of both defined contribution and defined benefit plans (hybrid pension plans). Some stakeholders said that such plans are becoming prevalent in several jurisdictions, and accounting requirements need to reduce diversity in the classification and measurement of such plans.
- B24 The Board has three projects relating to employee benefits on its work plan, as described in Appendix A:
- (a) Disclosure Initiative—Targeted Standards-level Review of Disclosures;
 - (b) Pension Benefits that Depend on Asset Returns; and
 - (c) Availability of a Refund.

Indicative size of the project

- B25 To address these concerns, the Board could:
- (a) review the requirements in IAS 19 on the discount rates an entity uses in the absence of a deep market in high-quality corporate bonds (likely to be a *medium-sized* project);
 - (b) develop accounting requirements for hybrid pension plans (likely to be a *large* project); or
 - (c) undertake a comprehensive review of IAS 19 (likely to be a *large* project).
- B26 Some national standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work. The Board could also build on its previous work in which it researched solutions to these problems.

Expenses—Inventory and cost of sales

- B27 Some stakeholders, most of them standard-setters, raised concerns about aspects of the accounting for inventory and cost of sales.

- B28 Some standard-setters said that after the implementation of IFRS 15, the Board should consider developing requirements on the other component of gross profit, that is, cost of sales (including cost of goods sold and the cost of providing services). These stakeholders suggested that, as part of this potential project, the Board should seek to improve the accounting for inventory and consider developing accounting requirements for areas for which they believe requirements are absent or insufficient, including:
- (a) the recognition of variable consideration;²³
 - (b) the timing of recognition of cost of sales (including cost of goods sold and the cost of providing services);
 - (c) the existence of a significant financing component;
 - (d) the definition of functional line items, including cost of sales;
 - (e) cost capitalisation, including industry-specific cost capitalisation requirements; and
 - (f) impairment of inventory.
- B29 These stakeholders said that such a project would harmonise practices among industries and provide a common understanding of the components of cost of sales. However, other stakeholders questioned the feasibility of such a project and whether the benefits would justify the costs needed to implement any new requirements.

Indicative size of the project

- B30 To address these concerns, the Board could undertake a comprehensive review of the accounting for inventory and cost of sales (likely to be a *large* project).²⁴

Foreign currencies

- B31 A few stakeholders called for a review of the requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and suggested that the Board consider:
- (a) reviewing the factors used to determine a company's functional currency;
 - (b) clarifying the accounting for foreign currency derivatives within the scope of IAS 21;
 - (c) deciding whether the accounting requirements for long-term payables and receivables denominated in a foreign currency are appropriate when the currency is volatile and thinly traded;²⁵ and
 - (d) developing enhanced disclosures about the effect of changes in foreign exchange rates on the financial statements.

²³ Variable and contingent consideration is described in paragraphs B80–B83.

²⁴ IAS 2 prescribes the accounting treatment for inventories.

²⁵ Paragraph 32 of IAS 21.

- B32 The Board has one maintenance project to amend IAS 21 on its work plan—Lack of Exchangeability—as described in Appendix A.²⁶

Indicative size of the project

- B33 To address these concerns, the Board could undertake:
- (a) a targeted project to improve aspects of IAS 21 (likely to be a *medium-sized* project); or
 - (b) a comprehensive review of IAS 21 (likely to be a *large* project).
- B34 A national standard-setter has already conducted research in this area, which could inform the Board’s work. The Board could also build on its previous work in which it had researched solutions to some of these issues.

Going concern

- B35 Financial statements should be prepared on a going-concern basis unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so.²⁷ In adverse economic conditions or when a company is in financial distress, investors want to understand management’s going-concern assessment. Some stakeholders said:
- (a) current requirements on how management should assess the going-concern basis of preparation are insufficient. Some stakeholders suggested that more prescriptive requirements may improve application and enforcement.
 - (b) management’s disclosures about going concern can sometimes be inadequate, boilerplate or not provided on a timely basis. For example:
 - (i) the threshold for providing information on material uncertainties about a company’s ability to continue as a going concern may be too high;
 - (ii) requirements on the nature and extent of information that should be provided about material uncertainties may be insufficient; or
 - (iii) disclosures about the underlying risks and the expected mitigations of financial distress are sometimes insufficient to meet investor needs, particularly when management has plans to mitigate events or conditions that would otherwise cast significant doubt about a company’s ability to continue as a going concern.
 - (c) IFRS Standards are silent about the basis on which financial statements should be prepared when the going-concern assumption is inappropriate.

²⁶ For more information on the Lack of Exchangeability project, see: <https://www.ifrs.org/projects/work-plan/lack-of-exchangeability-research/>.

²⁷ Paragraph 25 of IAS 1.

- B36 The Committee and the Board discussed some of these matters. The Committee also published agenda decisions relating to disclosure requirements in July 2010 and July 2014.^{28,29} In the July 2014 Agenda Decision, the Committee highlighted the interaction between the overarching disclosure principles in IAS 1 and the specific requirements relating to going concern. This agenda decision, in particular, is intended to help with concerns described in paragraph B35(b).
- B37 In January 2021, the IFRS Foundation published educational material on disclosures relating to going concern, which explains the requirements in IFRS Standards relevant for going-concern assessments.³⁰

Indicative size of the project

- B38 To address these concerns, the Board could:
- (a) develop enhanced requirements on how management should assess whether the going-concern basis of preparation is appropriate (likely to be a *medium-sized* project);
 - (b) develop enhanced specific disclosure requirements about the going concern assumption (likely to be a *medium-sized* project);
 - (c) develop requirements to specify the basis of accounting that applies when an entity is no longer a going concern (likely to be a *large* project); or
 - (d) address the issues collectively in a single project (likely to be a *large* project).
- B39 Some national standard-setters have already worked on or are working on questions relating to going concern and such work could inform the Board's work.

Government grants

- B40 Some stakeholders, most of them standard-setters, questioned aspects of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* relating to:
- (a) the recognition criteria for government grants in the statement of profit or loss, including the timing of recognition of income from government grants. Stakeholders noted that IAS 20 is based on reasonable assurance and matching of costs with income rather than satisfaction of performance obligations identified in a grant. They also

²⁸ See *IAS 1 Presentation of Financial Statements—Going concern disclosure*, published in July 2010: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf>.

²⁹ See *Disclosure requirements relating to assessment of going concern (IAS 1 Presentation of Financial Statements)*: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf>.

³⁰ See *Going concern—a focus on disclosure*: <https://cdn.ifrs.org/-/media/feature/news/2021/going-concern-jan2021.pdf?la=en>.

said that matching of costs with income is not an objective of the *Conceptual Framework*.

- (b) the diversity in the recognition and measurement of particular types of government grants that are in the form of non-monetary assets.
- (c) the accounting policy choice permitted when grants are related to assets. The Standard says that such grants should be recognised as deferred income or by deducting the grant to arrive at the carrying amount of the asset. The existence of an accounting policy choice reduces comparability.
- (d) the accounting policy choice permitted when grants are related to income. The Standard says such grants should be presented as income (either separately or within other income) or deducted from the related expense. The existence of an accounting policy choice reduces comparability.
- (e) the deduction of a government grant from the cost of an asset, which is inconsistent with some other IFRS Standards. For example, IAS 7 *Statement of Cash Flows* requires companies to present the purchase of assets and the receipt of related grants on a gross basis. Stakeholders noted that in May 2020 the Board issued amendments to IAS 16 *Property, Plant and Equipment*. These amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use.

Indicative size of the project

- B41 A project with the objective of addressing all the concerns raised is likely to be a *medium-sized* project.
- B42 Some national standard-setters have already conducted work on government grants, which could inform the Board's work.

Income taxes

- B43 Some stakeholders, most of them preparers and investors, questioned the usefulness of information when a company applies IAS 12 *Income Taxes*. These stakeholders said:
 - (a) the Standard includes several exceptions, which may undermine the principles on which the Standard is based.
 - (b) the balance-sheet approach to deferred taxes used in IAS 12 might not provide useful information and deferred tax liabilities might not meet the revised definition of a liability in the *Conceptual Framework*.
 - (c) the Standard lacks specific requirements about how to account for emerging types of taxes.

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- (d) the Board should enhance disclosures to help investors better understand a company's income tax charge and potential effects on future cash flows. Investors said the Board should develop better disclosures to facilitate the reconciliation of deferred, current and paid tax. Investors also suggested that the Board develop more effective disclosures about a company's tax optimisation structures to help investors understand the nature of such tax structures, which countries may be involved, what risks exist and the sustainability of such tax structures.
- (e) views vary about how consistent the assumptions used in the assessment of the recoverability of deferred tax assets should be with those used for impairment testing or going-concern assessments.

Indicative size of the project

- B44 To address these concerns, the Board could:
- (a) develop educational materials, as part of its maintenance and consistent application activities;³¹
 - (b) develop accounting requirements for emerging types of taxes (likely to be a *small* project);
 - (c) develop enhanced disclosures about income taxes (likely to be a *medium-sized* project); or
 - (d) undertake a comprehensive review of income tax accounting (likely to be a *large* project).
- B45 Some national standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work. The Board could also build on its previous research into the causes of problems that arise in applying IAS 12.

Inflation

- B46 Some stakeholders said that information prepared in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* could be more useful. Specifically, they said:
- (a) the scope of IAS 29 should be extended to include economies experiencing high inflation, because long periods of high inflation can affect the relevance of the information included in the financial statements;
 - (b) the Standard relies on a general price index, which may not be reliable or available; and
 - (c) restated financial statements of a foreign operation in a hyperinflationary environment are difficult to understand.

³¹ See footnote 16 to paragraph B15.

Indicative size of the project

- B47 To address these concerns, the Board could:
- (a) assess whether, without amending other requirements of IAS 29, it could extend the scope of IAS 29 to include economies subject to high inflation (likely to be a *small* project).
 - (b) undertake a comprehensive review of IAS 29 (likely to be a *large* project). Some stakeholders suggested that the Board could reduce the size of this project by basing any new requirements on the US GAAP requirements. US GAAP requires prospective use of the group presentation currency as the functional currency of the foreign operation that is operating in a hyperinflationary economy, rather than the retrospective indexation required by IAS 29 to reflect purchasing power.
- B48 Some national standard-setters have conducted research in this area, which could inform the Board's work.

Intangible assets

- B49 Many stakeholders noted that IAS 38 covers a variety of transactions and assets, many of which were not envisaged when the Standard was developed. These stakeholders said:
- (a) IAS 38 may not provide useful information about some new types of transactions and assets, including intangible assets that are held for investment purposes or traded—for example, cryptocurrencies discussed in paragraphs B14–B16 or emission rights discussed in paragraphs B68–B71. Stakeholders said the scope of IAS 38 captures assets that would be better addressed within the scope of another IFRS Standard.
 - (b) the Standard may be too restrictive about when internally generated intangible assets can be recognised and when subsequent measurement of intangible assets at fair value is permitted. With economies becoming knowledge based, resources such as brands, efficient business processes and big data are playing a greater role than before in creating value. Therefore, stakeholders said that these restrictions result in financial statements that may omit relevant information.
 - (c) the difference in how internally generated intangible assets and some intangible assets recognised as part of an acquisition are treated makes comparisons between companies that grow organically and those that grow through acquisitions more difficult. However, some stakeholders said that recognising more internally generated intangible assets would give rise to operational difficulties and uncertainties associated with measurement. They said the benefits of reporting that information may not justify the subjectivity involved and costs incurred to provide such information.

- (d) disclosures about expenditures on intangible resources that are not recognised as assets may provide insufficient useful information.³²

B50 One possible solution to the difference in accounting between acquired and internally generated intangible assets could be to reconsider the requirements in IFRS 3 *Business Combinations* on the recognition of some acquired intangible assets separately from goodwill. The Board began exploring this solution as part of its project on Goodwill and Impairment. However, feedback led the Board to tentatively decide not to develop these proposals as part of that project.³³

B51 As part of its project to revise IFRS Practice Statement 1 *Management Commentary*, the Board is proposing that management commentary provide information about key resources, including intangibles not recognised as assets in the company's financial statements.³⁴ However, a company that prepares its financial statements in accordance with IFRS Standards is not required to comply with the Practice Statement.

Indicative size of the project

B52 To address the concerns raised, the Board could:

- (a) require improved disclosures about intangibles not recognised as assets (likely to be a *medium-sized* project);
- (b) require disclosures about the fair value of some intangible assets, especially those held for investment (likely to be a *medium-sized* project); or
- (c) undertake a comprehensive review of the Standard, including the definition of intangible assets (likely to be a *large* project).

B53 National standard-setters and other professional bodies have already conducted research in this area, which could inform the Board's work.

Interim financial reporting

B54 IAS 34 *Interim Financial Reporting* sets out the reporting requirements in interim financial statements. Some stakeholders said:

- (a) IAS 34 states that the principles for recognising assets, liabilities, income and expenses for interim periods are the same as in annual financial statements. However, IAS 34 also states that the frequency of reporting should not affect the measurement of a company's annual results – to achieve that objective, measurements for interim reporting

³² The Trustees of the IFRS Foundation are considering separately whether to establish a new board to set sustainability reporting standards (see paragraphs 3–5). A potential project on intangible assets may involve coordination with the sustainability standards board if established by the Trustees.

³³ See paragraph 5.24 of the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*: <https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf#page=99>.

³⁴ For more information on the Management Commentary project, see: <https://www.ifrs.org/projects/work-plan/management-commentary/>.

purposes are required to be made on a year-to-date basis. These requirements have created tensions with the requirements in other Standards—for example, stakeholders are unclear whether the defined benefit obligation of a defined benefit pension plan is required to be remeasured at each interim date.

- (b) the interim financial report is intended to provide an update on the latest complete set of annual financial statements. However, stakeholders said they do not know what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment. For example, some stakeholders said when they first applied IFRS 16 *Leases*, they thought they were required to repeat transition disclosures in each of their quarterly financial statements.
- (c) IAS 34 requires a company to provide in its interim financial statements an explanation of events and transactions that are significant for an understanding of the changes in financial position and performance of the company since the end of the last annual reporting period. However, some stakeholders said that information disclosed by companies—for example, in the challenging and highly uncertain economic environment caused by the covid-19 pandemic—may be insufficient.

Indicative size of the project

B55 To address these concerns, the Board could:

- (a) develop enhanced disclosure requirements to provide an update on the latest complete set of annual financial statements (likely to be a *small* project);
- (b) clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment (likely to be a *small* project);
- (c) address interim accounting issues in each new IFRS Standard or major amendment as it is developed rather than relying on IAS 34 (likely to be a series of *small* or *medium-sized* additions to every project); or
- (d) review the requirements of IAS 34 to address all the concerns raised (likely to be a *large* project).

Negative interest rates

B56 Changes in the macroeconomic environment and the introduction of negative interest rates by some central banks have created practical challenges for some companies.

B57 Some stakeholders said discounting future cash flows using negative interest rates produces difficult-to-understand results that, in their view, may not faithfully represent the company's performance. Those stakeholders noted that discounting an asset or a liability with a negative discount rate will result

in a present value that is higher than the amount that will be received for the asset or the amount required to settle the liability. Stakeholders raised concerns about the lack of specific requirements for negative interest rates.

- B58 The Committee has discussed the implications of negative effective interest rates for the presentation of income and expenses in the statement or profit or loss. The Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue, 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; instead it should be presented in an appropriate expense classification.³⁵

Indicative size of the project

- B59 A project to develop specific accounting requirements for negative interest rates is likely to be a *medium-sized* project.

Operating segments

- B60 During outreach for this Request for Information, some investors said that the requirement for segment disclosures based on a management approach is generally useful because it reflects how management views the business, provides insights into how the business is run and provides information that allows investors to assess how efficiently and effectively management has discharged its responsibilities. However, some investors expressed concerns about the information disclosed applying IFRS 8 *Operating Segments*. Those investors said:
- (a) a potential project should consider improvements to the criteria for aggregating operating segments into reportable segments. The investors suggested that the reliance on management judgement results in insufficient disaggregation.
 - (b) repeated changes to the composition of reportable segments affect comparability between periods for a reporting company.
 - (c) the Board should require disclosure of additional line items by segment. These lines could include revenue, assets, equity, capital expenditures, business combinations, non-current assets held for sale and discontinued operations. These additional disclosures should be required regardless of whether the information is regularly provided to the chief operating decision maker. IFRS 8 previously required disclosure of segment assets regardless of whether they were regularly provided to the chief operating decision maker. The Board removed that requirement because such information is unavailable in some industries with low use of physical assets and to converge with practice under US GAAP.

³⁵ See: <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-39-ias-1-january-2015.pdf>.

- (d) the Board should develop requirements for disclosure of a minimum set of key performance indicators by segment to allow basic analysis—for example, margins, turnovers and returns.

Indicative size of the project

- B61 The input from investors suggests that targeted improvements to the segment aggregation criteria and enhanced disclosures may provide investors with more decision-useful information (likely to be a *medium-sized* project).
- B62 A national standard-setter has undertaken a project in this area, which could inform the Board’s work. The Board could also build on its previous work on proposed improvements to IFRS 8 and IAS 34 arising from the post-implementation review of IFRS 8.

Other comprehensive income

- B63 Some stakeholders noted that the *Conceptual Framework* sets out the principles for classification of income and expenses in the statement of financial performance and their reclassification from other comprehensive income to the statement of profit or loss (recycling). Income or expenses are classified outside the statement of profit or loss, in other comprehensive income, when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the company’s financial performance for the period.³⁶ Some stakeholders raised concerns that the use of other comprehensive income and recycling appears to be inconsistent in IFRS Standards. Some IFRS Standards require recycling—for example:
- (a) IAS 21 requires the recycling of gains and losses arising from translating the financial statements of a foreign operation; and
- (b) paragraph 4.1.2A of IFRS 9 requires recycling of gains and losses on financial assets measured at fair value through other comprehensive income.
- B64 Other IFRS Standards prohibit recycling—for example:
- (a) recycling of a revaluation surplus is prohibited applying the revaluation model in IAS 16 or IAS 38;
- (b) IAS 19 prohibits the recycling of actuarial gains and losses arising from defined benefit plans;
- (c) paragraph 5.7.5 of IFRS 9 prohibits the recycling of gains and losses from investments in equity instruments designated at fair value through other comprehensive income; and
- (d) paragraph 5.7.7(a) of IFRS 9 prohibits the recycling of changes in the fair value of financial liabilities attributable to a company’s own credit risk.

³⁶ See paragraphs 7.14 to 7.19 of the *Conceptual Framework*.

B65 Some stakeholders suggested that all IFRS Standards be reviewed for consistency with the principles set out in the *Conceptual Framework*; that review should also include reconsidering the requirements for income and expenses that are not subsequently recycled. The Board is conducting a post-implementation review of the classification and measurement requirements in IFRS 9, which will (among other matters) gather views on the treatment of fair value changes presented in other comprehensive income for some equity investments.

Indicative size of the project

B66 Applying the principles for the classification of income and expenses in other comprehensive income (and recycling) in the *Conceptual Framework* to IFRS Standards and considering whether to amend the requirements of those IFRS Standards is likely to be a *large* project.

B67 Some professional bodies have already considered some of these concerns. Their conclusions could inform the Board's work.

Pollutant pricing mechanisms

B68 To encourage a reduction in the production of greenhouse gases, governments have been developing pollutant pricing mechanisms – for example, emission trading schemes. Some stakeholders, including investors, said that the lack of accounting requirements in IFRS Standards for these mechanisms has led to diversity in practice in reporting their effects on companies.

B69 Emission trading schemes create tradeable emission allowances. One common form of emission trading schemes is a cap-and-trade scheme.³⁷ Comments from stakeholders included concerns about how companies:

- (a) recognise and initially measure emission allowances received from the scheme administrator for nil or nominal consideration;
- (b) subsequently measure emission allowances held, including both those held to cover past or future emissions of pollutants and those held for investment purposes;
- (c) recognise and measure a liability to remit emission allowances to cover pollutants already emitted, including deciding:
 - (i) whether a liability exists and when to recognise it; and
 - (ii) how to measure the liability;
- (d) present assets, liabilities, income and expenses resulting from pollutant pricing mechanisms; and
- (e) disclose information about pollutant pricing mechanisms.

³⁷ A cap-and-trade scheme sets an overall cap on the amount of pollutants that can be emitted in a specified period. This overall cap is then allocated across participants (emitters) by distributing or selling emission allowances. Emitters must remit allowances to cover pollutants emitted. They can sell surplus allowances and must either buy allowances or pay penalties if they have too few allowances to cover pollutants emitted within the specified period.

Indicative size of the project

- B70 The Board researched pollutant pricing mechanisms in previous projects and it could resume its previous discussions. The Board would need to decide whether to address all types of pollutant pricing mechanisms, or only some, such as emission trading schemes. The Board may also need to consider other schemes that have been developed since its previous discussions and whether to include in the scope of any project accounting by traders and scheme administrators. Therefore, the development of accounting requirements for various types of pollutant pricing mechanisms is likely to be a *large* project.³⁸
- B71 Guidance developed by national standard-setters could inform the Board's work.

Separate financial statements

- B72 The laws or regulations of some jurisdictions require companies to publish separate financial statements applying IAS 27 *Separate Financial Statements*. These separate financial statements may be useful to investors.³⁹ They may also be useful to others interested in financial statements—separate financial statements may, for example, be used as a starting point for determining permissible dividends or for tax calculations under local laws or regulations.
- B73 Some stakeholders said the Board should:
- (a) clarify or change the application of IFRS Standards for specific transactions in separate financial statements. Stakeholders' views in this respect are influenced by their view on who the primary users of separate financial statements are or should be. In some cases the views are also influenced by differences in cost-benefit considerations for separate financial statements. Some stakeholders requested reviews of:
 - (i) the accounting for contingent consideration and transaction costs related to the acquisition of investments in a subsidiary, joint venture or associate;⁴⁰
 - (ii) the application of the expected credit loss model in IFRS 9 to intra-group loans in a situation when, for example, the parent controls the flow of funds, the repayment is discretionary, or the transaction is viewed as a potential capital contribution from the parent;
 - (iii) the application of hedge accounting—for example, when one company holds the hedged item and another company within the same group holds the hedging instrument;

³⁸ Emission allowances held solely for investment purposes could be covered by a Standard described in paragraphs B13(c) and B15(d).

³⁹ See footnote 4 to Table 1 on page 12.

⁴⁰ Variable and contingent consideration is described in paragraphs B80–B83.

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- (iv) the accounting for the effects of some transactions between the parent and its subsidiaries when the transaction is not on market terms; and
 - (v) the accounting for business combinations under common control in the receiving company's separate financial statements.⁴¹
- (b) add disclosure requirements in separate financial statements—for example, about distributable profits and intra-group guarantees.

Indicative size of the project

- B74 To address these concerns in the context of general purpose financial statements, the Board could:
- (a) develop more disclosure requirements in separate financial statements (likely to be a *small* project);
 - (b) address some of the specific application questions separately (likely to be a series of *small* projects or a *medium-sized* project); or
 - (c) undertake a comprehensive review of IAS 27 (likely to be a *large* project).
- B75 Some national standard-setters and other professional bodies have considered some of the issues raised and their experience could inform the Board's work.

Statement of cash flows and related matters

- B76 Many stakeholders – most of them investors, preparers and standard-setters – suggested the Board undertake a project to amend or replace IAS 7. These stakeholders said:
- (a) they have difficulty reconciling the statement of cash flows to the other primary financial statements. They have particular difficulty in reconciling the statement of financial position to the statement of cash flows because of the effect of non-cash movements arising from transactions such as leases, supply chain financing arrangements (for example, reverse factoring) and the factoring of trade receivables. These stakeholders suggested companies either present these non-cash movements in the statement of cash flows or make better disclosures about these non-cash movements.
 - (b) companies should be required to present a statement of changes in net debt.⁴²

⁴¹ The Board's research project on Business Combinations under Common Control does not address the reporting of these transactions in the receiving company's separate financial statements.

⁴² The Board has considered this issue in the past (see paragraphs BC9–BC27 of the Basis for Conclusions on IAS 7 *Statement of Cash Flows*) and amended IAS 7 to add a requirement to disclose information about changes in liabilities arising from financing activities (see paragraphs 44A–44E of IAS 7).

- (c) the Board should revisit the classification of cash flows into operating, investing and financing categories.
- (d) the Board should standardise the definition of some commonly used cash flow measures, such as free cash flows.
- (e) some information presented in the statement of cash flows should be disaggregated—for example, net cash flows attributable to the operating, investing and financing activities of discontinued operations.
- (f) the Board should develop better disclosure requirements about operating expenses and capital expenditure, split into maintenance, growth and acquisition spend.
- (g) the Board should either remove the requirement to present a statement of cash flows for financial institutions or develop a statement of cash flows specifically for financial institutions.

B77 The Exposure Draft *General Presentation and Disclosures* proposes amendments to IAS 7.⁴³ However, these are only targeted improvements to a few areas and, consequently, are unlikely to address many concerns raised by stakeholders.

Indicative size of the project

B78 To address the concerns about IAS 7, the Board could:

- (a) develop more effective disclosures about the ongoing maintenance expenses and the growth spend (likely to be a *small* project);
- (b) consider whether to remove the requirement for financial institutions to produce a statement of cash flows (likely to be a *small* project);
- (c) undertake a targeted project to improve aspects of IAS 7, including providing information about non-cash movements (likely to be a *medium-sized* project);
- (d) seek to develop a statement of cash flows for financial institutions (likely to be a *medium-sized* project); or
- (e) undertake a comprehensive review of IAS 7 with the intention of replacing it with a new IFRS Standard (likely to be a *large* project).

B79 Some national standard-setters and other professional bodies have considered some of the issues raised and their experience could inform the Board's work.

Variable and contingent consideration

B80 In some transactions, the consideration paid or received is not fixed but may vary after the transaction date. Such transactions are commonly used to share risks and benefits between the seller and the buyer. Examples of transactions that may feature variable or contingent consideration include business

⁴³ For more information on the Primary Financial Statements project, see: <https://www.ifrs.org/projects/work-plan/primary-financial-statements/>.

combinations, leases, sales of goods and renderings of services, purchases and sales of tangible and intangible assets and service concession arrangements. Stakeholders reported diversity in practice in the accounting for such transactions, particularly for those transactions for which the applicable IFRS Standards provide limited specific requirements.

- B81 In the past, the Committee discussed several issues relating to variable or contingent consideration.⁴⁴ The Committee debated:
- (a) the initial accounting—when should a liability be recognised for a payment of variable or contingent consideration, at what amount, and should part or all that amount be reflected in the measurement of the asset acquired?
 - (b) the subsequent accounting—after the liability is recognised, do remeasurements of the liability result in revisions to the measurement of the asset acquired or should those remeasurements be reported as income or an expense in the statement of profit or loss?

Indicative size of the project

- B82 To address these concerns, the Board could:
- (a) consider whether IAS 16, IAS 38 and IFRIC 12 *Service Concession Arrangements* should be amended. These Standards have limited requirements on accounting for transactions that frequently involve variable or contingent consideration (likely to be a *medium-sized* project); or
 - (b) develop a consistent approach to reporting variable and contingent consideration for all IFRS Standards (likely to be a *large* project).
- B83 Some national standard-setters and other professional bodies have conducted or are conducting research on variable and contingent consideration, which could inform the Board's work.

⁴⁴ For example, in March 2016 the Committee decided that the accounting for payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination is too broad for the Committee to address within the confines of IFRS Standards. In July 2016, the Committee concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 *Service Concession Arrangements* applies is too broad for the Committee to address within the confines of IFRS Standards.

Appendix C—Other financial reporting issues suggested to the Board

- C1 This appendix lists financial reporting issues suggested to the Board by a small number of stakeholders in the outreach carried out before publishing this Request for Information. These issues are not described in detail.
- C2 These other suggestions are that the Board:
- (a) align the definition of cost in IFRS Standards;
 - (b) clarify the accounting for transactions with owners (including government owners) acting in their capacity as owners;
 - (c) converge IFRS 13 *Fair Value Measurement* with International Valuation Standards;
 - (d) develop accounting requirements for assets acquired at no cost (from related and third parties);
 - (e) develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied;
 - (f) develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements;
 - (g) review the accounting for shares bought back to replace shares granted in share-based payment transactions;
 - (h) review the requirements of IAS 33 *Earnings per Share* in the light of changes to the business environment and the *Conceptual Framework for Financial Reporting*;
 - (i) review the requirements of IAS 36 *Impairment of Assets*; and
 - (j) review the requirements of IAS 41 *Agriculture*, focusing on immature biological assets that cannot be sold in their current condition.

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NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 1 April 2021 (previously circulated 12 March 2021)

To: NZASB Members

From: Judith Pinny

Subject: IFRS Interpretations Committee – February 2021 meeting update

Purpose¹

1. The purpose of this agenda item is to UPDATE the Board on the tentative agenda decisions at the 2 February 2021 meeting of the IFRS Interpretations Committee and DECIDE whether the Board wants to comment on these tentative agenda decisions.

Recommendation

2. Staff recommend that the Board AGREE to NOT COMMENT on the following tentative agenda decisions:
 - (a) Costs Necessary to Sell Inventories (IAS 2 *Inventories*)
 - (b) Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)
3. The Board were requested to consider the staff recommendation by email circulation on 12 March, with responses received provided in [Appendix 3](#).

Background

4. Staff have noted the increased activity of the IFRS Interpretations Committee (Interpretations Committee) following the IASB's increased focus on supporting the consistent implementation of IFRS, especially the new standards on revenue, leases, insurance and financial instruments. Consequently, we are planning to provide the Board with regular updates on the Interpretations Committee Meeting outcomes, including highlighting tentative agenda decisions open for comment.
5. To date, the activities of the Interpretations Committee have been monitored at a staff level with a rebuttable presumption of **not commenting** on Interpretations Committee tentative agenda decisions. We now feel it is appropriate to give the Board an increased awareness of the Interpretations Committee activities (and tentative decisions open for comment) as a standing item under the *International and Domestic Update* section of the NZASB meeting agenda.

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

6. The Interpretations Committee usually meets six times a year and generally has tentative agenda decisions at each meeting. The tentative agenda decisions have a standard 60-day consultation period which means that generally we will bring one Interpretations Committee meeting's tentative agenda decisions to each Board meeting for consideration.
7. Staff will also note the final status of these agenda decisions in a subsequent Board paper for the Board's information.
8. Please note that [Appendix 1](#) contains background information about the Interpretations Committee process.

Structure of this memo

9. The remainder of this paper is organised as follows:
 - (a) Interpretations Committee February 2021 Meeting – tentative agenda decisions
 - (i) *Decision 1: Costs necessary to sell inventories.*
 - (ii) *Decision 2: Preparation of financial statements when an entity is no longer a going concern.*
 - (b) Concluding Comments
 - (c) Appendix 1: Interpretations Committee process
 - (d) Appendix 2: Approval by Circular e-mail response
 - (e) Appendix 3: Responses received

Interpretations Committee February 2021 meeting – tentative agenda decisions

10. At the February 2021 meeting there were two tentative agenda decisions:

No.	Topic	Affected Standard(s)	Staff Recommendation
1.	Costs necessary to sell inventories	IAS 2 <i>Inventories</i>	Not to comment
2.	Preparation of financial statements when an entity is no longer a going concern	IAS 10 <i>Events after the Reporting Period</i>	Not to comment

Note: this section has been adapted from the February 2021 IFRIC Update with minimal edits.²

Decision 1: Costs necessary to sell inventories

11. The Interpretations Committee received a request about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the request asked **whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.**

² [IFRS - IFRIC Update February 2021](#)

12. Paragraph 6 of IAS 2 defines net realisable value as *'the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale'*. Paragraphs 28–33 of IAS 2 include further requirements about how an entity estimates the net realisable value of inventories. Those paragraphs do not identify which specific costs are 'necessary to make the sale' of inventories. However, paragraph 28 of IAS 2 describes the objective of writing inventories down to their net realisable value—that objective is to avoid inventories being carried 'in excess of amounts expected to be realised from their sale'.
13. The Interpretations Committee observed that, when determining the net realisable value of inventories, IAS 2 requires an entity to estimate the costs necessary to make the sale. This requirement does not allow an entity to limit such costs to only those that are incremental, thereby potentially excluding costs the entity must incur to sell its inventories but that are not incremental to a particular sale. Including only incremental costs could fail to achieve the objective set out in paragraph 28 of IAS 2.
14. The Interpretations Committee concluded that, when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business. An entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.
15. The Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether the estimated costs necessary to make the sale are limited to incremental costs when determining the net realisable value of inventories. Consequently, the Interpretations Committee [decided]³ not to add a standard-setting project to the work plan.

Question for the Board

- Q1. Do you **AGREE** with the staff recommendation **not to comment** on the Interpretation Committee's tentative agenda decision that an entity includes all costs necessary to make the sale of the inventories, not just those that are incremental to the sale?

Decision 2: Preparation of financial statements when an entity is no longer a going concern

16. The Interpretations Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*). The request asked whether such an entity:
 - (a) **can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those periods** (Question 1).

³ The Interpretations Committee use square brackets in its tentative agenda decisions to identify them as such. When the agenda decisions are made final the square brackets are removed.

- (b) **restates comparative information to reflect the basis of accounting used in preparing the current period’s financial statements if it had previously issued financial statements for the comparative period on a going concern basis** (Question 2).

Question 1

17. Paragraph 25 of IAS 1 requires an entity to prepare financial statements on a going concern basis ‘unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so’. Paragraph 14 of IAS 10 states that ‘an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so’.
18. Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, **an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.**
19. The Interpretations Committee therefore concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

Question 2

20. Based on its research, the **Interpretations Committee observed no diversity** in the application of IFRS Standards with respect to Question 2—**entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis.** Therefore, the Interpretations Committee has not [yet] obtained evidence that the matter has widespread effect.
21. For the reasons noted above, the Interpretations Committee [decided] not to add a standard-setting project on these matters to the work plan.

Question for the Board

- Q2. Do you **AGREE** with the staff recommendation **not to comment** on the Interpretation Committee’s tentative agenda decision that:
- (a) an entity that is no longer a going concern cannot prepare financial statements (including those for a prior period that have not yet been authorised for issue) on a going concern basis?
- (b) an entity that is no longer a going concern is not required to restate prior period comparatives prepared when it was a going concern?

Concluding comments

22. Staff would be pleased to receive Board feedback on the importance of bringing tentative Interpretation Committee agenda decisions to the Board's attention and the usefulness of providing with the Board with regular Interpretation Committee Updates as a standing item on the NZASB meeting agenda.

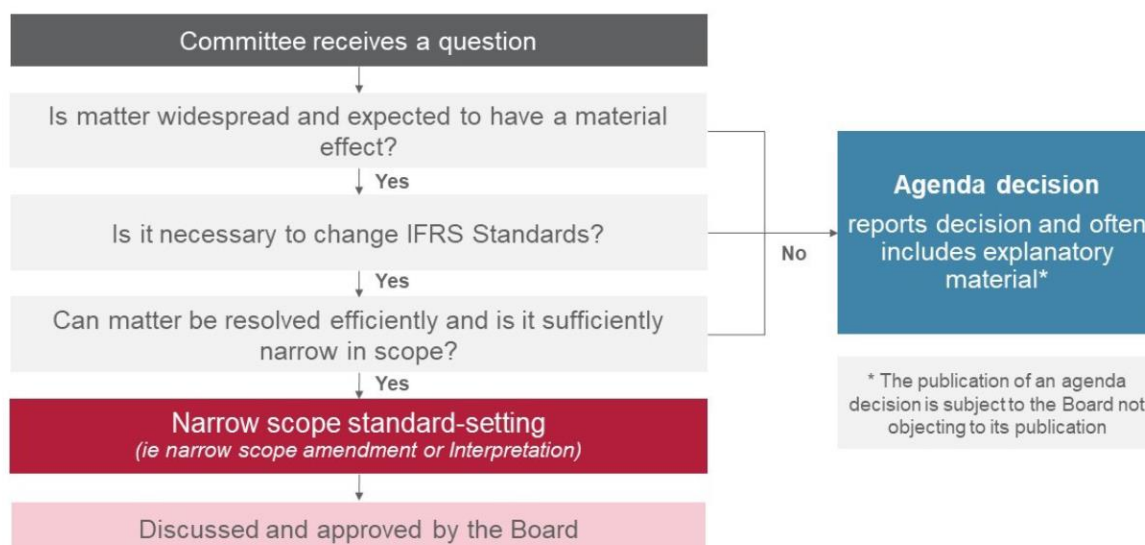
Question for the Board

- Q3. Does the Board **AGREE** that:
- (a) the Board should consider whether to comment on Interpretations Committee tentative decisions open for comment; and
 - (b) it will be useful to receive a regular Interpretation Committee update at NZASB meetings?

Appendix 1: Interpretations Committee process

Note: this section has been adapted from the IFRS.org website with minimal edits.

1. Interpretations Committee projects typically begin as an application question submitted for consideration. The process is designed to allow any stakeholder to submit a question for consideration and be transparent.
2. The Interpretations Committee then decides whether a standard-setting project should be added to the work plan to address the question submitted. The Interpretations Committee may decide not to do so if it concludes that standard setting would be:
 - (a) unnecessary—typically because, in the Interpretations Committee’s view, IFRS Standards provide an adequate basis for an entity to determine the required accounting or because there is no evidence that a widespread financial reporting problem exists; or
 - (b) not sufficiently narrow in scope—the question could be resolved only as part of a larger IASB project (not a narrow-scope project).
3. To explain why a standard-setting project is not added, the Interpretations Committee publishes an agenda decision. Agenda decisions report the Interpretations Committee’s decision and, in many cases, also include explanatory material.
4. The following diagram summarises the criteria the Interpretations Committee considers when deciding whether a standard-setting project should be added to the work plan:



Explanatory material in an agenda decision

5. Agenda decisions often include explanatory material. The objective of including such explanatory material is to improve the consistency of application of IFRS Standards.
6. Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.
7. Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision ([subject to it having sufficient time to implement that accounting](#)).
8. Explanatory material included as part of a tentative agenda decision is subject to comment. The comment period is normally 60 days. After considering comments received, the Interpretations Committee decide whether to confirm its decision and publish an agenda decision (subject to the IASB not objecting). An agenda decision is published if no more than three IASB Board members object to its publication.
9. Agenda decisions published by the Interpretations Committee can be found [here](#).

Narrow-scope standard-setting

10. Some questions result in narrow-scope standard-setting that follows the applicable due process. The Interpretations Committee may decide to:
 - (a) develop an IFRIC Interpretation, which adds requirements to IFRS Standards but does not remove or replace any requirements in the Standards; or
 - (b) recommend that the IASB develop a narrow-scope amendment to a Standard.
11. Narrow-scope standard-setting projects recommended by the Interpretations Committee and approved by the IASB are added to the work plan as maintenance projects.

[Return to main paper](#)

Appendix 2: Approval by circular e-mail response

The request for a circular e-mail response was sent out in an e-mail to Board members on 12 March 2021. Board members responded as to whether they approved or not.

Approval by circular resolution	
Questions for Board members*	Approve* Yes/No
<i>Inventory</i>	
1. Do you AGREE with the staff recommendation not to comment on the Interpretation Committee’s tentative agenda decision that an entity includes all costs necessary to make the sale of the inventories, not just those that are incremental to the sale?	
<i>Going Concern</i>	
2. Do you AGREE with the staff recommendation not to comment on the Interpretation Committee’s tentative agenda decision that:	
a) an entity that is no longer a going concern cannot prepare financial statements (including those for a prior period that have not yet been authorised for issue) on a going concern basis?	
b) an entity that is no longer a going concern is not required to restate prior period comparatives prepared when it was a going concern?	
<i>*Question 3 to be discussed at 14 April 2021 NZASB meeting</i>	

Appendix 3: Responses received

Board member	Date reply received	Q1 Agree not to comment on tentative agenda decision on Inventory: all costs included in sale	Q2(a) Agree not to comment on tentative agenda decision on Going Concern: basis of preparation not going concern basis	Q2(b) Agree not to comment on tentative agenda decision on Going Concern: no restatement of comparatives when no longer going concern
Carolyn Cordery	12/3/21	Yes	Yes	Yes
Angela Ryan	18/3/21	Yes	Yes	Yes
Michael Bradbury	16/3/21; 17/3/21	Yes	Yes	Yes
Nives Botica Redmayne	18/3/21	Yes	Yes	Yes
Francis Caetano	13/3/21	Yes	Yes	Yes
Karl Hickey	15/3/21	Yes	Yes	Yes
Denise Hodgkins	16/3/21	Yes	Yes	Yes
Keith Kendall	No response			
Richard Smyth	15/3/21	Yes	Yes	Yes
Jason Stinchcombe	15/3/21	Yes	Yes	Yes
Total		9/10	9/10	9/10



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 1 April 2021

To: NZASB Members

From: Judith Pinny

Subject: IFRS Interpretations Committee – March 2021 meeting update

Purpose¹

1. The purpose of this agenda item is to UPDATE the Board on the tentative agenda decisions at the 16 March 2021 meeting of the IFRS Interpretations Committee and DECIDE whether the Board wants to comment on these tentative agenda decisions.

Recommendation

2. Staff recommend that the Board AGREE to NOT COMMENT on the following tentative agenda decisions:
 - (a) Non-refundable Value Added Tax on Lease Payments (IFRS 16 *Leases*)
 - (b) Accounting for Warrants that are classified as Financial Liabilities on Initial Recognition (IAS 32 *Financial Instruments: Presentation*)

Structure of this memo

3. The remainder of this paper is organised as follows:
 - (a) Interpretations Committee March 2021 Meeting – tentative agenda decisions
 - (i) *Decision 1: Non-refundable Value Added Tax on Lease Payments.*
 - (ii) *Decision 2: Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition.*
 - (b) Interpretations Committee March 2021 Meeting – final agenda decision
 - (i) *Configuration or Customisation Costs in a Cloud Computing Arrangement*
 - (c) Concluding Comments

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).

Interpretations Committee March 2021 meeting – tentative agenda decisions

4. At the March 2021 meeting there were two tentative agenda decisions:

No.	Topic	Affected Standard(s)	Staff Recommendation
1.	Non-refundable Value Added Tax on Lease Payments	IFRS 16 <i>Leases</i>	Not to comment
2.	Accounting for Warrants that are classified as Financial Liabilities on Initial Recognition	IAS 32 <i>Financial Instruments: Presentation</i>	Not to comment

Note: the tentative and final agenda decision sections of this paper have been adapted from the March 2021 IFRIC Update with minimal edits.²

Decision 1: Non-refundable Value Added Tax on Lease Payments

5. The Interpretations Committee received a request about how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments. In the fact pattern described in the request:
- (a) the lessee operates in a jurisdiction in which VAT is charged on goods and services. A seller includes VAT in an invoice for payment issued to a purchaser. In the case of leases, VAT is charged when an invoice for payment is issued by a lessor to a lessee.
 - (b) the applicable legislation:
 - (i) requires a seller to collect VAT and remit it to the government; and
 - (ii) generally allows a purchaser to recover from the government VAT charged on payments for goods or services, including leases.
 - (c) because of the nature of its operations, the lessee can recover only a portion of the VAT charged on purchased goods or services. This includes VAT charged on payments it makes for leases. Consequently, a portion of the VAT the lessee pays is non-refundable.
 - (d) lease agreements require the lessee to make payments to the lessor that include amounts related to VAT charged in accordance with the applicable legislation.
6. The request asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease.
7. Outreach conducted by the Interpretations Committee provided limited evidence:
- (a) that non-refundable VAT on lease payments is material to affected lessees; and
 - (b) of diversity in the way lessees in similar circumstances account for non-refundable VAT on lease payments.

² [IFRS - IFRIC Update March 2021](#)

8. The Interpretations Committee has therefore not [yet]³ obtained evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected. Consequently, the Interpretations Committee [decided] not to add a standard-setting project to the work plan.

Staff comments

9. Proportional recovery of VAT (GST) on leases⁴ doesn't exist in New Zealand to our knowledge, therefore we do not expect this decision will be interest to our constituents. We therefore recommend not to comment.
10. We have noted that the treatment of consumption tax is not covered in IAS 12 *Income Taxes*, which only applies to the income tax base. A review of taxes in accounting standards is a possible topic for the IASB's *Third Agenda Consultation*.

Question for the Board

- Q1. Do you **AGREE** with the staff recommendation **not to comment** on the Interpretation Committee's tentative agenda decision that the diversity of lessee accounting for non-refundable VAT is not a widespread problem, and not to add it to the standard-setting work plan?

Decision 2: Accounting for Warrants that are classified as Financial Liabilities on Initial Recognition

11. The Interpretations Committee received a request about the application of IAS 32 in relation to the reclassification of warrants. Specifically, the request described a warrant that provides the holder with the right to buy a fixed number of equity instruments of the issuer of the warrant for an exercise price that will be fixed at a future date. At initial recognition, because of the variability in the exercise price, the issuer in applying paragraph 16 of IAS 32 classifies these instruments as financial liabilities. This is because for a derivative financial instrument to be classified as equity, it must be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments ('fixed-for-fixed condition').
12. The request asked whether the issuer reclassifies the warrant as an equity instrument following the fixing of the warrant's exercise price after initial recognition as specified in the contract, given that the fixed-for-fixed condition would at that stage be met.
13. The Interpretations Committee observed that IAS 32 contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the

³ The Interpretations Committee use square brackets in its tentative agenda decisions to identify them as such. When the agenda decisions are made final the square brackets are removed.

⁴ According to the *Goods and Services Tax Act 1985*, section 14(1) (ca) and (cb), the rental income received from a residential dwelling is an exempt supply so GST cannot be charged on rental for residential property. Therefore, the owner is not allowed to claim any GST on residential dwelling expenses spent on the rental property. However, expenses are still deductible for income tax purposes. For commercial property, GST can still be charged and an owner can claim GST on expenses spent on the property.

instrument’s contractual terms are unchanged. The Interpretations Committee acknowledged that similar questions about reclassification arise in other circumstances.

14. Reclassification by the issuer has been identified as one of the practice issues the IASB will consider addressing in its Financial Instruments with Characteristics of Equity (FICE) project.
15. The Interpretations Committee concluded that the matter described in the request is, in isolation, too narrow for the IASB or the Interpretations Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Interpretations Committee [decided] not to add a standard-setting project to the work plan.

Question for the Board

- Q2. Do you **AGREE** with the staff recommendation **not to comment** on the Interpretation Committee’s tentative agenda decision that the accounting for warrants that are classified as financial liabilities on initial recognition should be considered as part of the FICE project by the IASB?

Interpretations Committee March 2021 Meeting – final agenda decision

16. At the March 2021 meeting there was one final agenda decision:

No.	Topic	Affected Standard
1.	Configuration or Customisation Costs in a Cloud Computing Arrangement	IAS 38 <i>Intangible Assets</i>

Configuration or Customisation Costs in a Cloud Computing Arrangement

17. The Interpretations Committee considered feedback on the tentative agenda decision published in the December 2020 *IFRIC Update* about how a customer accounts for costs of configuring or customising the supplier’s application software in a Software as a Service arrangement.
18. The Interpretations Committee reached its conclusions on the agenda decision. In accordance with paragraph 8.7 of the IFRS Foundation’s Due Process Handbook, the IASB will consider this agenda decision at its April 2021 meeting. Subject to the IASB not objecting, the agenda decision will be published in April 2021 in an addendum to this IFRIC Update.
19. Respondents to the tentative agenda decision highlighted shortcomings in the requirements of IAS 38 in their application to intangible asset arrangements linked to digitalisation. The Interpretations Committee suggested that the IASB consider this feedback as part of its upcoming Agenda Consultation.

Concluding comments

20. Staff intend to briefly report on final agenda decisions to close the loop for the previous tentative agenda decisions discussed by the Board, for the Board to note.
21. This final decision was added in due to its relevance to the current IASB *Third Agenda Consultation* project.
22. Staff would be pleased to receive Board feedback on the inclusion of final Interpretation Committee agenda decisions.



APPROVAL NZASB 131

Approval to Issue

Disclosure of Accounting Policies

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 *Disclosure of Accounting Policies*; 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 *Disclosure of Accounting Policies* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 22nd day of March 2021

A handwritten signature in black ink, appearing to read 'Michele J Embling', written over a faint circular stamp or watermark.

.....
Michele J Embling
Chair
External Reporting Board



Date: 10 March 2021
To: NZASB Members
From: Lisa Kelsey
Subject: *Disclosure of Accounting Policies*

Purpose and introduction¹

1. The purpose of this memo is to seek approval by circular resolution to issue *Disclosure of Accounting Policies*, which amends NZ IAS 1 *Presentation of Financial Statements*.

Recommendations

2. We recommend that the Board:
 - (a) APPROVES for issue by circular resolution *Disclosure of Accounting Policies*; and
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *Disclosure of Accounting Policies*.

Background

3. On 18 July 2018, the International Accounting Standards Board (IASB) added a project to its agenda (*Disclosure initiative—Accounting Policies*) to develop guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The IASB added this project in response to feedback on the *Disclosure Initiative—Principles of Disclosure Discussion Paper* (the POD DP). The feedback on the POD DP suggested that guidance was required to assist entities in determining which accounting policies to disclose. This project was part of the IASB's plan to promote *Better Communication in Financial Reporting*.
4. The IASB issued ED/2019/6 *Disclosure of Accounting Policies* (the ED) in August 2019. The ED proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (IFRS Practice Statement).
5. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 7 October 2019 and to the IASB on 29 November 2019.
6. The NZASB submitted a comment letter on the ED. The NZASB did not receive any comment letters from New Zealand constituents. The IASB received 89 comment letters from its world-

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wide constituents. The IASB did not receive any comment letters from New Zealand constituents.

7. We remind the Board that the ED contained an alternative view from Mr Martin Edelmann. Mr Edelmann voted against the publication of the ED. In Mr Edelmann's view not all primary users of financial statements are accounting experts. Hence the disclosure of accounting policies could help them to better understand an entity's financial statements even if such accounting policies are not important enough to be assessed as material because they would not be expected to influence the investment decisions of users. Mr Edelmann went on to say that such disclosure may be useful when the accounting required by an IFRS Standard is particularly complex.
8. The IASB issued *Disclosure of Accounting Policies* (the amending standard) in February 2021, which is effective for annual reporting periods beginning on or after 1 January 2023 with early application permitted.
9. The amending standard includes a dissenting opinion of Ms Francoise Flores. We discuss this in more detail below.

Reasons for amendments

10. In the IASB's view, the amendments will improve the relevance of the financial statements by helping an entity to:
 - (a) identify and disclose accounting policy information that is material to users of financial statements; and
 - (b) remove immaterial accounting policy information that may obscure material accounting policy information.
11. The IASB also expects that the amendments:
 - (a) are unlikely to be complex or costly to implement because they do not affect recognition and measurement, and will not require significant system changes to implement; and
 - (b) will reduce the cost of preparing and using financial statements by reducing the disclosure of immaterial accounting policy information.
12. Consequently, the IASB expects that the benefits of the amendments will outweigh the costs.
13. The amendments build on *Definition of Material*, issued in October 2018, that amended IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of material.

Key issues

14. The NZASB was broadly supportive of the proposals contained in the ED and welcomed the proposal to require entities to disclose their *material* accounting policies. The NZASB noted that this proposal was consistent with the NZASB's recommendation to the IASB in its 2017 comment letter on the POD DP. However, the NZASB did put forward a number of

recommendations for the IASB to consider. We have summarised the main recommendations and the IASB’s response in Table 1.

15. The NZASB also made a number of recommendations regarding the proposed amendments to the IFRS Practice Statement. We have not included these in Table 1 but note that quite a few of the suggestions were taken on board by the IASB when finalising the amendments.

Table 1: Recommendation made to IASB in NZASB’s comment letter	
Comment/issue raised by NZASB	IASB response
<i>Comments made in cover letter</i>	
We recommended the IASB develops an objective for the disclosure of information about accounting policies.	No
<i>Comments made in response to specific questions to respondents</i>	
Rather, we would prefer paragraph 117 to read as follows. 117 An entity shall disclose its material accounting policies. An accounting policy is material if information about that accounting policy is needed for a user to understand other material information in the financial statements.	No
We recommend that paragraph 117A is reworded to state “not all <u>information about</u> accounting policies relating to material transactions, other events or conditions is material to an entity’s financial statements”.	Yes and consistently used
We agree with the examples provided in paragraph 117B(b)–(d). However, we believe that the lead in to these ‘examples’ should clarify that they indicate when <u>information about an</u> accounting policy may be material – as opposed to an accounting policy in its entirety	Yes
In regard to paragraph 117B(a) we suggest the IASB considers removing the last part of the sentence (which reads “and this change resulted in a material change to the amounts included in the financial statements”).	Yes
In our view paragraph 117B(e) as currently drafted is confusing. Therefore, we recommend 117B(e) is revised to clearly capture information about an accounting policy that relates to material transactions, other events or conditions and “ <u>is needed to understand how an entity has applied requirements in IFRS Standards to the entity’s specific facts and circumstances.</u> ”	In part Refer below to the dissenting opinion in relation to this sub-paragraph

Dissenting opinion

16. Ms Françoise Flores voted against the publication of *Disclosure of Accounting Policies*. She agrees with all the amendments except paragraph 117B(e) of IAS 1 and paragraph 88F of IFRS Practice Statement 2. In particular, Ms Flores disagrees with paragraph 117B(e) of IAS 1, which implies that accounting policy information that includes information that is standardised or duplicates the requirements of IFRS Standards could be material when the underlying accounting is complex; and that, therefore, such information is required to be included in the financial statements.
17. Ms Flores believes that the notion of complexity is highly subjective and, therefore, does not constitute a robust basis for a requirement. Introducing such a subjective assessment could, in

her view, undermine the overall aim of the amendments, which is to contribute to a better application of the concept of materiality to accounting policy disclosures and thereby help an entity reduce the disclosure of immaterial accounting policy information. Facing such subjective judgements, an entity may opt for 'being on the safe side', providing more information than is required. In her view, paragraph 117B(e) of IAS 1 is an unsatisfactory response to feedback from users of financial statements who said they find entity-specific accounting policy information to be more useful than information that is standardised or that duplicates or summarises the requirements of IFRS Standards.

18. Ms Flores believes that the appropriate response would have been to explain that such accounting policy information may, in some circumstances, be useful in providing context for entity-specific information. Such an approach would enhance the readability of entity-specific accounting policy information.
19. We note that our recommendation for paragraph 117(e) was in the same vein as Ms Flores suggested approach in paragraph 18.

RDR concessions

20. The amendments do not add to or change existing disclosure requirements. Therefore, there are no changes to the RDR concessions in NZ IAS 1.

Consistency with Australian Accounting Standards

21. The Australian Accounting Standards Board (AASB) is expected to approve equivalent amendments to AASB 101 *Presentation of Financial Statements* in the near future .
22. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis.

Due process

23. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2019/6 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in July 2020².
24. 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.
25. 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

² <https://www.ifrs.org/news-and-events/updates/iasb-updates/july-2020/#2>

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.

Draft amending standard and signing memorandum

26. Attached is a copy of *Disclosure of Accounting Policies*. The New Zealand amending standard does not include the amendments to IFRS Practice Statement as this is not part of NZ IFRS. For the NZASB's information we do include a link to the IFRS Practice Statement on our website.
27. We have also included in the consequential amendments an amendment to FRS-42 *Prospective Financial Statements* to align the wording in FRS-42 with the new wording in NZ IAS 1. Although this amendment has not been subject to due process, we are of the view that it is a minor amendment as it does not change the recognition or measurement requirements in FRS-42.
28. Attached is a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board. In the draft signing memorandum, we have outlined the due process and considered the benefits to New Zealand constituents of the amending standard.

PBE policy approach

29. We have not yet applied the *Policy Approach to the Development of PBE Standards* (the PBE Policy Approach) to *Disclosure of Accounting Policies*.
30. At this stage we are not sure that the IPSASB will pick up these amendments. We note there are two other Disclosure Initiative amendments that have been issued by the IASB (and the NZASB) which are yet to be adopted into IPSAS (PBE Standards). These are:
 - *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8) issued December 2018, effective 1 January 2020; and
 - *Definition of Material* (Amendments to Conceptual Frameworks) issued December 2018, effective 1 January 2020.
31. We will be meeting with IPSASB staff in March to discuss the Improvements to IPSAS 2021 project. Following the meeting we will know which IASB amendments the IPSASB will be considering for adoption into IPSAS as part of this project.
32. Once we have more information we will apply the PBE Policy Approach.

Questions for the Board

1. Does the Board APPROVE for issue *Disclosure of Accounting Policies*?
2. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board?

Attachments

Draft *Disclosure of Accounting Policies*

Draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board



NZ ACCOUNTING
STANDARDS
BOARD

Disclosure of Accounting Policies

Issued March 2021

This Standard was issued on 26 March 2021 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 23 April 2021.

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

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

This Tier 1 and Tier 2 For-profit Accounting Standard is based on *Disclosure of Accounting Policies* issued by the International Accounting Standards Board (IASB).

DISCLOSURE OF ACCOUNTING POLICIES

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DISCLOSURE OF ACCOUNTING POLICIES

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

APPROVAL BY THE IASB OF *DISCLOSURE OF ACCOUNTING POLICIES* ISSUED IN FEBRUARY 2021

IASB DISSENTING OPINION

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

AMENDMENTS TO OTHER IASB BASIS FOR CONCLUSIONS AND IMPLEMENTATION GUIDANCE

Part A – Introduction

This Standard sets out amendments to NZ IFRS as a consequence of *Disclosure of Accounting Policies* issued by the International Accounting Standards Board (IASB). This amending standard is identical to *Disclosure of Accounting Policies*, except that it:

- (a) does not include the amendments made to IFRS Practice Statement 2 *Making Materiality Judgements* (because this Practice Statement does not form part of NZ IFRS); and
- (b) includes amendments to FRS-42 *Prospective Financial Statements* (a domestic standard) to align the terminology in FRS-42 with the amended terminology in NZ IAS 1 *Presentation of Financial Statements*.

The IASB's *Disclosure Initiative—Principles of Disclosure Discussion Paper* (the POD DP) identified three main concerns about information disclosed in general purpose financial statements (collectively termed the 'disclosure problem'). These concerns were:

- (a) not enough relevant information;
- (b) too much irrelevant information; and
- (c) ineffective communication of information.

The feedback on the POD DP suggested that guidance was required to assist entities in determining which accounting policies to disclose. The IASB added *Disclosure Initiative—Accounting Policies* project to its agenda in response to that feedback.

The objective of the project was to help stakeholders to improve accounting policy disclosures for the primary users of financial statements.

To achieve its objective, the IASB:

- (a) amended paragraphs 117–122 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policy information rather than their significant accounting policies; and
- (b) amended the Materiality Practice Statement to include guidance and examples on the application of materiality to accounting policy disclosures.

Part B – Scope

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

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

Paragraphs 7, 10, 114, 117 and 122 are amended. Paragraphs 117A–117E and 139V are added. Paragraphs 118, 119 and 121 are deleted. New text is underlined and deleted text is struck through.

Definitions

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

Accounting policies are defined in paragraph 5 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and the term is used in this Standard with the same meaning.

...

Financial statements

...

Complete set of financial statements

10 A complete set of financial statements comprises:

...

- (e) notes, comprising ~~material significant~~ accounting policy information policies and other explanatory information;

...

Structure and content

...

Notes

Structure

...

114 Examples of systematic ordering or grouping of the notes include:

...

- (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

- (ii) ~~material significant~~ accounting policy information policies applied (see paragraph 117);

...

Disclosure of accounting policy information policies

117 An entity shall disclose ~~material its significant~~ accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. policies comprising:

- (a) ~~the measurement basis (or bases) used in preparing the financial statements; and~~
- (b) ~~the other accounting policies used that are relevant to an understanding of the financial statements.~~

117A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

- (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
- (b) the entity chose the accounting policy from one or more options permitted by NZ IFRS—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;
- (c) the accounting policy was developed in accordance with NZ IAS 8 in the absence of an NZ IFRS that specifically applies;

DISCLOSURE OF ACCOUNTING POLICIES

- (d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or
- (e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one NZ IFRS to a class of material transactions.
- 117C Accounting policy information that focuses on how an entity has applied the requirements of the NZ IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the NZ IFRSs.
- 117D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.
- 117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other NZ IFRSs.
- 118 ~~[Deleted by IASB]It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~
- 119 ~~[Deleted by IASB]In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~
- 120 ~~[Deleted by IASB]~~
- 121 ~~[Deleted by IASB]An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs but the entity selects and applies in accordance with IAS 8.~~
- 122 **An entity shall disclose, along with material its significant accounting policy information policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**
- ...

Transition and effective date

- ...
- 139V Disclosure of Accounting Policies, issued in [Date] 2021, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117E and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to NZ IAS 1 for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Part D – Amendments to Other NZ IFRSs

Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 21 and B5 are amended. Paragraph 44II is added. New text is underlined and deleted text is struck through.

Significance of financial instruments for financial position and performance

...

Other disclosures

Accounting policies

- 21 In accordance with paragraph 117 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses material ~~its significant~~ accounting policy information ~~policies comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.~~ Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

...

Effective date and transition

...

- 44II *Disclosure of Accounting Policies*, which amends NZ IAS 1 and was issued in [Date] 2021, amends paragraphs 21 and B5. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

...

Appendix B Application guidance

...

Classes of financial instruments and level of disclosure (paragraph 6)

...

Other disclosure—accounting policies (paragraph 21)

- B5 Paragraph 21 requires disclosure of material accounting policy information, which is expected to include information about the measurement basis (or bases) for financial instruments used in preparing the financial statements ~~and the other accounting policies used that are relevant to an understanding of the financial statements.~~ For financial instruments, such disclosure may include:

...

DISCLOSURE OF ACCOUNTING POLICIES

Paragraph 122 of NZ IAS 1 (as revised in 2007) also requires entities to disclose, along with material ~~its significant~~ accounting policy information ~~policies~~ or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Amendments to NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Paragraph 34 is amended and paragraph 38 is added. New text is underlined and deleted text is struck through.

All plans

Disclosure

34 The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:

...

(b) material ~~a summary of significant~~ accounting policy information ~~policies~~; and

...

Effective date

...

38 Disclosure of Accounting Policies, which amends NZ IAS 1 *Presentation of Financial Statements* and was issued in [Date] 2021, amended paragraph 34. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendments to NZ IAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

5 NZ IAS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, material ~~comprising significant~~ accounting policy information ~~policies~~ and other explanatory information;

...

Effective date

- ...
- 60 Disclosure of Accounting Policies, which amends NZ IAS 1 and was issued in [Date] 2021, amended paragraph 5. An entity shall apply that amendment for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Amendments to FRS-42 *Prospective Financial Statements*

The *Main features of the Standard* are amended. Paragraphs 28 and 60 are amended and paragraph 72H is added. New text is underlined and deleted text is struck through.

Main features of the Standard

- ...
- The Standard requires disclosure of:
- ...
- (i) material accounting policy information ~~significant accounting policies~~; and
 - (j) a cautionary note regarding possible variations in reported results.

Prospective financial reporting

Presentation of prospective financial statements

- ...
- 28 An entity shall present a complete set of prospective financial statements, which shall include the following:
- ...
- (e) notes, comprising a summary of material accounting policy information ~~significant accounting policies~~, significant assumptions and any other relevant information underlying (a) to (d).
- ...

Disclosure of accounting policies

- 60 Material accounting policy information used in preparing ~~Significant accounting policies used as a basis for the preparation of~~ prospective financial statements shall be disclosed in accordance with NZ IAS 1.
- ...
- 72H Disclosure of Accounting Policies, which amends NZ IAS 1 and was issued in [Date] 2021, amended paragraphs 28 and 60. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Part E – Effective Date

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



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 18 March 2021

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: *Disclosure of Accounting Policies*

Introduction¹

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *Disclosure of Accounting Policies*.
2. The IASB's *Disclosure Initiative—Principles of Disclosure Discussion Paper* (the POD DP) identified three main concerns about information disclosed in general purpose financial statements (collectively termed the 'disclosure problem'). These concerns are:
 - not enough relevant information;
 - too much irrelevant information; and
 - ineffective communication of information.
3. The feedback on the POD DP suggested that guidance was required to assist entities in determining which accounting policies to disclose. The IASB added *Disclosure Initiative—Accounting Policies* project to its agenda in response to that feedback.
4. The objective of the project was to help stakeholders to improve accounting policy disclosures for the primary users of financial statements.
5. To achieve its objective, the IASB:
 - (a) amended paragraphs 117–122 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policy information rather than their significant accounting policies; and
 - (b) amended the Materiality Practice Statement to include guidance and examples on the application of materiality to accounting policy disclosures.

Benefits to New Zealand constituents

6. The NZASB has received feedback in the past from regulators and users that New Zealand entities continue to have difficulties in identifying and disclosing material information about their accounting policies.

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7. The amendments aim to address this and improve the relevance of the information in the financial statements by helping an entity to:
 - (a) identify and disclose accounting policy information that is material to users of financial statements; and
 - (b) remove immaterial accounting policy information that may obscure material accounting policy information.

Due process

8. The IASB issued ED/2019/6 *Disclosure of Accounting Policies* (the ED) in August 2019. The ED proposed amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements.
9. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 7 October 2019 and to the IASB on 29 November 2019.
10. The NZASB submitted a comment letter on the ED. The NZASB did not receive any comment letters from New Zealand constituents. The IASB received 89 comment letters from its world-wide constituents. The IASB did not receive any comment letters from New Zealand constituents.
11. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2019/6 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in July 2020².
12. The IASB issued *Disclosure of Accounting Policies* (the amending standard) in February 2021, which is effective for annual reporting periods beginning on or after 1 January 2023 with early application permitted.
13. The NZASB has approved *Disclosure of Accounting Policies*. 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.
14. 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.

² <https://www.ifrs.org/news-and-events/updates/iasb-updates/july-2020/#2>

Consistency with XRB Financial Reporting Strategy

15. The amending standard is a standard in its own right. The amending standard is identical to *Disclosure of Accounting Policies* issued by the IASB, except that it:
 - (a) does not include the amendments made to IFRS Practice Statement 2 *Making Materiality Judgements* (because this Practice Statement does not form part of NZ IFRS);
 - (b) includes amendments to FRS-42 *Prospective Financial Statements* (a domestic standard) to align the terminology in FRS-42 with the amended terminology in NZ IAS 1 *Presentation of Financial Statements*; and
 - (c) includes a New Zealand specific introduction and the usual scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities.
16. The amending standard does not create any new disclosure requirements. Therefore there are no changes to the RDR concessions in NZ IAS 1.
17. The Australian Accounting Standards Board (AASB) is expected to approve equivalent amendments to AASB 101 *Presentation of Financial Statements* in the near future.
18. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis.
19. 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 (updated 2015).

Effective date

20. The amending standard will be applicable for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Other matters

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

Recommendation

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

Attachments

Disclosure of Accounting Policies

Certificate of determination

Approval certificate

A handwritten signature in black ink, appearing to read 'Carolyn Cordery', with a stylized flourish at the end.

Carolyn Cordery
Chair NZASB



APPROVAL NZASB 132

Approval to Issue *Definition of Accounting Estimates*

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 *Definition of Accounting Estimates*; 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 *Definition of Accounting Estimates* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this 22nd day of March 2021

A handwritten signature in black ink, appearing to read 'Michele J Embling', is written over a large, faint circular watermark or stamp.

.....
Michele J Embling
Chair
External Reporting Board



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 10 March 2021
To: NZASB Members
From: Vanessa Sealy-Fisher
Subject: Definition of Accounting Estimates

Purpose and introduction¹

1. The purpose of this memo is to seek approval by circular resolution to issue *Definition of Accounting Estimates*, which amends NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
2. The background section of the memo deals with amendments proposed by the IASB in two exposure drafts:
 - (a) ED 2017/5 *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) (ED/2017/5); and
 - (b) ED/2018/1 *Accounting Policy Changes* (Amendments to IAS 8) (ED/2018/1).
3. The IASB subsequently decided not to proceed with the amendments proposed in ED 2018/1.

Recommendations

4. We recommend that the Board:
 - (a) APPROVES for issue by circular resolution *Definition of Accounting Estimates*; and
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard.

Background

IASB ED/2017/5

5. The International Accounting Standards Board (IASB) published Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) (ED/2017/5) in September 2017.
6. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB by 24 November 2017 and to the IASB by 15 January 2018.

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).

7. The NZASB did not comment on ED/2017/5. The NZASB received one submission which supported the proposals in the ED (see attached). The IASB received 82 comment letters from its world-wide constituents. The IASB did not receive any comments from New Zealand constituents.
8. The proposed amendments aimed to help entities distinguish accounting policies from accounting estimates. More specifically, the proposed amendments would clarify:
 - (a) how accounting policies and accounting estimates relate to each other, by:
 - (i) explaining that accounting estimates are used in applying accounting policies; and
 - (ii) making the definition of accounting policies clearer and more concise;
 - (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and
 - (c) that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.
9. The IASB issued *Definition of Accounting Estimates* in February 2021. The amendments apply for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments apply to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

IASB ED/2018/1

10. The IASB published Exposure Draft ED/2018/1 *Accounting Policy Changes* (Amendments to IAS 8) in March 2018.
11. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB by 24 November 2017 and to the IASB by 27 July 2018.
12. The NZASB commented to the IASB and supported the proposals in ED/2018/1. The NZASB received one submission which supported the proposals in the ED (see attached). The IASB received 105 comment letters from its world-wide constituents. The IASB did not receive any comments from other New Zealand constituents.
13. The proposed amendments to IAS 8 aimed to simplify the application of accounting policy changes that result from an agenda decision.² To achieve this, the IASB proposed:
 - (a) to amend IAS 8 to lower the threshold for retrospective application of such changes, which would include consideration of the expected benefits to investors of applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application; and

² An Agenda Decision is a decision published by the IFRS Interpretations Committee explaining its rationale for not adding a particular matter to its standard-setting agenda.

- (b) to include application guidance on expected benefits and cost in order to provide a framework to support entities in applying the judgement required to assess the expected benefits and cost.
14. The IASB considered the feedback received on ED/2018/1 at its meeting in December 2018. Feedback on the project was mixed and raised doubts about the expected benefits of proceeding with the project. Respondents raised numerous questions and concerns about the proposals, including concerns that the proposals would be challenging and costly to apply as well as difficult to enforce and audit.
15. Because of the interaction with the Due Process Oversight Committee's (DPOC) review of the Due Process Handbook (Handbook) which was ongoing at that time, the IASB:
- (a) tentatively decided not to amend IAS 8 at this time; and
 - (b) agreed that it would be helpful for the DPOC to first consider whether any changes are required to the due process for publishing an agenda decision before the IASB makes decisions about the proposed amendments to IAS 8.
16. At its meeting in June 2020, the IASB decided not to proceed with the proposals in ED/2018/1. In making this decision, the IASB noted that the DPOC, at its December 2019 meeting:
- (a) confirmed the status of agenda decisions;
 - (b) decided that the Handbook should be amended to clarify that, while an agenda decision cannot add or change requirements in IFRS Standards, the explanatory material in an agenda decision derives its authority from the Standards themselves. An entity is therefore required to apply the applicable Standards, reflecting the explanatory material in an agenda decision; and
 - (c) decided to involve the IASB in the process of publishing a final agenda decision as an additional due process step—ie if the IASB objects to such an agenda decision (which would be the case if four or more IASB members object), an agenda decision would not be published and the IASB would decide how to proceed.

Reasons for amendments

17. The amendments clarify the definition of accounting estimates to enable entities to distinguish accounting policies from accounting estimates. This distinction is important because NZ IAS 8 contains different requirements on how to account for changes in accounting policies and for changes in accounting estimates.
18. After considering the feedback received on ED/2017/5 the IASB decided not to amend the definition of accounting policies as proposed. Respondents had mixed views on the proposals and raised various key matters which could have had the unintended consequence of narrowing or broadening the scope of what constitutes accounting policies.

RDR concessions

19. The amendments do not add to or change existing disclosure requirements. Therefore, there are no changes to the RDR concessions in NZ IAS 8.

Consistency with Australian Accounting Standards

20. The Australian Accounting Standard Board (AASB) expects to approve the equivalent amendments to Australian Accounting Standards in the near future.
21. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. The AASB is not proposing to add new disclosure requirements to AASB 1060.

Due process

22. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken over the course of this project and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB’s meeting on 11 December 2019.³
23. 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.
24. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commission is required.

Draft amending standard and signing memorandum

25. Attached is a copy of *Definition of Accounting Estimates* and a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board. In the draft signing memorandum, we have outlined the due process and considered the benefits to New Zealand constituents of the amending standard.

Questions for the Board

1. Does the Board APPROVE for issue *Definition of Accounting Estimates*?
2. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board?

Attachments

Draft *Definition of Accounting Estimates*

Draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board

Confidential submission on IASB ED/2017/5 *Accounting Policies and Accounting Estimates*

³ A summary of the IASB’s December 2019 meeting is available at <https://www.ifrs.org/news-and-events/updates/iasb-updates/december-2019/#2>

Confidential submission on IASB ED/2018/1 *Accounting Policy Changes*

Memo – Application of the PBE Policy Approach



NZ ACCOUNTING
STANDARDS
BOARD

Definition of Accounting Estimates

Issued March 2021

This Standard was issued on 26 March 2021 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 23 April 2021.

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 *Definition of Accounting Estimates* issued by the International Accounting Standards Board.

DEFINITION OF ACCOUNTING ESTIMATES

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DEFINITION OF ACCOUNTING ESTIMATES

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

APPROVAL BY THE IASB OF *DEFINITION OF ACCOUNTING ESTIMATES* ISSUED IN FEBRUARY 2021

AMENDMENTS TO THE GUIDANCE ON IMPLEMENTING IAS 8

AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 8

Part A – Introduction

This Standard sets out amendments to NZ IAS 8 *Accounting Policies, Accounting Estimates and Errors*. The amendments are identical to *Definition of Accounting Estimates*, issued by the International Accounting Standards Board (IASB).

The amendments clarify:

- (a) how accounting policies and accounting estimates relate to each other, by:
 - (i) explaining that accounting estimates are used in applying accounting policies; and
 - (ii) making the definition of accounting estimates clearer and more concise;
- (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and
- (c) that, in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

Part B – Scope

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

Part C – Amendments

Amendments to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 5, 32, 34, 38 and 48 and the heading above paragraph 32 are amended. Paragraphs 32A–32B, 34A and 54I and the headings above paragraphs 34 and 36 are added. The heading above paragraph 39 is amended to be a sub-heading of the heading added above paragraph 34. Deleted text is struck through and new text is underlined.

Definitions

5 The following terms are used in this Standard with the meanings specified:

...

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.

~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.~~

...

Accounting Changes in accounting estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Developing accounting estimates involves the use of judgements or assumptions. Estimation involves judgements based on the latest available, reliable information. Examples of accounting estimates include: For example, estimates may be required of:

- (a) a loss allowance for expected credit losses, applying NZ IFRS 9 *Financial Instruments*~~bad debts~~;
- (b) the net realisable value of an item of inventory, applying NZ IAS 2 *Inventories*~~inventory obsolescence~~;
- (c) the fair value of an asset or liability, applying NZ IFRS 13 *Fair Value Measurement*~~financial assets or financial liabilities~~;
- (d) the depreciation expense for an item of property, plant and equipment, applying NZ IAS 16~~the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets~~; and
- (e) a provision for warranty obligations, applying NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying NZ IFRS 9) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying NZ IFRS 13).

32B The term ‘estimate’ in NZ IFRS sometimes refers to an estimate that is not an accounting estimate as defined in this Standard. For example, it sometimes refers to an input used in developing accounting estimates.

...

Changes in accounting estimates

34 An entity may need to change an accounting estimate~~may need revision~~ if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting~~the revision of an~~ estimate does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.

...

Applying changes in accounting estimates

...

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of~~that the change in estimate~~. A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. For example, a change in a loss allowance for expected credit losses~~the estimate of the amount of bad debts~~ affects only the current period’s profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset’s remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Disclosure

Disclosure

...

Errors

...

- 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need ~~changing revision~~ as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

...

Effective date and transition

...

- 54I Definition of Accounting Estimates, issued in March 2021, amended paragraphs 5, 32, 34, 38 and 48 and added paragraphs 32A, 32B and 34A. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. An entity shall apply the amendments to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.

Part D – Effective Date

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



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 18 March 2021

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: *Definition of Accounting Estimates*

Introduction¹

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *Definition of Accounting Estimates* which amends NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
2. The IFRS Interpretations Committee informed the International Accounting Standards Board (Board) about diversity in the way entities distinguish accounting policies from accounting estimates. That distinction has consequences because IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* contains different requirements on how to account for changes in accounting policies and for changes in accounting estimates.
3. The amendments:
 - (a) revise the definition of accounting estimates to specify that:
 - (i) accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty;
 - (ii) such monetary amounts are outputs of measurement techniques used in applying accounting policies; and
 - (iii) an entity uses judgements and/or assumptions in developing an accounting estimate;
 - (b) clarify that:
 - (i) the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction or prior period errors; and
 - (ii) a change in accounting estimate that results from new information or new developments is not the correction of an error; and
 - (c) specify that estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop accounting estimates.

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Benefits to New Zealand constituents

4. Entities should find it easier to distinguish changes in accounting policies from changes in accounting estimates.
5. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Due process

6. The International Accounting Standards Board (IASB) published Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates* (Amendments to IAS 8) (ED/2017/5) in September 2017.
7. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB by 24 November 2017 and to the IASB by 15 January 2018.
8. The NZASB did not comment on ED/2017/5. The NZASB received one submission which supported the proposals in the ED. The IASB received 82 comment letters from its world-wide constituents. The IASB did not receive any comments from New Zealand constituents.
9. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2017/5 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in December 2019.²
10. The IASB issued *Definition of Accounting Estimates* in February 2021. The amendments apply for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments apply to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the first annual reporting period in which it applies the amendments.
11. The NZASB has approved *Definition of Accounting Estimates*. 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.
12. 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.

² An update on the IASB meeting in December 2019 is available at <https://www.ifrs.org/news-and-events/updates/iasb-updates/december-2019/#2>

Consistency with XRB Financial Reporting Strategy

13. The amending standard is a standard in its own right. The amending standard is identical to *Definition of Accounting Estimates* 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.
14. The amendments do not add to or change existing disclosure requirements. Therefore, there are no changes to the RDR concessions in NZ IAS 8.
15. The Australian Accounting Standard Board (AASB) expects to approve the equivalent amendments to Australian Accounting Standards in the near future.
16. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. The AASB is not proposing to add new disclosure requirements to AASB 1060.
17. 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

18. The amending standard will be applicable for annual periods beginning on or after 1 January 2023, with earlier application permitted.

Other matters

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

Recommendation

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

Attachments

Definition of Accounting Estimates

Certificate of Determination

Approval certificate

A handwritten signature in black ink, appearing to read 'Carolyn Cordery', with a stylized flourish at the end.

Carolyn Cordery
Chair NZASB



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 8 March 2021
To: NZASB Members
From: Vanessa Sealy-Fisher
Subject: PBE Policy Approach: *Definition of Accounting Estimates*

Recommendation¹

1. We recommend that the Board:
 - (a) CONSIDERS the application of the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach) to *Definition of Accounting Estimates*; and
 - (b) AGREES to wait for the IPSASB to consider adopting the amendments into IPSAS via its Improvements to IPSAS 2021 project.

Background

2. The IASB issued *Definition of Accounting Estimates* in February 2021. The amendments clarify the definition of accounting estimates to enable entities to distinguish accounting policies from accounting estimates. This distinction is important because IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* contains different requirements on how to account for changes in accounting policies and for changes in accounting estimates.
3. The next step is to consider whether the amendments should be incorporated into PBE Standards and, if so, when. In this memo we have applied the relevant parts of the PBE Policy Approach to *Definition of Accounting Estimates*.

PBE Policy Approach

4. The relevant triggers for considering whether to amend PBE Standards are set out in section 4 *Application of the Development Principle*. In this case, the IASB has issued amendments to an existing IFRS Standard which the IPSASB has used as the basis for an IPSAS (subsection 4.2).
5. Paragraphs 28–31 of the PBE Policy Approach set out the matters to be considered. Paragraphs 28–29 highlight the need to consider whether the IPSASB will address the change in an acceptable timeframe and the need to balance this against the costs and benefits of getting ahead of the IPSASB. Paragraph 30 establishes a rebuttable presumption that the

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NZASB will not get ahead of the IPSASB if the amendments are minor. The table below set out our thoughts on these matters.

Applying the PBE Policy Approach

<p>Will the IPSASB consider these issues in an acceptable timeframe?</p> <p>IPSASB staff have indicated that these amendments will be considered for inclusion in the Improvements to IPSAS 2021 project. The IPSASB's workplan indicates that an exposure draft (ED) for the improvements project is scheduled for June 2021.</p>
<p>Are the amendments minor?</p> <p>The amendment are not extensive. They clarify the definition of accounting estimates to enable entities to distinguish accounting policies from accounting estimates.</p>
<p>Costs and benefits of getting ahead of the IPSASB</p> <p>Costs</p> <p>There is a risk that the IPSASB could decide not to issue the amendments. If the NZASB moves ahead of the IPSASB, this could result in a permanent difference between IPSAS and PBE Standards.</p> <p>Waiting for the IPSASB would not affect the resources required to develop and issue a domestic standard.</p> <p>Who would benefit?</p> <p>Tier 1 and Tier 2 PBEs would benefit from greater clarification about distinguishing between accounting policies and accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.</p> <p>However, we have not received any feedback that this is a pressing issue.</p>
<p>RDR</p> <p>There are no new disclosures and therefore no RDR concessions are proposed.</p>

Next steps

6. Based on the analysis above, staff are of the view that it is appropriate to wait for the IPSASB to consider *Definition of Accounting Estimates* as part of the Improvements to IPSAS 2021 project in June.
7. The NZASB would then consider these amendments as part of omnibus amendments to PBE Standards.

Question for the Board

1. Does the Board AGREE to wait for the IPSASB to consider *Definition of Accounting Estimates*?