

Board Meeting Agenda

Wednesday 13 May 2021, virtual meeting

Est Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
PBE Item for Consideration					
9.15 am	2	IPSASB Measurement projects	(JS/GS/JP/TC)		
	2.1	Cover memo	Consider	Paper	
	2.2	Draft comment letter	Consider	Paper	
	2.3	At a Glance ED 76 and ED 77	Note	Link to XRB website	
	2.4	At a Glance ED 78	Note		
	2.5	At a Glance ED 79	Note		
	2.6	IPSASB ED 76	Note		
	2.7	IPSASB ED 77	Note		
	2.8	IPSASB ED 78	Note		
	2.9	IPSASB ED 79	Note		
10.45 am	Morning tea break				
PBE Item for Approval					
11.00 am	3	IPSASB Leases	(JC/VSF)		
	3.1	Cover memo	Consider	Late paper	
	3.2	Draft comment letters			
	3.2.1	Draft comment letter on ED 75	Approve	Paper	
	3.2.2	Draft comment letter on RFI	Approve	Late paper	
	3.3	Submissions			
	3.3.1	Auckland Council (copy of submission to IPSASB – ED 75 and RFI)	Note	Paper	
	3.3.2	Quadrent Limited (ED 75 and RFI)	Note	Paper	
	3.3.3	Ministry of Education (ED 75)	Note	Paper	
	3.3.4	Ministry of Education (RFI)	Note	Paper	
	3.3.5	OAG (copy of submission to IPSASB – ED 75)	Note	Paper	
	3.4	IPSASB ED 75	Note	Link to XRB website	
	3.5	IPSASB Request for Information	Note	Link to XRB website	
3.6	At a Glance Document	Note	Link to XRB website		

Est Time	Item	Topic	Objective		Page
11.50 am	Meeting break				
PBE Items for Consideration					
11.55 am	4	PBE Policy Approach	(TC)		
	4.1	Cover memo: Annual review of the application of the PBE Policy Approach	Consider	Paper	
	4.2	Application of the PBE Policy Approach – <i>Disclosure of Accounting Policies</i>	Consider	Paper	
	4.3	<i>Disclosure of Accounting Policies</i>	Note	Link to XRB website	
	4.4	<i>Policy Approach to Developing the Suite of PBE Standards</i>	Note	Link to XRB website	
12.15 pm	5	Post-implementation Review of Tier 3 and Tier 4 Standards	(JC)		
50 mins	5.1	Cover memo	Note	Paper	
	5.2	Analysis of feedback	Note	Paper	
	5.3	Summary of outreach Submissions	Note	Paper	
	5.4	Audit New Zealand	Note	Paper	
	5.5	Audit Professionals	Note	Paper	
	5.6	CA ANZ and CPA Australia	Note	Paper	
	5.7	Department of Internal Affairs – Charities Services	Note	Paper	
	5.8	Community Capability Accounting	Note	Paper	
	5.9	David Walker	Note	Paper	
	5.10	John Morrow (JBWere NZ)	Note	Paper	
	5.11	Northern Masonic Association Trust	Note	Paper	
	5.12	Paul Dunmore	Note	Paper	
	5.13	Perpetual Guardian	Note	Paper	
	5.14	RFI document	Note	Link to XRB website	
	5.15	RFI summary document	Note	Link to XRB website	
Items for noting					
1.05 pm	6	Standards approved	(VSF)		
	6.1	Approval 188 <i>COVID-19-Related Rent Concessions beyond 30 June 2021</i>	Note	Paper	
1.06 pm		<i>Finish</i>			

Next NZASB meeting: Wednesday 23 June 2021



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 5 May 2021

To: NZASB Members

From: Joanne Scott, Gali Slyuzberg, Judith Pinny and Tracey Crookston

Subject: **Measurement**

Purpose and introduction¹

1. This session is the first step in commenting on the following IPSASB EDs:
 - (a) ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*;
 - (b) ED 77 *Measurement*;
 - (c) ED 78 *Property, Plant and Equipment*; and
 - (d) ED 79 *Non-current Assets Held for Sale and Discontinued Operations*.
2. This memo:
 - (a) seeks confirmation of which Specific Matters for Comment (SMCs) the Board will comment on;
 - (b) highlights areas where the proposals could lead to change for entities applying PBE Standards (supplemented by examples in Appendix A to this memo);
 - (c) seeks feedback on issues to discuss with valuers and auditors; and
 - (d) summarises Australian NFP measurement requirements and recent issues.
3. To the extent that time permits, we are also seeking feedback on the proposed points in the draft comment letter (see agenda item 2.2).

Recommendations

4. The Board is asked to:
 - (a) CONFIRM which SMCs it plans to comment on;
 - (b) PROVIDE FEEDBACK on issues to discuss with valuers and auditors;
 - (c) NOTE Australian NFP measurement requirements and recent issues; and
 - (d) PROVIDE FEEDBACK on possible points in the draft comment letter.

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).

Background

5. In April the Board received an education session on the forthcoming EDs and agreed to comment on them. The Board also provided feedback on proposed outreach.
6. The EDs were issued on 22 April 2021 and are included in these agenda papers so that you can reuse them in future meetings if you choose.
 - (a) At-A-Glance documents (see agenda items 2.3–2.5)
 - (b) EDs (see agenda items 2.6–2.9)
7. Comments are due to the NZASB by 2 September and to the IPSASB by 25 October. This means the comment letter can be finalised at the Board’s meeting on 19 October.

Structure of this memo

8. The remaining sections in this memo are:
 - (a) Which SMCs to comment on;
 - (b) Possible changes for PBEs;
 - (c) Discussions with valuers and auditors;
 - (d) AASB project;
 - (e) Draft comment letter;
 - (f) Next steps; and
 - (g) Appendix A Examples.

Which SMCs to comment on

9. Table 1 proposes that the Board comment on most of the SMCs because they:
 - (a) relate to key measurement issues;
 - (b) are issues that the Board has previously expressed a view on;
 - (c) could lead to changes in practice or create uncertainty for PBEs (as explained in the next section of this memo); and/or
 - (d) are issues that the IPSASB needs feedback on to proceed with these projects.
10. The suggestion not to comment on some SMCs is an attempt to focus resources on the more important SMCs. We are happy to comment on more SMCs if required by the Board or as a result of constituent feedback.

Table 1 SMCs²

SMC	ED 76 Conceptual Framework Update	Comment
SMC 1	Measurement hierarchy	Yes
SMC 2	Fair value as a measurement base	Yes
SMC 3	Current operational value as a measurement base	Yes
SMC 4	Description of value-in-use	–
SMC 5	Delete measurement bases – market value and replacement cost	Yes
SMC 6	Delete measurement bases – net selling price, cost of release, assumption price	Yes
SMC 7	Other issues	–
SMC	ED 77 Measurement	Comment
SMC 1	Initial measurement	–
SMC 2	Subsequent measurement – historical cost or current value	–
SMC 3	Historical cost guidance	–
SMC 4	Historical cost – no measurement technique needed	–
SMC 5	Current operational value – principle	Yes
SMC 6	Current operational value – definition and guidance	Yes
SMC 7	Current operational value – location assumption	Yes
SMC 8	Current operational value – use of income approach	Yes
SMC 9	Fair value	Yes
SMC 10	Cost of fulfillment ³	Yes
SMC 11	Disclosure – Located in individual IPSASs	Yes
SMC 12	Disclosure – Any that should be located in ED 77?	–
SMC 13	Disclosure – Consistency across standards	Yes
SMC 14	Disclosure – Level of detail for recurring versus non-recurring	Yes
SMC 15	Disclosure – Inputs to fair value hierarchy	Yes
SMC	ED 78 Property, Plant and Equipment	Comment
SMC 1	Relocation and restructuring	Yes
SMC 2	Current value model – accounting policy choice	Yes
SMC 3	Characteristics of heritage assets	–
SMC 4	Characteristics of infrastructure assets	–
SMC 5	Disclosure of unrecognised heritage items	Yes
SMC 6	IG for heritage assets	Yes
SMC 7	IG for infrastructure assets	Yes
SMC	ED 79 Non-current Assets Held for Sale and Discontinued Operations	Comment
SMC 1	Additional disclosure	Yes

Questions for the Board

- Q1. Does the Board agree to comment on the SMCs identified (as a ‘Yes’) in Table 1?
- Q2. Are there any other SMCs the Board wishes to comment on?

² The SMC descriptions in the middle column were developed by XRB staff to give an overview of the SMCs.

³ The agenda papers use New Zealand spelling unless quoting from the EDs.

Impact of proposals on PBEs

11. Although the EDs address fundamental measurement issues, the proposals would affect some assets and some PBEs more than others. New Zealand constituents will want to know how the proposals would/could affect them. The proposals which would lead to the most change or create uncertainty are likely to be the focus of our comment letter.
12. In order to identify the possible impact of the proposals we:
 - (a) outlined our initial expectations about the impact of the EDs (see Table 2);
 - (b) looked at the EDs in more detail and compared current requirements versus the ED proposals for various asset types (see Table 2); and
 - (c) looked at the accounting policies of some PBEs with specialised assets (see Appendix A of this memo).

Initial expectations

13. The two EDs that would have the most impact on PBEs are ED 77 and ED 78. Many PBEs apply the revaluation model when measuring property, plant and equipment. Some also apply the additional guidance on the estimation of depreciated replacement cost in Appendix A of PBE IPSAS 17 *Property, Plant and Equipment*.⁴ ED 77 would change the definition of fair value in IPSAS (as discussed in paragraph 15) and introduce a new measurement basis referred to as current operational value (COV). COV is defined as “the value of an asset used to achieve the entity’s service delivery objectives at the measurement date”. COV is an entity-specific value that requires determining the ‘entry price’ of the asset based on its current use. Entities revaluing property, plant and equipment in accordance with ED 78 would have to select either fair value or COV as their measurement basis. The primary objective for which an entity holds an asset guides the selection of the measurement basis for revalued assets. Assets held with the primary objective of generating a financial return are held for their financial capacity. Such assets would generally be measured at fair value. Assets held with the primary objective of service delivery are held for their operational capacity. Such assets would generally be measured at COV. Entities would then have to select a measurement technique using the guidance in ED 77.
14. The biggest potential impact of the EDs is expected to be on PBEs estimating the fair value of property, plant and equipment (particularly if it is specialised), using depreciated replacement cost. Entities would have to compare their current treatment of matters such as current versus alternative use, location, surplus capacity, obsolescence and restrictions with the proposals. In some cases, the proposals might require changes and in some they might not. Entities might also identify areas where they would need more information to form a view about the impact of the proposals. The EDs would also permit the use of a broader range of techniques (such as the income approach) than are currently used for such assets.

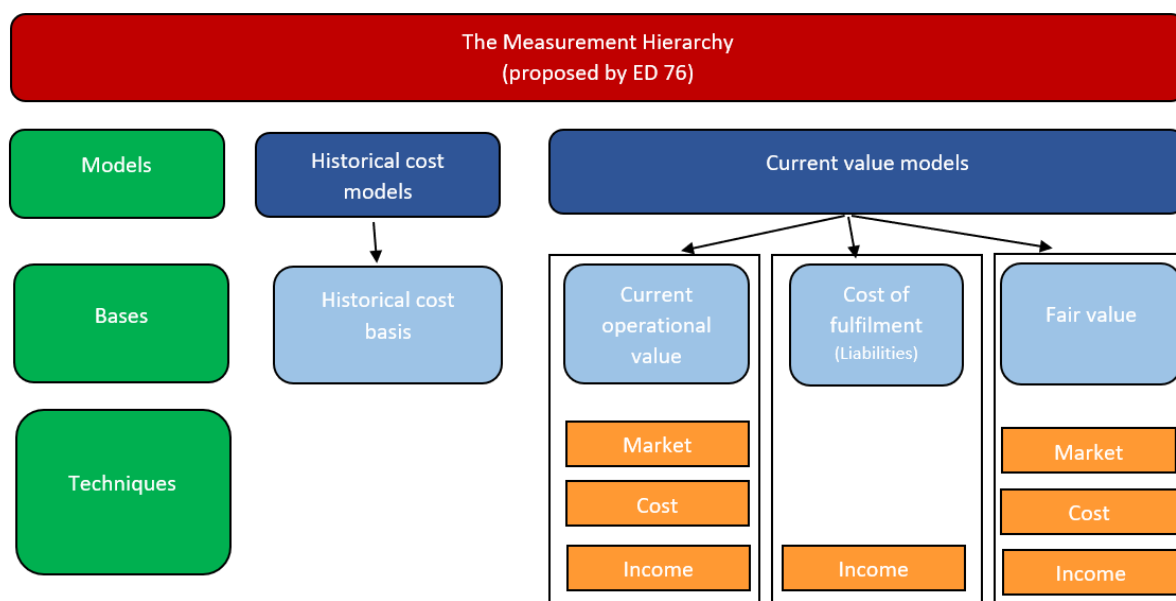
⁴ In the case of specialised buildings and other man-made structures, IPSAS 17 says that fair value may be estimated using DRC, or the restoration costs or service units approaches in accordance with IPSAS 21 *Impairment of Non-Cash-Generating Assets*. The NZASB did not consider that the guidance in IPSAS 21 was sufficient to support consistent DRC valuations by PBEs. It also noted IPSAS 21 discusses DRC in the context of impairment of non-cash-generating assets. In developing PBE IPSAS 17 the NZASB developed additional integral guidance on the application of DRC.

15. A lesser impact could be on PBEs revaluing assets at fair value using marked-based evidence . Such entities would need to decide what measurement bases they are using under ED 77 – this could be fair value (as per ED 77) or COV.
 - (a) If they select fair value as per ED 77, there could be some subtle impacts as fair value in PBE Standards is not the same as the proposed fair value in ED 77. The fair value guidance in ED 77 is based on IFRS 13 *Fair Value Measurement* and has an explicit focus on market participants⁵ and exit prices, and is supported by detailed guidance. The fair value definition in PBE Standards does not focus on market participants and exit prices, nor is it supported by detailed guidance.
 - (b) If they select COV, they would then need to select one of the three measurement techniques. If they have previously used a market approach or an income approach, these techniques would still be possible under ED 77, but they have to apply these in accordance with the COV requirements (i.e. an entity specific focus).
16. ED 78 proposes some additional guidance on heritage and infrastructure assets. We do not anticipate this additional guidance significantly changing current practice in New Zealand but the proposals for measurement of revalued assets could have an impact.
17. The proposed disclosure requirements on fair value and COV emphasise the disclosure of unobservable inputs. Some entities revaluing assets might need to make more disclosures.

Current practice versus the EDs

18. Table 2 outlines current practice under PBE Standards and considers the impact of the EDs (particularly ED 77 and ED 78) on asset measurement and disclosure. Diagram 1 shows the measurement models, bases and techniques referred to in the EDs.

Diagram 1



⁵ For example, IFRS 13 permits own data to be used as a starting point, but it must be adjusted to reflect data that market participants would use.

Table 2 Current practice versus the EDs

Current practice under PBE Standards ⁶	Impact of EDs
Financial instruments	
<p>PBE IPSAS 41 <i>Financial Instruments</i> establishes recognition and measurement requirements and PBE IPSAS 30 <i>Financial Instruments: Disclosures</i> establishes disclosure requirements. Subsequent measurement depends on how the instrument is classified (and the standard being applied).</p> <p>Subsequent measurement of financial assets under PBE IPSAS 41:</p> <ul style="list-style-type: none"> • Amortised cost • Fair value through other comprehensive revenue and expense • Fair value through surplus or deficit <p>Subsequent measurement of financial liabilities under PBE IPSAS 41:</p> <ul style="list-style-type: none"> • Amortised cost • Fair value through surplus or deficit <p><u>Earlier standards</u></p> <p>We have not included PBE IFRS 9 <i>Financial Instruments</i> or PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> in this table. PBE IPSAS 41 is effective from 1 January 2022.</p>	<p><i>Limited impact</i></p> <p><u>Measurement</u></p> <p>ED 77 aligns fair value measurement requirements and application guidance with post-IFRS 13 text in IFRS Standards. The notions of ‘exit price’ and the use of market participant assumptions are central to these updated requirements.</p> <p>There are already some references to these concepts in the fair value measurement requirements of PBE IPSAS 41. For example, PBE IPSAS 41 says that when determining fair value using a quoted market price, the ‘bid price’ is usually appropriate for determining the fair value of an asset, and the ‘ask price’ is appropriate for determining the fair value of a liability. There is also a reference to using a “valuation technique commonly used by market participants”, if one exists. However, the requirement to use an exit price and market participants’ assumptions are more explicit in ED 77.</p> <p>For PBEs that hold listed shares and other publicly traded financial instruments, the proposed requirements in ED 77 are unlikely to change the fair value measurement of these instruments.</p> <p>PBEs that hold unlisted shares may need to check that the way they currently measure fair value reflects the updated requirements in ED 77. For example, suppose a PBE currently measures the fair value of its shares in an unlisted company at its share of the net asset value of that unlisted company. If a market participant would make adjustments to this value (for example, to take into account lack of liquidity) or would price the shares in some other way (e.g. by doing a discounted cash flow calculation), then ED 77 would change how the PBE measures the fair value of the shares.</p> <p><u>Disclosure</u></p> <p>ED 77 also updates the disclosure requirements for financial instruments measured at fair value, but the updated disclosures are similar to the current requirements in PBE IPSAS 30.</p>
Inventories	
<p>PBE IPSAS 12 <i>Inventories</i></p> <p>In general, after initial recognition inventory is measured at the lower of cost and net realisable value (NRV).</p> <p>However, inventory is measured at cost less any loss of service potential if the inventory is held:</p>	<p><i>Limited impact</i></p> <p><u>Measurement</u></p> <p>No change to requirements on NRV and ‘current replacement cost’.</p> <p>The IPSASB does <i>not</i> propose to apply COV to inventory.</p>

⁶ This column indicates typical practice – it does not show all possibilities.

Current practice under PBE Standards ⁶	Impact of EDs
<ul style="list-style-type: none"> • for distribution at no charge/for a nominal charge, or; • for use in the production of goods or rendering of services to be delivered at no charge/for a nominal charge. <p>[NB: For this type of inventory, the IPSASB requires measurement at the lower of cost and ‘current replacement cost’.]</p> <p>If the inventory was acquired through a non-exchange transaction (e.g. donated inventory), then for the purpose of the above calculations the inventory’s fair value on initial recognition is considered to be its ‘cost’.</p> <p>Commodity broker-traders can measure inventory at fair value less cost to sell.</p>	<p>Fair value-related guidance is replaced by a reference to ED 77, which aligns fair value measurement requirements with IFRS 13. We understand that only commodity broker-traders would measure inventory at fair value, and the number of such entities in the PBE sector is likely to be very limited (if any).</p> <p><u>Disclosure</u></p> <p>Fair value disclosures aligned with IFRS 13 are added for inventory that is measured at fair value after initial recognition. However, this disclosure would affect commodity broker-traders only.</p>
Investment property	
<p>PBE IPSAS 16 <i>Investment Property</i></p> <p>After initial recognition, entities have a choice between:</p> <ul style="list-style-type: none"> • the fair value model (fair value movements through surplus/deficit, no depreciation), or; • the cost model (cost less accumulated depreciation and impairment). <p>We understand that PBEs tend to select the fair value model.</p>	<p><i>Limited impact – more disclosures</i></p> <p><u>Measurement</u></p> <p>ED 77 proposes to replace the term ‘fair value model’ with ‘current value model’. However, entities choosing to apply the ‘current value model’ to investment properties would still need to measure these properties at fair value. As investment properties are, by their nature, held for their financial capacity, the IPSASB is not proposing to apply COV to investment properties.</p> <p>ED 77 aligns the fair value measurement requirements with IFRS 13. ED 77 specifically requires that fair value be determined as an exit price, based on the market participants’ assumptions, and (for non-financial assets) assuming that market participants would use the asset in ‘highest and best use’.</p> <p>The current fair value measurement requirements in PBE IPSAS 16 refer to a transaction between knowledgeable and willing parties – which could be an entry or an exit price. However, we think that in most cases, the entry and exit price of an investment property would be the same.</p> <p>PBE IPSAS 16 does not specifically refer to market participants’ assumptions. However, it does require market conditions to be considered, and refers to the price in an arm’s length transaction between knowledgeable and willing parties. This is consistent with the description of market participants as defined in ED 77 – except that the ED 77 definition also requires market participants to be those that operate in the principal and most advantageous market for that asset. PBEs would therefore need to check that the prices that they currently use to obtain fair value reflect those that they would sell the property for in the principal and most advantageous market. Given the nature of investment properties, we think this is likely to already be the case.</p>

Current practice under PBE Standards ⁶	Impact of EDs
	<p>PBE IPSAS 16 does not require considering the highest and best use of an investment property when determining fair value. However, we think that in practice the fair value of investment properties would already reflect the highest and best use assumption – given that by definition, investment properties are held to earn (commercial) rent or a (commercial) capital gain on sale.</p> <p><u>Disclosure</u></p> <p>ED 77 proposes additional fair value disclosure requirements that are aligned with IFRS 13, including the following requirements.</p> <ul style="list-style-type: none"> • The level of the fair value hierarchy in which the measurement is categorised, i.e. Level 1 (measurement based on quoted prices in an active market for an identical asset), Level 2 (measurement based on observable inputs other than as per Level 1) or Level 3 (measurement based on unobservable inputs). • Specific disclosures for investment properties in Level 3, including a sensitivity analysis for key inputs.
Intangible assets	
<p>PBE IPSAS 31 <i>Intangible Assets</i></p> <p>Intangible assets are generally measured using the cost model, i.e. cost less accumulated amortisation (if the asset has a finite useful life) and impairment.</p> <p>If there is an active market for the intangible asset (which is relatively rare), then the asset may be measured at fair value under the revaluation model.</p> <p>Common measurement policies for intangible assets include:</p> <ul style="list-style-type: none"> • Software (finite life) at cost less amortisation and impairment. • Fishing quota (indefinite life) at cost • Carbon credits/ETS units (indefinite life) at cost – or sometimes at fair value, based on current market prices • Intellectual property/ trademarks/ licences (finite life) at cost less accumulated amortisation and impairment • Resource consent (finite life) at cost less accumulated amortisation and impairment • Television programme rights (finite life) at cost less accumulated amortisation and impairment 	<p><i>Limited impact– more disclosures if measured at fair value</i></p> <p>ED 77 does not propose to apply current operational value to intangible assets. Therefore, intangible assets would continue to be measured using the cost model, or in limited circumstances at fair value (if an active market for the asset exists).</p> <p>ED 77 would align fair value measurement requirements with IFRS 13, and propose additional fair value disclosures for intangible assets. As most intangible assets are measured using the cost model, the impact of this change is likely to be limited.</p>
Furniture and office equipment, motor vehicles	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i></p> <p>Cost, less accumulated depreciation and impairment losses</p>	<p><i>No impact expected</i></p> <p>ED 77 does not change the requirements for subsequent measurement at cost.</p>

Current practice under PBE Standards ⁶	Impact of EDs
Land	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> Fair value</p> <ul style="list-style-type: none"> • Use market based evidence • Highest and best use • Adjustments for restrictions on use (but normally no adjustment for restriction on ability to sell) 	<p><i>Possible impact – depends on circumstances, especially restrictions</i></p> <p><u>Land held for operational capacity</u></p> <p>If the land is held for operational capacity, the land is likely to be measured at COV. An entity then needs to select a measurement technique, i.e. market approach, cost approach or income approach. We expect that in general, the market approach would be used to measure the COV of land, i.e. the land would be measured at the market price to buy similar land. Under the current fair value measurement requirements in PBE IPSAS 17, land that is revalued to fair value is generally measured using market-based evidence. The current requirements do not specify whether fair value is an entry or an exit price. For PBEs that currently measure the fair value of land as the market price to <i>sell</i> the land, we expect that the market to <i>buy</i> the land under COV would generally be similar. However, there could be circumstances when COV differs to fair value, as described below.</p> <p><i>Restrictions</i></p> <p>The impact of changing from fair value to COV depends on whether there are any restrictions on the land, and the current treatment of those restrictions.</p> <p>ED 77 requires that the COV of restricted assets be determined based on the available market evidence for:</p> <ul style="list-style-type: none"> • an equivalent restricted asset, if such an asset is obtainable in an orderly market for a price supported by observable inputs (in this case, COV already reflects the restriction); • in all other cases, an equivalent unrestricted asset (COV is not decreased to take into account the existing restrictions). <p>Suppose an entity holds land that is subject to restrictions on use and is held for its operational purposes, and currently measures this land at fair value – using the market value of similar land with a deduction for the restriction on use. Under ED 77, the land is likely to be measured at COV. If it is not possible to obtain the price of an equivalent land parcel with equivalent restrictions in the orderly market, then under the proposed COV requirements the entity would need to stop adjusting the price of an equivalent land parcel for the restriction (even if that restriction would pass on to a potential buyer of the land). This would increase the value of the land.</p> <p>Conversely, if the entity previously determined fair value of ‘restricted’ land held for its operational capacity based on equivalent ‘unrestricted’ land, but prices for equivalent restricted land are available in an orderly market, then when applying COV as per ED 77 the entity would need to use the lower price of the equivalent restricted asset.</p>

Current practice under PBE Standards ⁶	Impact of EDs
	<p>When discussing restrictions, ED 77 refers to restrictions that are “legally enforceable and cannot be revoked unilaterally by the entity holding the asset”. An entity would not adjust an asset’s COV for self-imposed restrictions.</p> <p><i>Highest and best use</i></p> <p>ED 77 requires the measurement of COV to be based on the current use of the asset, rather than its ‘highest and best use’. Therefore, if a PBE does not use its land at its ‘highest and best use’, but currently measures the land’s fair value based on the ‘highest and best use’ assumption, then under the COV requirements of ED 77 the carrying value of the land may decrease.</p> <p><i>The income approach</i></p> <p>One of the proposed measurement techniques for COV is the income approach. As COV is an entity-specific measurement basis, this means that the COV of the land could be measured using the expected future income, as expected by the entity. If the entity does not charge for the use of the land or for services provided on the land, or charges a nominal amount, then the COV of that land using the income approach would be significantly lower than fair value that would have been determined under the current requirements of PBE IPSAS 17 (i.e. using market prices for similar land parcels or recent transactions in similar land, etc.).</p> <p><u>Land held for financial capacity</u></p> <p>If the land is held for financial capacity, it is likely to continue to be measured at fair value, albeit using the updated IFRS 13-based fair value measurement requirements. PBE IPSAS 17 already requires land to be based on market evidence. However, ED 77 emphasises the need to determine fair value based on market participants’ assumptions. Therefore, if an entity does not already take these assumptions into account when determining fair value, it would need to do so under ED 77. For example, if an entity previously adjusted the market price of land for a restriction on use, but a market participant would not consider this restriction when pricing the land (because it would not apply when the land is sold), then under ED 77 the entity would not make a deduction for the restriction when determining fair value.</p>

Current practice under PBE Standards ⁶	Impact of EDs
Buildings (non-specialised such as residential and office buildings)	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> Fair value (pre-IFRS 13) less accumulated depreciation</p> <ul style="list-style-type: none"> • Market based evidence, using market rents and market capitalisation rates 	<p><i>Possible impact – depends on circumstances</i></p> <p>See the above discussion about land. Similar points apply.</p> <p>In addition, we note that ED 77 proposes to exclude borrowing costs from COV if the entity’s policy under PBE IPSAS 5 is to expense borrowing costs incurred in the construction of a ‘qualifying asset’. If a PBE expenses borrowings costs under PBE IPSAS 5 but currently includes borrowing costs in the fair value of its buildings, the entity would need to exclude these costs if it measures the building using COV under ED 77.</p>
Buildings (specialised) <i>Examples of specialised assets are set out in Appendix A of this memo</i>	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> Fair value (pre-IFRS 13) using depreciated replacement cost (DRC), less accumulated depreciation</p> <ul style="list-style-type: none"> • Modern equivalent assets • Optimised where appropriate for overdesign and surplus capacity • Using recent construction costs • Less estimated earthquake strengthening costs 	<p><i>COV requirements likely to differ</i></p> <p><u>Building held for operational capacity</u></p> <p>If the specialised building is held for its operational capacity, then under ED 77 it is likely to be measured at COV.</p> <p>The impact of the change from DRC to COV will depend on:</p> <ul style="list-style-type: none"> • Whether there are restrictions on the use or sale of the building, and how these restrictions are currently treated (see the above discussion about measuring at COV – similar considerations apply). • Whether the building is currently measured assuming ‘highest and best use’, and whether that assumption reflects the actual use of the building (see the above discussion about measuring land at COV – similar considerations apply). • Whether the building is used to its full capacity or not (please see below). • Whether the PBE selects the cost approach or the income approach as the technique for measuring COV (see the above discussion about measuring land at COV – similar considerations apply). • Whether the entity’s treatment of borrowing costs in measuring fair value matches the entity’s accounting policy choice for borrowing costs under PBE IPSAS 5 (see the above discussion on non-specialised buildings) <p><i>Unused capacity</i></p> <p>If the building is not used to its full capacity, ED 77 proposes that the COV of the building be determined <i>as if the building is fully utilised</i> (and it will be subject to the impairment requirements of IPSAS 21 or IPSAS 26). However, the DRC guidance in PBE IPSAS 17 notes that surplus capacity is deducted in the DRC calculation if the entity has no alternative use for that surplus capacity. If alternative use exists, then the value of the surplus capacity is the based on the highest and best alternative use. Therefore, it is possible that the value of a specialised building that is not used to its full capacity will increase</p>

Current practice under PBE Standards ⁶	Impact of EDs
	<p>when an entity moves from DRC to the COV requirements in ED 77.</p> <p>Having said this, the COV requirements in ED 77 require deduction for ‘economic obsolescence’ when determining COV using the cost approach. Economic obsolescence refers to “any loss of utility caused by economic or other factors outside the control of the entity”. This could be interpreted as a requirement to make a deduction for unused capacity when calculating COV, if the unused capacity is caused by external economic factors. PBEs may be unsure when surplus capacity can be classified as economic obsolescence.</p> <p>Unused capacity might also be an issue for non-specialised buildings but in such cases there is more likely to be an alternative use for unused capacity.</p>
<p>Heritage assets <i>Examples of heritage assets are set out in Appendix A of this memo</i></p>	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> (although depends on asset type)</p> <p><i>Requirements</i></p> <p>Heritage assets must be recognised if reliably measurable.</p> <p>For unrecognised heritage assets, PBEs need to disclose a description of the asset and, if available, an estimated value.</p> <p><i>Practice varies</i></p> <p>See Appendix A for two contrasting examples.</p> <p>Some heritage assets are recognised and some are not. Those that are recognised may be recognised at cost or a revalued amount. Revaluations include market values and replacement costs.</p>	<p><i>Limited impact– but some work required</i></p> <p>Entities would have to decide which revalued assets should be measured using fair value and which should be measured using COV.</p> <p>For assets measured at COV, entities would have to decide if their current practice (particularly regarding restrictions) is in accordance with the proposed requirements.</p> <p>For unrecognised assets, more disclosure about the significance of assets is likely to be required.</p>
<p>Infrastructure assets <i>Examples of infrastructure assets are set out in Appendix A of this memo</i></p>	
<p>PBE IPSAS 17 <i>Property, Plant and Equipment</i></p> <p>Many infrastructure assets are measured using DRC.</p>	<p><i>Impact depends on detailed differences between DRC and COV</i></p> <p>Likely to be measured at COV using a cost approach and an entity-specific perspective.</p> <p>Whether there are differences between current measurement at DRC and measurement at COV would depend on some of the detailed differences – as discussed under ‘specialised buildings’ above.</p> <p>The EDs also permit the use of the income approach and market approach. The income approach could lead to inappropriately low measures compared to a cost approach.</p>

Current practice under PBE Standards ⁶	Impact of EDs
Work in progress	
<p>PPE IPSAS 17 <i>Property, Plant and Equipment</i> (although depends on asset type)</p> <p>Usually treated as a separate class of asset and measured at cost less impairment.</p> <p>Transferred to relevant asset class when completed.</p> <p>PBE IPSAS 5 <i>Borrowing Costs</i> establishes the criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment. It permits capitalisation (for costs that meet the criteria) or expensing.</p> <p>Public sector entities typically expense borrowing costs.</p>	<p><i>Limited impact – any impact is probably from application of subsequent measurement requirements once asset has been completed</i></p> <p>The requirements for self-constructed assets in ED 78 are almost identical to those in IPSAS 17, albeit some paragraphs have been moved around. We think entities would be able to continue the practice of treating assets under construction as a separate class of assets.</p> <p>Once an asset has been completed an entity will need to apply its subsequent measurement policy. If the asset is revalued using COV, ED 77 (paragraph B35(a)) says:</p> <p style="padding-left: 40px;">Phasing of work. A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single-phase development, and this should be measured at the building cost at the measurement date. A single-phase development may still occur over an extended period of time. If the entity does not capitalize borrowing costs in accordance with IPSAS 5, <i>Borrowing Costs</i>, the entity should disregard any financing costs in measuring the modern equivalent asset.</p>
Assets held for sale	
<p>PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></p> <p>Lower of carrying amount and FV less costs to sell.</p> <p>Assets held for sale are presented separately in the statement of financial position.</p> <p>The results of discontinued operations are presented separately.</p>	<p><i>More disclosures</i></p> <p>ED 79 is almost identical to PBE IFRS 5 but requires (i) more FV disclosures and (ii) disclosure if highest and best use differs from actual use.</p> <p>Some PBEs may have to make more disclosures.</p>

Reflecting on Table 2

19. As expected, the analysis in Table 2 shows that revalued specialised items of property, plant and equipment are the items most likely to be affected by the proposals. The impact will depend on whether an entity selects fair value or COV as the measurement basis, which technique it selects to obtain the measurement, and how it currently deals with specific matters such as restrictions, surplus capacity and obsolescence. We have assumed that an entity applying COV to specialised assets would usually use a cost approach but there may be some cases where the income approach or market approach would be possible.
20. Working through the examples in Table 2 highlighted some likely differences and showed that there could be some subtle differences between the requirements. One of the more obvious differences is that COV measurement is based on the *current use* of the asset, rather than its '*highest and best use*'.

21. In order to get a better feel for the variety and prevalence of assets likely to be affected by the proposals we looked at the accounting policies of a few PBEs with specialised assets. Appendix A of this memo contains accounting policy notes for the following.
 - (a) Department of Corrections
 - (b) Department of Conservation
 - (c) Auckland Council
 - (d) Some museums
22. The Appendix isn't intended to be comprehensive. We're aware that many other PBEs, including the Government, have specialised assets or assets that raise interesting measurement issues. We will consider a range of assets as we continue work on this project and begin outreach. The Appendix is for noting.

Discussions with valuers and auditors

Financial reporting standards and valuation standards

23. NZ IFRS and PBE Standards specify when assets, liabilities, income and expenses are recognised, how to measure assets and liabilities etc., how to present information in financial statements and what must be disclosed in the financial statements.
24. A valuer may be engaged to assist entities in measuring assets and/or liabilities in accordance with the relevant accounting standards. A valuer may also be able to assist in providing details about the valuation process, inputs, and related matters that need to be disclosed.
25. An entity instructs a valuer as to the appropriate basis of value to be adopted in the preparation of the financial statements. This is important, as fair value for financial reporting is not the same as fair value used by valuers in some other situations. Valuers also have to identify how the financial reporting terms relate to the terms used in valuation standards. For example, fair value as defined in IFRS 13 will generally be consistent with market value as defined by the International Valuation Standards Committee (in *IVS 104 Bases of Value*).⁷
26. The Property Institute of New Zealand (PINZ) has published a Technical Information Paper, *Valuation of Real Property, Plant & Equipment for Use in New Zealand Financial Reports* which identifies accounting standards (NZ IFRS, PBE Standards and the Tier 3 and 4 Simple Format Reporting Standards) that are likely to be relevant when conducting valuations of real property, plant and equipment. It discusses the role of management, valuers and auditors and notes that auditors may seek information or explanations from a valuer.

⁷ *IVS 104 Bases of Value* "Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

What do we need to tell valuers and auditors about the EDs?

27. We think we should focus on two measurement bases – fair value and COV:
- (a) Explain when the IPSASB proposes that each basis would be used. Fair value would generally be used for property, plant and equipment held for financial capacity and COV for assets held for operational capacity.
 - (b) Explain that fair value proposals are closely aligned with IFRS 13.
 - (c) Outline COV proposals.
28. Table 3 indicates what we think we should highlight in discussions with valuers and auditors.

Table 3 Summary of FV and COV proposals in IPSASB EDs (extracts are from ED 77)

Fair Value	Current Operational Value
<p><u>Fair value</u> is 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.</p>	<p><u>Current operational value</u> is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date.</p>
<p>26. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.</p> <p>27. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.</p>	<p>25. Current operational value differs from fair value because it:</p> <ul style="list-style-type: none"> (a) Is explicitly an entry value and includes all the costs that would necessarily be incurred when obtaining the asset; (b) Reflects the value of an asset in its current use, rather than the asset’s highest and best use (for example, a building used as a hospital is measured as a hospital); (c) Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (for example, the current operational value of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually).
<p>Measurement techniques (see ED 77 paras 42–45)</p> <ul style="list-style-type: none"> • Market • Cost • Income <p><i>Use of multiple techniques is possible</i></p> <p>Guidance on selection of technique:</p> <p>C27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p>	<p>Measurement techniques (see ED 77 paras 42–45)</p> <ul style="list-style-type: none"> • Market • Cost • Income <p><i>Use of multiple techniques is possible</i></p> <p>Guidance on selection of technique:</p> <p>B23. An entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p>

Fair Value	Current Operational Value
C28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. [...]	B24. The objective of using a measurement technique is to estimate the value of the asset used to achieve the entity's present service delivery objectives at the measurement date under current market conditions. [...]
	Contrast the COV proposals and current PBE Standards in relation to: <ul style="list-style-type: none"> • Current use/highest and best use • Location of the asset • Entity-specific value (see paragraph 25(c) of the ED, quoted in the second row on this table) • Surplus capacity • Restrictions • Least costly manner to achieve service delivery objectives

Question for the Board

Q3. Does the Board have any feedback on the following possible questions for valuers and auditors? We are seeking feedback about which aspects of the EDs to focus on.
We welcome editorial suggestions outside the meeting.

Possible questions for valuers

- How clear are the COV proposals (for example, what does value mean – note options in paragraph AV4 of the Alternative View)?
- Would a focus on replacement cost be clearer?
- What are your views about allowing the use of the income approach for COV – is that appropriate? COV is described as an entry price – can an income approach generate an entry price? Note that paragraph AV5 of the Alternative View expresses the view that: Allowing an entity to use the income approach for assets held for operational purposes runs the risk that assets will be measured at inappropriately low amounts.
- Surplus capacity: What are your views about surplus capacity that could be sold or has an alternative use?
- Surplus capacity: What are your views about surplus capacity that has no alternative use and cannot be sold? For example, if a school was built for 1,000 students, but is only expected to have a roll of 500 (and there is no alternative use permitted and the surplus buildings cannot be sold) – then under COV, should the building be valued based on 1,000 students or 500?
- Restrictions: What is current practice in relation to restrictions on use and/or sale? Are the proposals likely to lead to more/less consistent treatment of restrictions?
- Highest and best use: The DRC guidance in PBE IPSAS 17 requires that land be measured at its 'highest and best use'. Under ED 77 COV would require that land be measured at its current use. How significant a change would this be for PBEs?
- Some operational assets are currently valued at fair value (in accordance with PBE IPSAS 17). What would be the implications of changing to COV?

Possible questions for auditors

- ED 77 proposes that an entity revaluing assets select either FV or COV. The ED says assets held for operational capacity would generally be measured at COV. Do you think this would lead to

variation in practice? What would an entity need to do to justify its selection of a measurement basis (i.e. FV or COV) and a measurement technique?

- What are your views about allowing the use of the income approach for COV? Note that paragraph AV5 of the Alternative View expresses the view that “Allowing an entity to use the income approach for assets held for operational purposes runs the risk that assets will be measured at inappropriately low amounts.”
- We could also ask auditors if they have a view on the questions for valuers above.

AASB Fair Value Measurement for NFP Entities project

29. Australian NFP entities apply AASB 13 *Fair Value Measurement* but they are not required to comply with some of the fair value disclosures in relation to property, plant and equipment for which the future economic benefits are not primarily dependent on the asset’s ability to generate net cash inflows (see paragraph Aus93.1 below). The AASB departed from its policy of transaction neutrality for such assets after considering the relative costs and benefits of the Level 3 fair value disclosures.

Aus93.1 Notwithstanding paragraph 93, in respect of not-for-profit public sector entities, for assets within the scope of AASB 116 *Property, Plant and Equipment* for which the future economic benefits are not primarily dependent on the asset’s ability to generate net cash inflows, the following requirements do not apply:

- (a) in paragraph 93(d), the text “For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.”;
- (b) paragraph 93(f); and [disclosures about Level 3 gains and losses]
- (c) paragraph 93(h)(i). [about sensitivity of Level 3 measurements to changes in unobservable inputs]

30. Over recent years the AASB has been considering issues and concerns raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by public sector entities. These issues include restrictions on assets, the ‘highest and best use’ concept and when to use the different valuation approaches.
31. The AASB plans to issue an ITC in respect of EDs 76 and 77 with AASB SMCs. Those SMCs are primarily to obtain views about current operational value. They will include specific questions about the costs and benefits for Australian NFP entities of adopting the IPSASB’s proposed current operational value measurement basis, compared with the costs and benefits of either:
- (a) continuing current practice in applying AASB 13; or
 - (b) changing current practice if – through due process – the Board’s tentative decisions to date in its Fair Value Measurement for NFP Entities project were to come into effect.

Draft comment letter

32. We would now like to move to the draft comment letter at agenda paper 2.2 and, to the extent that time permits, seek feedback on the proposed bullet points for various SMCs. The proposed points in agenda item 2.2 indicate our initial thoughts and what we plan to consider as we create the first draft of the comment letter. Feedback on any disagreement with the proposed points or additional comments would be helpful.

Question for the Board

- Q4. Does the Board have any feedback on the proposed bullet points in the draft comment letter?

Next steps

33. We will arrange a webinar and contact various groups and individuals as per the proposed outreach (discussed at the last meeting). At the June meeting we plan to focus on initial drafts of some of the SMCs in the comment letter.

Attachments

Agenda item 2.2: Draft comment letter (bullet points)

IPSASB At A Glance documents (separate files)

Agenda item 2.3: At A Glance ED 76 and ED 77

Agenda item 2.4: At A Glance ED 78

Agenda item 2.5: At A Glance ED 79

IPSASB EDs (separate files)

Agenda item 2.6: ED 76

Agenda item 2.7: ED 77

Agenda item 2.8: ED 78

Agenda item 2.9: ED 79

Appendix A

This Appendix includes information from PBEs annual reports in relation to specialised property, plant and equipment. The extracts are not complete and have been rearranged. Unless otherwise stated the extracts are from the 2019–2020 annual reports. The purpose of including this information was to think about the variety and prevalence of assets with special characteristics, including those where DRC is currently applied.

- Table 4 Department of Corrections
- Table 5 Department of Conservation
- Table 6 Auckland Council
- Table 7 Museums

Table 4 Department of Corrections	Impact of EDs
<p>NOTE 8: PROPERTY, PLANT AND EQUIPMENT</p> <p>An independent valuer, Beca Limited (Beca), performed the most recent valuation of freehold land and buildings effective as at 30 June 2019. The opinion of value was arrived at by Ian Clarkson, Registered Valuer (FAPI CPV, MRICS, MPINZ). The total fair value of freehold land and buildings assessed by Beca at 30 June 2019 was \$2,843.5 million. In line with Corrections’ accounting policy, the next valuation will be effective as at 30 June 2022 unless the current carrying value of Corrections’ land and/or buildings assets is considered to differ materially from their fair value, in which case a revaluation will be undertaken at that time. Until the earlier of these revaluation events, the valuation undertaken in 2019 is considered to be fair and reasonable.</p> <p>The valuation undertaken by Beca was completed in accordance with PBE IPSAS 17 <i>Property, Plant and Equipment</i> with reference to the International Valuation Standards <i>IVS 103 Reporting and PINZ Guidance Note and NZVTIP2 Valuations of Real Property, Plant & Equipment</i> for use in New Zealand Financial Reports.</p>	
<p>In completing the valuation, assets which have a known and visible market have been valued using the following appropriate methods:</p>	
<p>➤ Community Corrections site land and buildings have been valued in accordance with Income and Market valuation approaches. Significant assumptions in the 30 June 2019 valuation include market rent and capitalization rates.</p>	<p>Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV.</p>
<p>➤ Community Corrections site buildings without a land component have been valued using a Cost approach. Seismic strength of the buildings has been an important consideration in assessing the value of these properties.</p>	<p>Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV.</p>
<p>➤ Prison complex assets that are considered to be specialised assets are valued at fair value using depreciated replacement cost approach with the land component valued using a Market approach.</p>	<p>Likely to be COV The land component could be valued at COV using a market approach.</p>
<p>➤ Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Restrictions on title have been reflected in the valuation through making allowances based on comparable sales.</p>	<p>Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV. See Table 2 comments about land held for operational capacity. ED 77 paragraph 25 says COV reflects the value of an asset in its current use, rather than the asset’s highest and best use.</p>

Table 4 Department of Corrections	Impact of EDs
<p>➤ Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 30 June 2019 valuation include:</p> <ul style="list-style-type: none"> – The replacement cost of the specific assets are adjusted where appropriate for optimisation due to overdesign or surplus capacity. There has been no optimization adjustments for the most recent valuations. – The replacement cost is derived from recent construction costs of equivalent assets and Property Institute of New Zealand cost information. – The remaining useful life of assets is estimated after considering factors such as the condition of the asset, future maintenance and replacement plans, and experience with similar buildings. – Straight-line depreciation has been applied in determining the depreciated replacement costs value of the asset. 	<p>See Table 2 comments about buildings held for operational capacity.</p> <p>ED 77 would still permit a replacement cost approach to COV but the COV cost approach is not exactly the same as PBE IPSAS 17 DRC guidance.</p>
<p>Corrections currently holds residential properties that were purchased in the 1960s within its property portfolio. These properties are held to provide accommodation to staff working in prisons in rural areas or for future operational purposes. The rental revenue that is received from these properties is incidental, as opposed to being held for investment purposes. The net carrying amount of these properties is \$1.4 million (2019: \$2.2 million).</p>	<p>See Table 2 comments about buildings held for operational capacity.</p> <p>ED 77 would permit a market approach, a cost approach or an income approach.</p>
<p>Corrections constructs prison buildings, including associated items of property, plant and equipment, which are classified as assets under construction during the construction period and are capitalised to the appropriate property, plant and equipment class at the in-service date. Assets under construction include buildings \$695.2 million (2019: \$585.3 million), leasehold improvements \$9.5 million (2019: \$8.8 million), and other assets \$23.8 million (2019: \$14.5 million).</p>	<p>See Table 2 comments about work in progress.</p> <p>Possibly no impact.</p>
<p>Corrections classifies property, plant and equipment assets expected to be sold in the next 12 months as assets held for sale. There were no assets held for sale as at 30 June 2020 (2019: four) (Refer to Note 7).</p>	<p>See Table 2 comments about assets held for sale.</p> <p>Possibly no impact on recognition and measurement but more disclosures required.</p>
<p>Heritage assets</p> <p>Corrections holds the old prison at Mt Eden Corrections Facility as a heritage asset. This is currently disused, and no value has been attributed to it in the Beca valuation.</p> <p>There are other heritage classified buildings within Corrections’ property portfolio. Where the buildings are in use, they have been valued by Beca on a depreciated cost basis.</p>	<p>See Table 2 comments about heritage assets.</p> <p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p>

Table 4 Department of Corrections	Impact of EDs
<p>Restrictions on title</p> <p>Corrections has land holdings that are subject to Treaty of Waitangi claims and therefore there may be restrictions on disposal. No adjustment has been made to the value of Corrections’ land holdings to reflect these restrictions. There are no other restrictions over the title of Corrections’ property, plant and equipment, nor are there any property, plant and equipment assets pledged as security for liabilities.</p>	<p>See Table 2 comments about land held for operational capacity and restrictions.</p> <p>Need to consider if there is an equivalent unrestricted asset or not.</p>

Table 5 Department of Conservation	Impact of EDs
<p>Property, plant and equipment consists of land, buildings, plant and equipment, infrastructure, fencing assets, vessels, motor vehicles, furniture and fittings, visitor assets and cultural assets and land formation costs. Land, buildings, infrastructure, fencing, visitor assets and land formation costs are measured at fair value, with all other assets measured at cost less accumulated depreciation and impairment losses.</p> <p>Assets under construction are recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition. ...</p>	
<p>Revaluations</p> <p>The carrying values of revalued assets are assessed annually. Aside from land, the Depreciation Replacement Cost method and indexation model are used to measure assets at fair value.</p> <p>The indexation model uses the appropriate capital goods index published by Statistics New Zealand to determine the movement in asset values over the intervening period. Land is valued using assessments conducted in accordance with the Rating Valuations Act 1998.</p> <p>Significant assumptions applied in deriving depreciated replacement cost include:</p> <ul style="list-style-type: none"> • historical cost adjusted by movements in the appropriate capital goods price index reflects the present replacement cost • the remaining useful life of assets is estimated • straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset. ... 	
<p>Asset classes</p> <p>Land (FV)</p> <p>Land is initially recognised at cost and is revalued annually based on rateable valuations provided by Quotable Value Limited. Individual land lots are only updated every 3 years by Quotable Value Limited using a mass appraisal process. Land not matched to an assessment is valued using an average per hectare rate. An independent registered valuer has provided certification that the assigned values for land as at 30 June 2020 are appropriate and represent fair value.</p>	<p>Assume held for operational capacity. See Table 2 comments about land held for operational capacity.</p>
<p>Buildings (FV)</p> <p>Administrative buildings</p>	<p>See Table 2 comments about buildings held for operational capacity.</p> <p>ED 77 would permit a market approach, a cost approach or an income approach.</p>
<p>Plant and Equipment</p> <p>Plant and field equipment</p> <p>Radio equipment</p>	<p>Cost – no impact</p>
<p>Infrastructure (FV)</p> <p>Industrial fire equipment</p> <p>Landscaping</p>	<p>Not sure, there are a variety of asset types here.</p>

Table 5 Department of Conservation	Impact of EDs
Roads Sewerage Stream control Water supply	'Highest and best use' versus 'current use' might give rise to differences.
Fencing (FV, using price indices)	No impact
Vessels Engines Hulls	Cost – no impact
Motor vehicles Passenger Utilities	Cost – no impact
Furniture and fittings Furniture, computers and other office equipment	Cost – no impact
Visitor and cultural assets (visitor assets and land formation at FV) All visitor assets are revalued using price indices applicable for the year. The Department prospectively changed its accounting policy for land formation from the cost to the fair value method using a price index based revaluation model. Land formation costs are now measured in line with the Crown's policy on revaluations. Buildings/huts Campsite, amenity areas and car parks Roads (surface only) Signs Structures Tracks	Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV. Restrictions could give rise to differences. It would be possible to apply an income approach to some of these assets.
Other PPE PPE under construction Community assets The nation's land and historic buildings managed by the Department are the nation's natural and historic heritage. As these community assets belong to the Crown, their valuation is reflected in the 'Schedule of assets – Crown as administered by the Department of Conservation'. Typically, this land includes the national, conservation and forest parks as well as Crown reserve land.	PPE under construction – see Table 2 comments about work in progress.

Table 6 Auckland Council	Impact of EDs	
<p>The property, plant and equipment of the Auckland Council Group (the group) and Auckland Council (the council) are classified into three categories:</p> <ul style="list-style-type: none"> • Infrastructure assets include land under roads and systems and networks integral to the city’s infrastructure. These assets are intended to be maintained indefinitely, even if individual assets or components are replaced or upgraded. • Operational assets include property, plant and equipment used to provide core council services, either as a community service, for administration, or as a business activity. Other operational assets include landfills, motor vehicles, office equipment, library books and furniture and fittings. • Restricted assets include property and improvements where the use or transfer of title outside the group or the council is legally restricted. 		
<p><u>Initial recognition and subsequent measurement</u></p> <p>Property, plant and equipment is initially recognised at cost, unless acquired through a non-exchange transaction, in which case the asset is recognised at fair value at the date of acquisition. The cost of third party constructed assets generally comprises the sum of costs invoiced by the third party. The cost of self-constructed assets comprises purchase costs, time allocations and excludes, where material, any abnormal costs and internal surpluses.</p> <p>Subsequent costs that extend or expand the asset’s future economic benefits and service potential are capitalised. After initial recognition, certain classes of property, plant and equipment are revalued. Work in progress is recognised at cost less impairment, if any, and is not depreciated.</p>		
<p>Asset classes</p> <p>Infrastructure</p> <ul style="list-style-type: none"> Land and road formation Roads Water and wastewater Machinery Storm water Other infrastructure 	<p>Operational</p> <ul style="list-style-type: none"> Land Buildings Specialised sporting and cultural venues Train stations Bus stations and shelters Marinas Rolling stock Wharves Works of art Other operational assets 	<p>Restricted</p> <ul style="list-style-type: none"> Parks and reserves Buildings Improvements Specified and cultural heritage assets
<p>Revaluation</p> <p>Accounting policy</p> <p>Infrastructure assets (except land), restricted assets (except improvements and specified cultural and heritage assets) and operational assets (except other operational assets) are revalued with sufficient regularity, and at least every three years to ensure that their carrying amounts do not differ materially from fair value. The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets’ fair values. If there is a material difference, then those asset classes are revalued. Revaluations are accounted for on an asset class basis. ...</p>		
Significant judgements and estimates (extracts from section B1)	Impact of EDs	
<p>The method used by the group and the council in revaluing its property, plant and equipment, outlined below, is depreciated replacement cost (DRC), except for operational land and buildings and works of art. DRC is calculated based on the replacement cost of the property, plant and equipment depreciated over their useful lives. This method takes into account the age and condition of the assets, estimated optimisation rates and estimated remaining useful lives of those assets. The revaluation process involves physical inspection of selected assets at various sites to note aspects such as condition, use, replacement timing and asset optimisation.</p> <p>It is assumed that all asset classes have no residual value at the end of their useful lives.</p>		

Table 6 Auckland Council	Impact of EDs
<p>Operational land and buildings and works of art are revalued based on available market information relating to these assets.</p> <p>The following asset classes have been revalued at the individual asset level at 30 June 2020: roads and formation, train stations, bus stations and shelters, specialised sporting and cultural venues, and works of art. The table below summarises the key assumptions adopted by independent valuers in determining the fair value of each class of asset.</p>	
<p>Infrastructure: Water and wastewater and machinery</p> <p>The key valuation assumptions:</p> <ul style="list-style-type: none"> • Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets; • Useful lives of assets are calculated as the lesser of their physical or economic lives; • The capital goods price index (CGPI) was used where indexation is appropriate. The CGPI rate represents estimated standard replacement costs for asset components in accordance with the modern equivalent asset (MEA) approach. At the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter; and current year fair value assessment: • [omitted note on how movement in fair value of these assets was assessed] 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>Assume cost approach would still be used under COV.</p> <p>Unsure whether COV differences would affect valuations.</p>
<p>Infrastructure: Stormwater</p> <p>Key valuation assumptions:</p> <ul style="list-style-type: none"> • Unit rates for replacement have been applied to the assets based on size, material, depth, asset sub-type and location; • Unit rates have been derived from stormwater physical works costs. These are then indexed using Statistics NZ Capital Goods Price Index for civil constructions to convert them to current dollar value; • Condition information and age have been used to determine remaining useful lives; and current year fair value assessment: • [omitted note on how movement in fair value of these assets was assessed] 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>Assume cost approach would still be used under COV.</p> <p>Unsure whether COV differences would affect valuations.</p>
<p>Infrastructure: Roads and formation</p> <p>Key valuation assumptions:</p> <ul style="list-style-type: none"> • Unit rates for road construction were based on the most current contracted rates applicable to the group. Where there is no current contracted unit rate information available, the most recent rates are used, indexed for the impact of inflation and adjusted as per NZTA cost adjustment factors; • Remaining useful life of the asset considering the age, condition information held on these assets and the asset's future service potential. These assumptions can be affected by local conditions such as ground type, weather patterns and road usage; and current year valuation: • PEACS Limited has issued a valuation report which included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that short-term market fluctuations would not significantly change 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>Assume cost approach would still be used under COV.</p> <p>Unsure whether COV differences would affect valuations.</p>

Table 6 Auckland Council	Impact of EDs
<p>the long-term contract rates or have a material impact on current DRC value.</p>	
<p>Operational: Land and buildings Key valuation assumptions:</p> <ul style="list-style-type: none"> • Market value based on recent equivalent sales information; • DRC is used where no market exists for operational buildings with allowance for age, condition and configuration of the building; and current year fair value assessment: • [omitted note on how movement in fair value of these assets was assessed]. 	<p>Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV. See Table 2 comments about land and buildings held for operational capacity.</p>
<p>Operational: Specialised sporting and cultural venues Key valuation assumptions:</p> <ul style="list-style-type: none"> • Optimised depreciated replacement cost uses the assessment of replacement cost new of a modern equivalent asset as the starting point and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life. Replacement cost estimates refer to current construction costs and adjust where necessary to fees, lead time, demolition cost and any other deemed necessary changes to in-house data; and current year valuation: • Beca considered the impact of COVID-19 on construction costs in complex and specialised construction projects, such as RFA’s buildings. 	<p>See Table 2 comments about buildings held for operational capacity. ED 77 would still permit a replacement cost approach to COV but the COV cost approach is not exactly the same as PBE IPSAS 17 DRC guidance.</p>
<p>Operational: Train stations Key valuation assumptions:</p> <ul style="list-style-type: none"> • Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Optimisation is limited to the extent that optimisation can occur in the normal course of business using commercially available technology; • Assets with unlimited engineering lives are adjusted to have a typical useful life to reflect the rate of change and obsolescence in the environment for each elemental value; and current year valuation: • WSP New Zealand Limited’s valuation report included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that it is too early to be definitive about the impact on constructions costs, however, that COVID-19 is unlikely to lead to any reduction in demand for transport asset therefore the quantum of assets remains appropriate and optimised. 	<p>See Table 2 comments about buildings held for operational capacity. ED 77 would still permit a replacement cost approach to COV but the COV cost approach is not exactly the same as PBE IPSAS 17 DRC guidance.</p>
<p>Operational: Bus stations and shelters Key valuation assumptions:</p> <ul style="list-style-type: none"> • Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Optimisation is limited to the 	<p>See Table 2 comments about buildings held for operational capacity. ED 77 would still permit a replacement cost approach to COV but the COV cost approach is not exactly the same as PBE IPSAS 17 DRC guidance.</p>

Table 6 Auckland Council	Impact of EDs
<p>extent that optimisation can occur in the normal course of business using commercially available technology;</p> <ul style="list-style-type: none"> Remaining useful life of the asset based on the age, condition and the asset’s future service potential; and current year valuation: WSP New Zealand Limited’s valuation report included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that it is too early to be definitive about the impact on constructions costs, however, that COVID-19 is unlikely to lead to any reduction in demand for transport asset therefore the quantum of assets remains appropriate and optimised. PEACS Limited’s valuation report also included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that short-term market fluctuations would not significantly change the long-term contract rates or have a material impact on current DRC values. 	
<p>Operational: Marinas</p> <p>Key valuation assumptions:</p> <ul style="list-style-type: none"> Discounted cash flow calculation using market estimates of the cash flow able to be generated by the asset discounted at a market-based rate of return; and current year fair value assessment: At 30 June 2020, the model was reviewed in-house and there were no material changes to the expected cash flows from the marina assets. 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>ED 77 would allow the use of an income approach for both FV and COV.</p> <p>Would there be any difference between a FV and COV measure?</p>
<p>Operational: Wharves</p> <p>Key valuation assumptions:</p> <ul style="list-style-type: none"> Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology; Useful lives are estimated at 100 years or less at an element level, reflecting the marine environment, rate of change and obsolescence, loadings and the predominance of concrete and steel structural elements; The capital goods price index (CGPI) was used where indexation is appropriate. The CGPI rate represents estimated standard replacement costs for asset components in accordance with the modern equivalent asset (MEA) approach. At the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter; and current year fair value assessment: [omitted note on how movement in fair value of these assets was assessed]. 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>ED 77 would still permit a replacement cost approach to COV but the COV cost approach is not exactly the same as PBE IPSAS 17 DRC guidance.</p>
<p>Operational: Works of art</p> <p>Key valuation assumption:</p> <ul style="list-style-type: none"> The fair values of artworks are determined by reference to observable prices in an active market and recent transactions on arm's-length terms, with regards to the asset’s condition. 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>ED 77 would still permit a market approach to COV.</p>

Table 6 Auckland Council	Impact of EDs
<p>Restricted: Parks, reserves and buildings</p> <p>Key valuation assumptions:</p> <ul style="list-style-type: none"> • Large reserves are valued based on a rural land value plus locational adjustment taking into consideration active/passive zone differentials which are based on the valuers' professional judgements; • Buildings are based on depreciated replacement cost determined with reference to recent construction contracts and recent costing obtained from construction details and Property Institute of New Zealand's cost information; and current year fair value assessment: • [omitted note on how movement in fair value of restricted land and buildings was assessed]. • The material change letter provided by QV included a material valuation uncertainty based on the existence of uncertainty in the market at valuation date, stating that there was limited evidence of property sales post the COVID-19 lockdown to indicate a softening in values at the time of preparing the valuer's report. As a result, estimates were applied based on prior sales information and the limited sales since the lockdown. 	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>See Table 2 comments about land and buildings held for operational capacity and financial capacity (restrictions could cause differences).</p>
<p>Heritage assets</p> <p>Some assets are designated as heritage assets because of their cultural, environmental or historical significance. The heritage assets of the group and the council are classified to specific asset classes according to their nature and are subsequently measured as part of those asset classes. The group and the council have identified the following heritage assets with a net book value of \$399 million:</p> <ul style="list-style-type: none"> • heritage books valued at \$150 million as at 30 June 2020 (2019: \$150 million); and • 341 constructed heritage sites valued at \$249 million as at 30 June 2020 (2019: 334 sites valued at \$246 million). 	<p>–</p>
<p>Restrictions</p> <p>Various properties held by the group and the council have restrictions on the use of proceeds generated from them including the sales proceeds. These proceeds may only be applied to specified purposes, generally being to benefit the Auckland region. The current carrying value of the classes of property, plant and equipment where restrictions apply follow:</p>	<p>Decide if revaluation is FV or COV.</p> <p>If held for operational purposes ☞ generally COV.</p> <p>See Table 2 comments about land held for operational capacity and financial capacity.</p>

Table 7 Museums	Impact of EDs
<ul style="list-style-type: none"> Auckland War Memorial Museum (Auckland Museum) is a registered charity which does not recognise its heritage assets. Museum of New Zealand Te Papa Tongarewa (Te Papa) is a Crown entity which recognises its heritage assets. <p>Both museums received unqualified Audit Reports in 2019/20.</p>	
<p>Auckland Museum: Mātauranga Māori (Māori knowledge) 70% of Auckland Museum’s Māori collection is on loan from the Māori people.</p> <p>Auckland Museum has an extensive note on its heritage collection assets which explains why it cannot reliably measure its heritage. Particularly applicable to Māori are the following:</p> <ul style="list-style-type: none"> Bequest value – the value derived by donors and their families through the act of giving – is an intangible value which is about the long-term relationship between the museum and successive generations. It is in the nature of trust and goodwill which is not easily quantifiable in financial terms. Heritage assets are often encumbered with legal or ethical constraints so realising or liquidating them in financial terms runs counter to the implied transfer of trust which occurs at the time of acquisition and indeed the very purpose for holding them. This form of encumbrance potentially restricts their financial value but is hard to quantify. Many collection items hold cultural value which is based on individual or community associations. In many cultures it can be offensive to try to assign financial value to these very personal relationships. Taonga associated with, or embodying, ancestors have a sacred quality which is both difficult to quantify in financial terms and in some cases doing so offends the mana and intrinsic value of the items concerned. Application of the concept of ‘useful life’ commonly applied to assets can be inappropriate with respect to heritage collections as the presumption of many objects is that they are entrusted to a Museum in perpetuity – their life is “forever”. Indeed the purpose of adding an object to a museum collection may be to extend its life by giving it status and safe housing and careful access; in some senses, collection items are never ‘used-up’. Financial treatment of assets is largely based on them being used to produce wealth and that their ability to do this declines over time. This generates the need to depreciate and account for impairment of assets. Most museum collections gain in value over time so they run counter to the overall assumptions with regard to other assets. Formulae for appreciation/increase in value of museum collections do not work as readily as depreciation formulae as the increase in value is seldom a linear or arithmetic function. The perceived value of collection items can vary in response to social, political and natural events and in unpredictable patterns. 	<p><i>Unrecognised heritage items – more disclosures on the significance of such assets would be required</i></p> <p>Auckland Museum already makes the disclosures proposed in ED 78 para 80(a) (shown below). It would need to look at the disclosures in para 80(b).</p> <p>The Service Performance Report already has some reference to the significance of assets but this information was not designed to comply with ED 78 para 80.</p> <p>ED 78, para 80 Disclosure of Unrecognized Heritage Property, Plant, and Equipment 80. Where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:</p> <ul style="list-style-type: none"> (a) The difficulties in obtaining a reliable measurement that prevented recognition; and (b) The significance of the unrecognized asset(s) in relation to delivery of the entity’s objectives.

Table 7 Museums	Impact of EDs
<p>For the reasons stated above, The Trust Board does not consider that collection assets meet the asset recognition criteria and these financial statements provide a more descriptive narration of the Museum’s Heritage Collection Assets in terms of utility, uniqueness and community value instead of allocating a financial value.</p> <p>Heritage collection assets acquisition expenses are processed through the Special Purposes section and preservation costs are processed through the Operating Activities section of the Statement of Comprehensive Revenue.</p>	
<p>Te Papa: Mātauranga Māori (Māori knowledge)</p> <p>These items are valued based on current domestic sales based on catalogues from reputable auction houses. The valuation for the Mātauranga Māori collection was undertaken by Dunbar Sloane as an independent valuer in 2019.</p> <p>...</p> <p>Te Papa’s collections are recorded at cost or valuation, with the exception of the Natural History collections, which are shown at replacement cost. Collection valuations are programmed annually to ensure that each class of collections is valued once every three years. Acquisitions to collections between revaluations are recorded at cost. In years that a collection is not valued, Te Papa assesses whether there has been any significant and/or material movement in value that would require a change in stated value and discloses whether there has been any assessed change. Refer to note 13.3 for the accounting policy relating to collection revaluations. In the Board’s opinion, as the collections tend to have an indefinite life and are generally not of a depreciable nature, depreciation is not applicable.</p>	<p><i>Limited impact</i></p> <p>Te Papa already recognises and measures its heritage assets and uses an independent valuer.</p> <p>Decide if revaluation is FV or COV. If held for operational purposes ☞ generally COV. ED 77 would permit a market approach, a cost approach or an income approach to measuring COV.</p>
<p>Auckland Museum: Fine Arts</p> <p>Auckland Museum has insurance cover for fine arts (which forms part of the Heritage Assets) up to the value of \$100million. This is a blanket coverage and does not represent the valuation of heritage assets in an asset by asset basis or an overall basis.</p>	<p>This is the only “valuation”, so Auckland Museum would be required to make additional disclosures to comply with ED 78, para 80.</p>
<p>Te Papa: Art</p> <p>Based on current market values, some items are valued on a sample basis (such as prints and photos). Some art works are valued in foreign currency and then translated into NZ\$ where the market is international. Other items are valued based on the market for similar items with values drawn from auction and dealers’ catalogues. The valuation for the Art works, paintings, works on paper, sculpture and collected archives collections was undertaken by Art & Object as an independent valuer in 2018. ...</p>	<p>As Te Papa recognises and measures its heritage art assets and uses an independent valuer it would not need to comply with the disclosures in ED 78, para 80.</p>



NZ ACCOUNTING
STANDARDS
BOARD

[xx October 2021]

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross

IPSASB Measurement-related Exposure Drafts

Thank you for the opportunity to comment on Exposure Drafts 76 to 79. The EDs have been exposed in New Zealand and some New Zealand constituents may comment directly to you.

Possible key points for cover letter

- *Do we support the proposal to bring IFRS 13 into IPSAS?
Assume 'yes'*
- *Do we agree that this leads to a need for two current value measurement bases?
Assume 'yes'*
- *What are our main areas of concern/disagreement with current operational value?*
- *The limitations of the proposed additional guidance on heritage and infrastructure assets*

Public benefit entities in New Zealand (general text often used in submissions)

In commenting on the EDs we have thought about the needs of public benefit entities (PBEs) in New Zealand, including both public sector and not-for-profit entities such as charities. We have referred solely to public sector entities in a few places – this is because we have more information about the views of public sector entities on certain issues.

If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Chair – New Zealand Accounting Standards Board

APPENDIX A ED 76

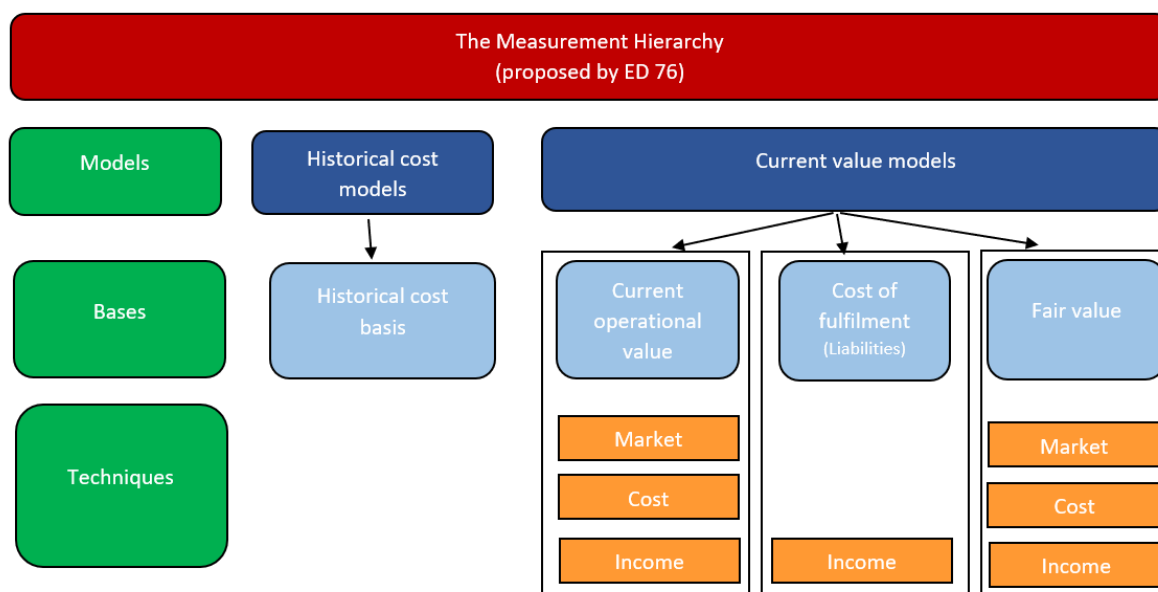
Responses on ED 76 Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*

ED 76 SMC 1: Measurement hierarchy

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?
If not, why not? How would you modify it?

Propose to comment

- Agree – open to Board views on proposed tiers in hierarchy (shown below)



ED 76 SMC 2: Fair value as a measurement base

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, *Fair Value Measurement*, in the Conceptual Framework?
If not, why not?

Propose to comment

- Agree
- Look at arguments previously made by IPSASB constituents that wanted fair value to be included in the Conceptual Framework and consider if it would be useful to repeat some of those arguments some of those arguments are worth repeating (including better alignment with IFRS Standards)
- Acknowledge why the IPSASB didn't do this earlier and consider what the IPSASB has done (as part of this project) to address those earlier reasons for not including fair value

ED 76 SMC 3: Current operational value as a measurement base

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?

If not, why not?

The Exposure Draft includes an Alternative View on current operational value.

Propose to comment

- Agree that if the IPSASB introduces fair value, another current value measurement basis is required
- Identify concerns with COV as proposed in ED 77 – see also ED 77 SMC 6 where we have proposed to disagree with the definition of COV
- Once comments on ED 77 and 78 have been drafted, consider if there are any general points that should be mentioned here

ED 76 SMC 4: Description of value-in-use

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change?

If not, why not? How would you approach VIU instead and why?

DO NOT propose to comment

- The concept will still be used in some standards. Removing it from the Conceptual Framework will have limited (no?) impact.

ED 76 SMC 5: Delete measurement bases – market value and replacement cost

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- Market value—for assets and liabilities; and
- Replacement cost—for assets?

If not, which would you retain and why?

Propose to comment

- Agree with removal of market value on the grounds that the IPSASB is proposing to bring in fair value
- Express the view that replacement cost is a clearer concept than COV as proposed

ED 76 SMC 6: Delete measurement bases – net selling price, cost of release, assumption price

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price—for assets
- Cost of release—for liabilities
- Assumption price—for liabilities

If not, which would you retain and why?

Propose to comment

- Agree with deletion of net selling price
- Staff disagree with deletion of cost of release and assumption price – staff to identify situations when they think these bases could be relevant and locate previous feedback from constituents about possible need for these bases.
- Board discussion required at future meeting – staff acknowledge that cost of release and assumption price are not presently used in standards.

ED 76 SMC 7: Other issues?

Are there any other issues relating to Chapter 7: *Measurement of Asset and Liabilities in Financial Statements* of the Conceptual Framework that you would like to highlight?

DO NOT propose to comment

- Subject to comments from constituents or any other issues identified during the process of drafting the letter.

APPENDIX B ED 77

Responses on ED 77 *Measurement*

ED 77 SMC 1—(paragraphs 7–16): Initial measurement

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:

- That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or
- Otherwise required or permitted by another IPSAS?

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

DO NOT propose to comment

ED 77 SMC 2—(paragraph 17): Subsequent measurement – historical cost or current value

Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

DO NOT propose to comment

ED 77 SMC 3—Appendix A (paragraphs A1–A6): Historical cost guidance

In response to constituents’ comment letters on the Consultation Paper, *Measurement*, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

DO NOT propose to comment

- The proposed historical cost guidance is very short and we do not think it is changing any existing requirements.

ED 77 SMC 4—Appendix A (paragraphs A1–A6): Historical cost no measurement technique needed

Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?

If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

DO NOT propose to comment

ED 77 SMC 5—(paragraph 6): Current operational value – principle

Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?

If not, please provide your reasons, stating clearly what principles [are] more appropriate for the public sector, and why.

Propose to comment

- Not sure why this is a separate question – propose to comment on this together with SMC 6

ED 77 SMC 6—Appendix B (paragraphs B1–B41): Current operational value – definition and guidance

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?

If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

Propose to comment

- Disagree
- As a starting point, seek the Board's views on the points in the Alternative View on ED 77 and ED 78
- Also note any concerns raised by constituents regarding (lack of) clarity of COV

ED 77 SMC 7—Appendix B (paragraphs B6–B7): Current operational value – location assumption

Do you agree the asset’s current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?

If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

Propose to comment

- Agree
- Refer to current practice in New Zealand in accordance with Appendix A of PBE IPSAS 17

ED 77 SMC 8—(paragraphs B38–B39): Current operational value – use of income approach

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?

If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.

The Exposure Draft includes an Alternative View on current operational value.

Propose to comment

- Disagree
- Note situations where the use of the income approach might result in useful information and other situations where it might result in assets being reported at amounts much lower than their replacement cost (and/or differing measurements for similar assets)

ED 77 SMC 9—Appendix C (paragraphs C1–C89): Fair value

In response to constituents’ comment letters on the Consultation Paper, *Measurement*, guidance on fair value has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Propose to comment

- Generally agree
- Consider if there are any aspects we disagree with

ED 77 SMC 10—Appendix D (paragraphs D1–D48): Cost of fulfillment

In response to constituents’ comment letters on the Consultation Paper, Measurement, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment).

Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.

Propose to comment

- Generally agree
- Note comments we made on the CP and outline our views on how these have been addressed

ED 77 SMC 11: Disclosure – Located in individual IPSASs

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?

If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

Propose to comment

- Generally agree

ED 77 SMC 12: Disclosure – Any that should be located in ED 77?

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, *Measurement*?

If yes, please provide your reasons, stating clearly what the disclosures are, and why.

DO NOT propose to comment

ED 77 SMC 13: Disclosure – Consistency across standards

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.

If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

Propose to comment

- Generally agree, but note that it may cause confusion in some standards (such as IPSAS 12 *Inventories*, which would include detailed fair value disclosure requirements that would apply to only a few types of inventories)

ED 77 SMC 14: Disclosure – Level of detail for recurring versus non-recurring

Do you agree with the proposal [that] disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.

If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.

Propose to comment

- Agree – we will seek Board feedback at a future meeting
- Check against existing disclosure requirements when fair value is used as deemed cost

ED 77 SMC 15: Disclosure – Inputs to fair value hierarchy

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?

If not, please provide your reasons, stating clearly why disclosure [of] requirements for inputs in the fair value hierarchy are unnecessary.

Propose to comment

- We will seek Board feedback at a future meeting
- Requiring disclosures about Level 3 inputs could impose considerable costs on PBEs
- Consider proposed disclosure requirements for COV as well in this response

APPENDIX C Responses on ED 78 *Property, Plant and Equipment***ED 78 SMC 1: Relocation and restructuring**

[Draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* proposes improvements to the existing requirements in IPSAS 17, *Property, Plant, and Equipment* by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), *Measurement*; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

Propose to comment

- We will prepare a comparison between the current and proposed structure of IPSAS 17.
- A final decision on whether to comment on this SMC can be made towards the end of the process when we consider feedback (if any) from constituents.

ED 78 SMC 2—(paragraphs 29-30): Current value model – accounting policy choice

Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?

If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

Propose to comment

- Seek Board views on whether the proposal in ED 78 that COV be *generally* used for assets held for operational capacity is sufficient to guide accounting policy choice.
- Using COV for assets held for operational capacity makes sense in a number of situations.
- However, the EDs mean that some assets such as office buildings which are capable of fair value measurement would need to be measured at COV – and the two bases have different perspectives. Will this lead to similar assets being measured differently?

ED 78 SMC 3—(paragraph AG3): Characteristics of heritage assets

Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

DO NOT propose to comment

ED 78 SMC 4—(paragraph AG5): Characteristics of infrastructure assets

Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

DO NOT propose to comment

Notes for the Board

- *Proposed paragraph AG5 differs from IPSAS 17 paragraph 21, but we do not anticipate that the differences would cause issues.*
- *See comparison between IPSAS 17 and ED 78 below.*

IPSAS 17	ED 78
<p>Infrastructure Assets</p> <p>21. Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:</p> <ul style="list-style-type: none"> (a) They are part of a system or network; (b) They are specialised in nature and do not usually have alternative uses; (c) They are immovable; and (d) They may be subject to constraints on disposal. <p>Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks.</p>	<p>AG5. Infrastructure assets typically have the following distinguishing characteristics:</p> <ul style="list-style-type: none"> (a) They are networks or systems; and (b) They have long useful lives. <p>AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include:</p> <ul style="list-style-type: none"> (a) Electricity power systems, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities; (b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and (c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

ED 78 SMC 5—(paragraphs 80-81 and AG44-AG45): Disclosure of unrecognised heritage items

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.

Do you agree that such disclosure should be limited to heritage items?

If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

Propose to comment

- Support the proposed disclosure of unrecognised heritage items. There is already such a requirement in PBE IPSAS 17 (see below).

Extract from PBE IPSAS 17

94.1 An entity shall disclose:

- A description of the heritage assets held by the entity that have not been recognised in the financial statements, including the significance and nature of such assets; and
- Where current information is available, an estimate of the value of those unrecognised assets, such as a recent insurance value.

Extract from ED 78

Disclosure of Unrecognized Heritage Property, Plant, and Equipment

- Where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:
 - The difficulties in obtaining a reliable measurement that prevented recognition; and
 - The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.
- Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 72–79 will apply.

ED 78 SMC 6: IG for heritage assets

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

Propose to comment on the following:

- Disagree with SMC and point out that some issues raised by constituents have not been addressed.
- Authoritative versus non-authoritative guidance: The ED contains Implementation Guidance (IG) on Heritage which is non-authoritative. The Board could request the Heritage guidance be instead included as Application Guidance which is authoritative.
- Determination of control of assets (IG6 and IG7): Determination of control is based on indicators, including the timing specified in the agreement. Under IG6 a right to hold heritage items for a defined period under an agreement is assessed as not giving rise to control. Whereas under IG7 a right to hold heritage items for an indefinite period with no legal ownership is assessed as giving rise to control. This implementation guidance could lead to museums tailoring their agreements to result in whether or not they wish to recognise heritage assets. This practice would not improve comparability across the museum sector.
- Terminology: The Board could note in its submission that it approves of the use of terminology “parties” which includes indigenous groups such as iwi and individuals. Previously it included an entity term.

Do not propose to comment on the following:

- Guardianship: The ED does not deal with guardianship. The NZASB has previously suggested that “guardianship” be added as an indicator of control. Staff suggest the Board considers a possible domestic project to provide guidance on guardianship. This would help entities reporting on Māori heritage items.

ED 78 SMC 7: IG for infrastructure assets

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

Propose to comment.

We have considered three options for commenting and recommend Option 3

- Option 1: Agree with SMC, with no further comment.
- Option 2: Agree that guidance might help entities adopting IPSAS in considering some issues but don't go far enough and are IG rather than AG. *Staff prefer Option 3 below but could also make the point as we have for Heritage that the ED contains Implementation Guidance on Infrastructure which is non-authoritative. The Board could request the Infrastructure guidance be included as Application Guidance.*
- Option 3: Disagree with SMC and point out that some issues raised by constituents have not been addressed. *This is the staff preferred option. Examples of some of the issues that constituents have raised that have not been addressed are:*
 - *Unit of Account (as it relates to damaged infrastructure assets);*
 - *Guidance on whether certain costs (e.g. formation costs, various types of brownfield costs) should be included in the subsequent measurement of revalued assets (i.e. cost approach under COV);*
 - *Valuation of land that is under or beside infrastructure assets (e.g. land under roads); and*
 - *Additional guidance on directly attributable costs.*

Other points to consider when drafting comments on ED 78

- Why has ED 78 para 59 been included (see below)? Is it not already required by IPSAS 21 para 26? We have thought about what it means for an indefinite life component of an infrastructure asset (such as road formation which in New Zealand is usually treated as a component of the road rather than a component of the land). We assume that ED 78 para 59 is merely saying that there would need to be an annual assessment of indicators of impairment, not an annual impairment test. We note that there would be significant costs associated with an annual impairment test for little benefit.

59. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21 and IPSAS 26.
- We will do more work to check whether we agree with the proposed amendments to the impairment standards.

APPENDIX D Responses on ED 79 *Accounting for Non-current Assets Held for Sale and Discontinued Operations*

ED 79 SMC: Additional disclosure

The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes.

The additional proposed disclosure is shown at paragraph 52 of this ED.

Do you agree with this disclosure proposal? If not, why not?

Propose to comment

The rebuttable presumption in the PBE Policy Approach mean that we would be expected to add this disclosure requirement to PBE Standards.

- Propose to agree – subject to obtaining feedback from NZ constituents about (i) the feasibility of obtaining fair values of such non-current assets and (ii) the costs and benefits associated with the proposed fair value disclosure.
- Check if there are any differences between ED 79 and PBE IFRS 5 that we disagree with. If so, mention those.



NZ ACCOUNTING
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[date]

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross

IPSASB 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*, *Transfer 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

Changes made to the comment letter since the April meeting are highlighted in green below.

We agree with the way the IPSASB has modified IFRS 16 for the public sector, subject to our comments below. We have not identified any public sector-specific reasons to diverge from the requirements in IFRS 16.

Manufacturer or dealer lessors

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 amended response:

- supports the inclusion of concessionary leases and leases for nominal consideration in the scope of ED 75 but with an explicit exclusion for the concessionary portion of the lease; and
- includes more rationale for our view.

Concessionary leases and leases for nominal consideration

We agree with not including in ED 75 an explicit scope exclusion for concessionary leases because this would result in all leases at below market-terms being excluded from a new standard. However, we are of the view that it would be helpful for the IPSASB to explicitly scope out the concessionary portion of a lease until Phase 2 of the project has been completed. This would make it clear that the ROU asset and the lease liability are recognised by the lessee based on the expected lease payments, even though they are less than normal market terms.

A concessionary lease and a lease for nominal consideration meet the definition of a lease in ED 75: they convey 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) and leases for nominal value we think it is appropriate that any arrangement that meets the definition of a lease be accounted for in accordance with the proposals in ED 75. We have no concerns with a lease for nominal consideration being recognised at the amount of the consideration exchanged, even if it is only \$1. Including leases for nominal consideration in the scope of ED 75 also avoids subjective decisions (and consequential discussions with auditors) regarding what is 'nominal'.

We have received feedback that some constituents are of the view that concessionary leases are not in scope because the Request for Information is seeking feedback on these types of leases. We are also aware that some constituents support a specific scope exclusion for all concessionary leases. However, if concessionary leases are specifically excluded from the scope of ED 75, preparers could inadvertently be required to account for the concessionary portion of the lease at fair value in accordance with IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* on the grounds that the concessionary portion is a donated asset/grant. ED 64 *Leases* proposed that concessionary leases be recognised at fair value – this proposal was not supported by the majority of respondents.

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

Notes for the Board

Contractual arrangements

The amended response:

- supports the IPSASB’s decision to refer to a contract rather than to a binding arrangement;
- supports the 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];
- highlights the inconsistency in the definition of binding arrangement in IPSAS 32 and ED 70; and
- recommends that the IPSASB use the same definition for this term when an IPSAS based on ED 70 is finalised.

Contractual arrangements

We have received feedback that the reference to ‘binding arrangement’ 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. Despite this feedback, we agree with the IPSASB’s decision to use the term ‘contract’ rather than the term ‘binding arrangement’ and to include additional application guidance explaining the factors an entity considers in assessing whether an arrangement is contractual or non-contractual. 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 note that paragraph BC41 refers to the definition of binding arrangement in IPSAS 32 *Service Concession Arrangements*. We also note that this definition in IPSAS 32 is not the same as the definition of binding arrangement proposed in ED 70 *Revenue with Performance Obligations*, which could be confusing for constituents. The definitions are:

IPSAS 32:	contracts and other arrangements that confer <i>similar rights and obligations</i> [emphasis added] on the parties to it as if they were in the form of a contract
ED 70:	an arrangement that confers both <i>enforceable rights and obligations</i> [emphasis added] on both parties to the arrangement. A <u>contract</u> is a type of <u>binding arrangement</u> .

We recommend that the IPSASB consider making the definition the same in IPSAS 32 and the final IPSAS based on ED 70.

A further question raised by constituents is whether a Memorandum of Understanding (MoU) meets the definition of a contract. Guidance on this matter would be helpful for constituents in one of the phases of this project.

Discount rates

We agree with not providing additional guidance for public sector entities in determining the interest rate implicit in the lease and the incremental borrowing rate. We are aware that for-profit entities encounter similar difficulties in determining the interest rate implicit in the lease but, ultimately, this requires the application of professional judgement.

Recognition exemption

Notes for the Board

Recognition exemption

The amended response includes additional material regarding the divergence between the IASB and the IPSASB regarding low-value leased assets.

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, we have two concerns:

- (a) the IPSASB's Basis for Conclusions appears to contradict the Application Guidance; and
- (b) the lack of justification for the approach proposed by the IPSASB.

Contradiction between Basis for Conclusions and Application Guidance

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.

Lack of justification for the proposed approach

We are of the view that the IPSASB's Basis for Conclusions is inadequate in justifying the IPSASB's conclusions for not proposing a specific monetary amount for assessing whether a leased asset is of low value. There is neither an adequate discussion of the advantages and disadvantages of the IASB's approach and the IPSASB's approach nor an adequate explanation of the public sector-specific reason(s) for the difference.

For example, not applying a specific monetary amount:

- (a) results in differing conclusions as to whether a leasing transaction is material (which increases the likelihood of discussions between preparers and auditors);
- (b) has consequences for mixed groups – for-profit entities within the group would be applying a specific dollar amount for assessing low-value leased assets whereas public sector entities would be applying materiality; and
- (c) leads to less comparability of financial information.

We are also aware that some constituents are questioning the reasons to exclude explanatory guidance relating to the threshold for which the underlying asset is of low value.

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*.

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.

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.

20 April 2021

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
www.ifac.org

Dear Ian

Auckland Council Submission to IPSASB Exposure Draft 75 Leases and Request for Information

Thank you for the opportunity to comment on the IPSASB Exposure Draft 75 *Leases* and Request for Information relating to concessionary leases and other arrangements similar to leases.

Auckland Council is Australasia's largest local government entity and is made up of the Council, and six subsidiaries, one of them being a for-profit entity. We invest heavily in infrastructure and many of our decisions will impact on Auckland's future generations.

We have provided our responses to the specific matters for the respondents in the appendix to this letter along with our additional comments for the IPSASB's consideration. In summary, we are supportive of IPSASB's decision to pursue a two-phased approach in addressing the need for a new lease accounting standard as well as addressing other lease related issues in the public sector.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang at the details provided below.

Yours sincerely



John Bishop
Group Treasurer

AUCKLAND COUNCIL
+64 9 977 6598
john.bishop@aucklandcouncil.govt.nz



Tsu Chun Ang (Alvin)
Senior Group Reporting Technical Accountant

AUCKLAND COUNCIL
+64 21 196 2639
alvin.ang@aucklandcouncil.govt.nz

Appendix 1

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 of Conclusions.

We broadly agree with how the IPSASB has modified IFRS 16 for the public sector as well as the IPSASB's decision to pursue a two-phased approach to address lease issues relating to the public sector. This would allow Public Benefit Entity (PBE) preparers to keep up with for-profit entity preparers. Further, this would address accounting standard inconsistencies across group entities, which Auckland Council Group is currently facing with our subsidiary 'Ports of Auckland' applying NZ IFRS 16. The IPSASB can then consider concessionary leases and other arrangements similar to leases in phase 2.

We recommend the Board to consider the following suggestions to ED75:

Explicitly exclude zero or nominal consideration leases from the scope of the ED

As there is no consideration, or the consideration exchanged is insignificant, the separation of the lease component requirement cannot be applied to these arrangements.

Clarify the difference between concessionary and nominal consideration leases

Both leases are below market value and nominal leases are not clearly defined in the ED. We suggest that the Board considers quantifying the value and the basis of a nominal lease. This is because rent rates in different regions are charged on a weekly, monthly, and yearly basis. From our perspective, we believe rent below US\$1,000 per annum is nominal.

Guidance on discount rate for public sector

We note that IPSASB decided this issue is not public sector specific because private sector entities encounter similar difficulties in determining the implicit rate in the lease, and the incremental borrowing rate. We believe it is relatively challenging for entities like charities or not-for-profit organisations to have access to borrowings, let alone obtaining the incremental borrowing rate to be used in valuing their lease contracts. We suggest the Board includes some guidance within the standard, such as reference to a risk-free rate of government bonds to assist preparers operating in these sectors.

Specifying monetary amount for low value assets

We suggest the Board to follow IASB's path to include US\$5,000 as the threshold for low value assets. The use of materiality in relation to the preparer's financial statements could create inconsistencies given different preparers and auditors have varying risk appetites towards materiality. The inclusion of monetary value would eliminate any debate, and reassessment of threshold for every reporting period. We believe it is not economically beneficial to put excessive focus on low value assets.

Appendix 1

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 paragraph 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.

We agree with the proposal to retain the fair value definition from IFRS 16 and IPSAS 13.

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 ED75 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 of Conclusions.

We agree with IPSASB’s decision to refer that both “economic benefits” and “service potential” be consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Appendix 2

Request for Information (RFI)

Type of lease	Nature	Characteristics	Accounting treatment
Concessionary	Auckland Council (AC) currently has 1,191 concessionary leases as well as zero or nominal consideration leases. The contracts take the form of either a lease or license to occupy. The properties are mainly occupied by the community groups and not-for-profit organisations to provide services such as recreational, educational, sporting, cultural and arts, migrant services etc. to the community. These community services are similar in nature to those normally provided by local councils in New Zealand.	<p>The characteristics for both concessionary leases and zero or nominal consideration leases are similar except for the tenure and annual rent amount.</p> <p><u>Concessionary</u> Tenure: 1 to 70 years Annual rent: \$10,000 to \$25,000 per annum</p> <p><u>Zero or nominal</u> Tenure: 1 to 1,000 years Consideration: \$0 to \$1,000 per annum</p> <p>Common characteristics:</p>	<p>Lease income from these leases is recorded at the rental amount receivable.</p> <p>The following disclosure was made in our recent annual report for the year ended 30 June 2020.</p> <p>As part of delivery of community services to the Auckland region, the council leases property to community groups for no or minimal consideration. During the year, 1,214 community and sporting groups leased land on the council parks and reserve land or council-owned premises for between \$0 and \$10,000 per annum (2019: 1,171 groups with leases between \$0 and \$10,000 per annum). Lease income from these leases is recorded at the nominal rental amount receivable.</p>
Zero or nominal consideration		<ul style="list-style-type: none"> • The lease terms are generally renewable • AC has the discretion to review the lease consideration / license fee from time to time, up to current market rate, or a proportion of the market rate • The use of premises is normally restricted and explicitly stated in the agreement or license to occupy - i.e., hours of operation, number of people using the premise at the same time, number of functions allowed and timing, noise levels etc. • Generally, the tenants do not enjoy exclusive use of the premises 	

Appendix 2

		<ul style="list-style-type: none"> • AC's approval would be required should the tenant wish to hold functions outside operating hours • Anything outside the required use must be approved by AC • Tenants are generally not allowed to build additional buildings or alter the appearance of the premise without the written consent of AC • Some tenants need to provide their annual report within 3 months of year end • If tenants commence operating commercially for profit, AC is entitled to review rent or license fee • Some tenants are required to allow public access without charge • Tenants are required to hold public risk insurance cover for an agreed amount 	
<p>Access rights</p>	<p>Easements</p> <p>AC has Pedestrian and Cycle Access Way easements over land owned by outside parties (e.g., 18 Elm Street, Avondale, Auckland).</p> <p>Access rights</p> <p>To land where train stations have been built (Auckland Transport)</p>	<p><u>Easements with consideration involved</u></p> <p>For example, the purchaser is obligated to construct pedestrian and cycle access way within an agreed timeframe to the standards stated in Auckland's Transport Code of Practice.</p> <p>AC has been given rights, akin to a grantor, to access the area upon completion of construction, which includes the right to have any easement area kept clear of obstruction and to</p>	<p><u>Easements with consideration involved</u></p> <p>Easements normally come with a one-time fee with no expiry date, e.g., one-off fee of \$750,000 for access rights.</p> <p>The costs relating to easements are recognised as intangible assets and recorded at</p>

Appendix 2

		<p>install and maintain lighting and information signage relating to the easement area.</p> <p>AC must pay an agreed amount as consideration for the easement once the easement is registered.</p> <p>Similar arrangements are made for right to lay pipes for water or sewage, right of access to light and air and below earth support structures.</p> <p><u>Easements without consideration involved</u></p> <p>For example, in a subdivision of land to build residential housing, the developer would build infrastructure assets under the ground. Generally, these assets and the rights to access them are vested to AC, and there is no consideration involved. The easement to access these infrastructure assets are registered to the land title.</p> <p><u>Access rights</u></p> <p>The access rights on land where train stations have been built are owned by Kiwirail, but Auckland Transport have the rights to use the assets under agreement with Kiwirail.</p>	<p>cost. In subsequent accounting periods, they are tested for impairment on an annual basis.</p> <p><u>Easements without consideration involved</u></p> <p>We record the vested assets as our PPE in the financial statements. We do not record the easements relating to these assets as there is no financial value associated to them.</p> <p><u>Access rights</u></p> <p>These are considered to be long-term land leases. The costs relating to these access rights are capitalised upon initial recognition as intangible assets, and amortised</p>
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Appendix 2

			using the straight-line method over the life of the underlying lease (ranging from 55 to 85 years).
Right-of-use	<p><u>Own-your-own unit (OYO) scheme</u> This is a scheme to provide housing for older people</p>	<p>One and two-bedroom units are sold to the elderly at between 50 and 80 percent of the market value, subject to eligibility criteria.</p> <p>When buying the unit, each owner enters into a buyback agreement, stating that if they decide to sell the unit, it must be offered back to AC.</p> <p>This arrangement allows buyers of these units the full right of use of the properties. However, should the buyers decide to move out, or in the event that they have passed on, the property has to be offered back to AC as noted above.</p>	AC recognises revenue for the sale of OYO units in the statement of comprehensive revenue and expenditure with its corresponding costs relating to the properties as an expense.
Social housing	Haumarū Housing for Older People (63 retirement villages across Auckland Region which includes 1,412 housing units)	<p>Prior to 1 July 2017, AC managed the provision of social housing services internally.</p> <p>AC intends to grow the social housing stock and improve the quality of community housing and services provided to older people. To achieve this outcome, AC established a Joint Venture Limited Partnership (LP) with the Selwyn Foundation to manage housing for older people, a portfolio that comprises 1412 housing units on AC's land.</p>	AC recognises the rental income earned by the LP in relation to the properties and a corresponding management fee expense for the same amount less cost of capital renewals of the properties under the portfolio incurred by the Limited Partnership.

Appendix 2

		<p>AC leased its portfolio of properties to the limited partnership for \$1 per annum. The LP in turn uses the properties to provide social housing to the elderly.</p> <p>The lease of Housing for Older People portfolio to the LP has an initial term of 25 years, with three rights of renewal for further terms of 25 years each.</p>	
Sharing of properties without formal lease contract	<p>Community centres run by local communities</p> <p>Community halls</p>	<p>AC has several properties used as community centres in Glendene, Massey, Blockhouse Bay, Glen Eden and Titirangi. The community centres are usually run by local community and overseen by a voluntary Governance Committee.</p> <p>Community halls are often run by AC, but are used by the community for extra-mural activities at little or no cost e.g., dancing lessons, martial arts etc.</p>	The accounting treatment is similar to concessionary and zero/nominal consideration leases stated above.
Others	<p>GridAKL, administered by Auckland Unlimited Limited (AUL)</p> <p>These are hubs of shared workspaces at:</p> <ul style="list-style-type: none"> - Madden Building - Mason Building - Lysaght Building 	<p>GridAKL is a part of Auckland City's Wynyard Quarter Innovation Precinct that provides a common workspace for entrepreneurs and Start Up businesses to connect, share ideas and access the tools they need to help them grow.</p>	<p><u>Madden Building and Mason Building</u></p> <p>These buildings are leased to a shared workspace provider, that acts as an operator and further sub-leases space</p>

Appendix 2

		<p>On top of providing a common workspace, GridAKL also offers:</p> <ul style="list-style-type: none">• Mentoring, support and specialist advisory services• Connections with business advisors, experienced founders, entrepreneurs, other Start Ups, corporates, tertiaries, social enterprises and community groups• Professional front-of-house / concierge and administrative support• Access to event spaces and tech events	<p>to tenants. AUL earns rental income from the operator, with the objective to break even and not generate a commercial return.</p> <p><u>Lysaght Building</u> The Lysaght Building office spaces are rented out to tenants directly by AUL on a monthly membership fee basis. This leads to many members that rent out space at the same time. It also earns revenue by charging members for parking, events and catering. Again, with the objective to break even and not generate a commercial return.</p>
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Quadrent Limited

27th April 2021

XRB

Re: Request for Information: Concessionary Leases and Other Arrangements Similar to leases

To whom it may concern,

We are a company with 20 years of leasing experience and a further 5 years of lease accounting SaaS experience with our software LOIS which is a SaaS compliance tool for automation of IFRS16 accounting.

Regarding the latest ED75 we welcome the alignment with IFRS16 as we believe both private and public sectors should be aligned in the underlying treatment of leases and the associated right of use asset due to the simple fact of the material impact of leasing (largely from property).

In regard to the RFI on Concessionary leases and other arrangements similar to leases, we believe there should be some changes. This comes about from having a reasonable amount of clients in the Australia public/not for profit sector and seeing their experiences from AASB16. In particular the main point of difference being the treatment of peppercorn leases (concessionary or nominal consideration leases). In Australia AASB16 Para 25.1 allows the Right of Use asset to be measured at *Cost or Fair value*. This is done due to the complexity of determining fair value more than offsetting the benefit of that disclosure. Practically this has meant a far lower cost of compliance for entities that are naturally more resource constrained (i.e., charities).

For this ED we believe a similar concept should be used which gives entities the right to potentially adopt the cost or fair value option. The reason being the same as in Australia, in that it would lower the cost of compliance. However, we believe it should also be supported by disclosures relating to the extent of the option undertaken i.e., it should be necessary to disclose the volume of leases that the cost option has been utilised for and the asset class. We believe this would lower compliance costs and allow relevant disclosure without diluting the overall reporting.

Regards,

Stefan Iggo

CHIEF FINANCIAL OFFICER / LOIS PROGRAM MANAGER



QUADRENT

D +64 9 370 0032 M +64 20 4004 9347

31 Spring Street, Auckland 1011, New Zealand

www.quadrent.co.nz | www.loisleasing.com.au



31 Spring Street, Freemans Bay, Auckland 1011

PO Box 1148, Shortland St, Auckland 1140

P +64 9 370 0030

www.quadrent.co.nz



28 April 2021

New Zealand Accounting Standards Board
PO Box 11250
Manners St Central
Wellington 6142
cc: angela.ryan@treasury.govt.nz

Tēnā koe

Request for comments Exposure Draft 75 Leases

Thank you for the opportunity to comment on Exposure Draft 75 Leases (ED 75).

We appreciate that the International Public Sector Accounting Standards Board (IPSASB) has undertaken this project to update the accounting for leases and the opportunity to make this submission to assist New Zealand Accounting Standard Board (NZASB) with this consultation process.

While we are aware of the merits for the Public Financial Management and alignment with NZ IFRS 16, we have some concerns of its adoption for the Ministry of Education (MOE) which may also impact the wider public sector. These are:

- Concessionary Leases are prevalent in the public sector, and guidance on these transactions is not included in ED75. Although IPSASB has proposed to deal with this matter in the second phase of the Lease project, accounting for concessionary leases is linked to the fundamental principles in ED 75 and therefore, it is difficult to support ED75 without visibility of what ED 75 would mean for concessionary leases.
- While we recognise NZ IFRS 16 was developed to address the issue of off-balance sheet financial assets and liabilities and the lack of comparability in financial statement which has benefits for financial analysts, particularly in respect of entities listed on stock exchanges (e.g. updated financial ratios, performance metrics and loan covenants), these are not necessarily the relevant measurements of the service outcome or performance indicators for the Public sector entities.
- We are concerned that the cost of adopting ED 75 and its implementation challenges for MOE and the schools will exceed its benefits.

Due to the uniqueness of the education service provided by MOE/schools and the special characteristics of right of use or “lease-like” transactions in the sector, we anticipate some major implementation (and possibly costly) challenges. We are also concerned that unnecessary costs will be imposed on individual schools to account for right of use assets from MOE, which on consolidation are eliminated because the transactions occur within the Crown.

Some of the challenges can be found in the following type of transactions and there is no clear guidance in ED 75.

- Treaty settlement sales and leaseback: Under the Crown's Treaty settlement programme, designated land is sold to an iwi and leased back with no specific lease term or termination date; the Ministry can keep leasing the land for as long as it is needed for education purposes (or any other public work) and only the Ministry can end the lease. Also, depending on values attributed to the sale, and the subsequent rental amount, it's possible some of those values and terms may be considered as "below the market".
- Notional lease of land and buildings to schools: while there is no payment and no specific lease term between MOE and individual schools, state schools in their separate financial statements recognise a notional lease expense and corresponding grant income based on 8% p.a. of the valuation of the land and building held by MOE.
- Lease of houses to teachers under a variety of terms and conditions, including discounted rents with no lease terms.
- Peppercorn leases (26 approximately) where MOE leases property from various not-for-profit organisations or other public sector entities such as District Health Boards.
- Perpetual Leases (26 approximately) with various organisations where there are no lease term or end dates.

There will also likely be implications for the department appropriations. As the operating lease expenses for lessees will be replaced by the recognition of a right-of-use assets initially (capital expenditure), depreciation of the right-of-use asset and corresponding finance costs, our existing expense appropriations would need to be reassessed.

We recommend the NZASB:

- do not proceed with implementing ED 75 in New Zealand until the Public Sector impact for concessionary leases is more fully understood, and
- carefully consider the cost associated with implementing ED 75 and provide guidance on additional exemptions for the public sector.

Our responses to the Specific Matters for Comments are set out in the Appendix to this letter. We are giving our consent to publish our submission.

Should you have any queries or require clarification of any matter in this letter, please contact me.

Nāku noa nā

Shirley Long
Finance Manager
EIS Finance

T: +6444638343
E: shirley.long@education.govt.nz

Appendix: Response to Specific Matters for Comment

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.

We would like to see further guidance on the ‘special’ lease arrangement in public sector (described in the RFI).

Concessionary leases are prevalent in the public sector and the guidance is not included in ED75. Possible Concessionary Leases at MOE are the ‘lease-back’ land from Treaty sales, Notional lease, lease of teacher’s house, and various Peppercorn leases. Although IPSASB has proposed to deal with accounting for concessionary leases in the second phase of the Lease project, we are of the view it is linked to the fundamental principles in ED 75 therefore, it is difficult to support the implementation of ED75 without visibility of the guidance on Concessionary Lease.

Further, we do not see sufficient guidance and exclusions have been provided to deal with the circumstances in the Public sector, especially on the lease term for perpetual lease and concessionary leases.

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, Measurement1 (see paragraphs BC43– 1 The fair value definition under development in ED 77, Measurement is aligned with the fair value definition in IFRS 13 Fair Value Measurement. EXPOSURE DRAFT 75, LEASES 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.

We agree in principle with the proposed definition in ED75. However, we suggest further guidance to be considered for the designated asset to address the issue in Treaty sales and lease back transactions which may be considered as “below the market” rates

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.

We agree with IPSASB’s proposal to refer to both “economic benefits” and “service potential” and support the reasons which were provided in BC47-48



28 April 2021

New Zealand Accounting Standards Board
PO Box 11250
Manners Street Central
Wellington 6142
cc: angela.ryan@treasury.govt.nz

Tēnā koe

Request for Information – Concessionary leases and other arrangements similar to leases

Thank you for the opportunity to submit information relating to concessionary leases and other arrangement similar to leases.

In responding, we have provided an appendix to address the specific questions in the Request for Information

We are giving our consent to publish our submission as part of the NZASB consultation process. Should you have any queries or require clarification of any matter in this letter, please contact me.

Nāku noa nā

Shirley Long
Finance Manager
EIS Finance

T: +6444638343
E: shirley.long@education.govt.nz

Appendix – Seven questions included in RFI

Types of arrangement	Does MOE have any? Yes/No	(a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics;	(b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.
1. Concessionary Leases	Yes	<p>Notional Leases for School’s land and buildings MOE owns and provides the land and buildings to schools to be used for education purpose with no end term. The schools do not pay any rents for this arrangement.</p>	<p>MOE: no accounting entry has been made to the financial statements.</p> <p>Schools: recognise the grant income and rent expenses entries in the financial statements. Both entries are calculated at 8% of the annual land and building valuations.</p>
		<p>Lease of houses to teachers MOE owns houses and provides accommodation to schools/teachers in certain communities under a variety of terms and conditions, including discounted rents and in some cases no end term.</p> <p>Please refer to the website for further details: https://www.education.govt.nz/school/property-and-transport/school-facilities/teacher-caretaker-housing/</p>	<p>MOE: recognise rental income in the financial statements.</p> <p>Schools/teacher: recognise lease expense in the financial statements.</p>
		<p>Peppercorn Leases (MOE as “lessee”) These (26 approximately) are leases with a nil, nominal or a token payment.</p> <p>Various local governments or ‘not for profit’ organisations ‘lease’ their premises to MOE to support communities and education services with varied terms. MOE does not typically pay any rent for these arrangements or pays only a nominal or token amount.</p>	<p>MOE: no accounting entry has been made to the financial statements (other than the cash entry if a nominal amount is paid).</p> <p>Not for profit’ organisations: most likely no accounting entry has been made to the financial statements.</p>

		<p>Sale and lease back of land from Treaty settlements Under the Ministry's Treaty Settlements Property Redress programme, designated land is sold to an iwi and leased back with no specific lease term or termination date; the Ministry can keep leasing the land for as long as it is needed for education purposes (or any other public work) and only the Ministry can end the lease. Also, depending on values attributed to the sale, and the subsequent rental amount, it's possible some of those values and terms may be consider as "below the market".</p> <p>Please refer to the website for further details: https://www.education.govt.nz/school/property-and-transport/leasing-and-hiring/iwi-leased-school-sites/</p>	<p>MOE: Sells of land: de-recognises the land per the carrying value, recognises the cash received and the difference between the selling price and carry value as a gain. Lease: recognises the lease as an operating lease and a lease expense in the financial statements.</p> <p>Iwi: Purchases of land: most likely recognise the land per purchase price, and the cash paid. Lease: most likely recognises the lease as an operating lease and a lease revenue in the financial statements.</p>
2. Leases for Zero or Nominal Consideration	Yes	<p>MOE has the following leases for Zero or Nominal Consideration and the details are described in Question 1 above, Concessionary Leases.</p> <ul style="list-style-type: none"> - Notional Lease for School's land & buildings - Lease of houses to teachers - Peppercorn Leases 	Described above in Question 1, Concessionary Leases.
3. Rights of Access to Property	Yes	<p>MOE has a right of access licence for a strip of land owned by Auckland Council to complete the development/deliver relocatable buildings at/to Target Road School. There are no payments made for this access right.</p>	<p>MOE: no accounting entry has been made to the financial statements. Auckland Council: most likely no accounting entry has been made to the financial statements.</p>
4. Arrangements Allowing Right-of-Use	Yes	<p>MOE has the following leases arrangement which allow the right-of-use for education purpose and the details are described in Question 1 above, Concessionary Leases.</p> <ul style="list-style-type: none"> - Notional Lease for School's land and Buildings - Peppercorn Leases 	<p>The accounting treatments applied by both parties to the arrangements are explained in Question 1, Concessionary Leases. The value of the concession is not reflected in the financial statements.</p>

5. Social housing arrangements with no end term	Yes	MOE provides houses to the school teachers in some communities, as described in Question 1 (above), Concessionary Leases.	The accounting treatments applied by both parties to the arrangements are explained in Question 1, Concessionary Leases. The value of the concession is not reflected in the financial statements.
6. Shared properties with/without a Lease-Arrangement in Place	No	N/A	N/A
7. Other arrangements similar to leases	Yes	MOE leases described above are a mixture of formal and informal arrangements (26 approximately) with various entities and the terms vary widely – for example terms can be monthly, fixed terms like 21 years with perpetual renewal options, or perpetual leases as long as MOE determine they need the property (as is the case with Treaty sales and leasebacks)	MOE: recognise as an operating leases expense if paying the lease, otherwise, no accounting entry has been made to the financial statements. Other parties: most likely recognise as an operating leases income if receiving the lease, otherwise, no accounting entry has been made to the financial statements.



Agenda Item 3.3.5

3 May 2021

International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Submission on Exposure Draft ED 75 Leases

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft ED 75 *Leases*.

The Auditor-General is responsible for auditing all of New Zealand's public entities. Public entities in the New Zealand public sector include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public entities are operating and accounting for their performance as intended.

General comments about the proposed standard

We support the IPSASB's proposal to have a Standard for leases that is aligned with IFRS 16. We also support the IPSASB undertaking a second phase in the project that is focused on concessionary leases and lease type arrangements.

Specific comments about the proposed standard

The appendix to our letter contains our responses to the three Specific Matters for Comment. We also raise three further matters under "Other Comments" for the IPSASB to consider:

1. We are concerned that the definition of a lease does not adequately consider the public sector context;
2. We are concerned that the Basis for Conclusions is inconsistent in the way it articulates the proposed recognition exemption for low value leases; and
3. We note that the International Accounting Standards Board (IASB) has proposed further changes to its standard on leases (IFRS 16) and we encourage the IPSASB to reflect any changes made to the IFRS in the IPSASB standard as relevant.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at laywee.ng@oag.parliament.nz.

Nāku noa, nā

Greg Schollum
Deputy Controller and Auditor-General

Appendix: Responses to Specific Matters for Comment

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.

Yes, we agree with the IPSASB that the proposed Standard on leases should be an IFRS 16-aligned Standard.

We agree with how the IPSASB has modified IFRS 16 for the public sector.

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.

We understand the IPSASB’s rationale, as set out in BC43-BC45, for the proposal to retain the fair value definition from IFRS 16 and IPSAS 13, which differs from the definition proposed in ED 77. However, as ED 77 has yet to be published, we are unable to comment specifically on the potential differences.

Notwithstanding this, as a matter of principle, we generally do not support the same term being defined in two different ways. Doing so has the potential to cause confusion.

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.

Yes, we agree with the proposal to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease,

Other Comments

1. Definition of a lease

Paragraph 5 of ED 75 defines a lease as:

“...**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.**” [emphasis added]

Paragraph 5 states:

“A contract, for the purpose of this [draft] Standard, is an agreement between two or more parties that creates enforceable rights and obligations.”

Paragraph AG3 states:

“An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of this [draft] Standard. Contracts, for the purposes of this [draft] Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- 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
- The remedy for non-performance is enforceable by law.”

Paragraph BC41 states:

“BC41. Consideration was given to whether the term “binding arrangement” should be used to describe the arrangements highlighted in paragraph AG3. The term “binding arrangement” is defined in IPSAS 32, *Service Concession Arrangements: Grantor* as contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. For example, an arrangement between two government departments that do not have the power to contract may be a binding arrangement. The IPSASB concluded that the term “binding arrangements,” 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 this [draft] Standard.”

We disagree with limiting the definition of a lease to “contracts, or part of a contract” in the proposed Standard. As paragraph BC41 states, many government departments do not have the power to enter into contracts but enter into binding arrangements that confer similar rights and obligations on the parties as if they were a form of contract. Limiting leases to contracts, or part of a contract, is likely to result in similar transactions being accounted for differently when the substance of the transactions are the same. We recommend that the definition of a lease be extended to include binding arrangements.

Public sector entities may also enter into lease contracts in exchange for consideration that is non-financial, for example, in exchange for the use of an asset, rather than by making a monetary payment. We consider that such transactions should also be within the scope of the draft Standard where they meet all the other criteria for a lease. We recommend that the draft Standard defines and/or clarifies the term “consideration” to refer to financial or non-financial consideration.

2. Basis for Conclusions on low value leases

Paragraph 7 of ED 75 sets out the proposed recognition exemption for low value leases.

Application Guidance paragraphs AG4-AG9 clarify the proposals for low value leases. In particular, paragraph AG5 states:

“The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 7 regardless of whether those leases are material to the lessee. The assessment 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 AG5, emphasis added]

BC50-BC53 set out the IPSASB’s rationale in relation to an entity’s application of the recognition exemption for low value leases. The Basis for Conclusions sets out the following two statements:

“...public sector entities would be able to adopt an approach that appropriately provides a faithful representation of leasing transactions in terms of their own statements of financial position.” [paragraph BC51] and

“The IPSASB acknowledged that, for many public sector entities that are services-based, a figure of US\$5,000 might represent the value of most of their individual assets. The IPSASB concluded that public sector entities, **if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the materiality of leasing transactions in relation to their financial statements.** The IPSASB concluded that it would not provide guidance on a specific monetary amount. In assessing materiality, preparers consider whether the omission of information could influence financial statement users’ assessments of accountability or their decision-making.” [paragraph BC53, emphasis added]

We agree with the IPSASB’s conclusion not to provide guidance on a specific monetary amount and to require preparers, in assessing materiality, to consider whether the omission of information could influence financial statement users’ assessments of accountability or their decision-making. However, we consider that the statement in paragraph BC53 (highlighted above) is inconsistent with the intent of paragraph AG5.

We recommend that the IPSASB rewords paragraph BC53 to reflect the intent that the assessment of whether an underlying asset is of low value is performed on an absolute basis.

3. IASB ED/2020/4 Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16

The International Accounting Standards Board (IASB) has recently issued exposure draft ED/2020/4 *Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16*.

We recommend that the IPSASB considers the proposals in IASB ED/2020/4 to determine if those proposals should also be incorporated into the IPSASB’s proposed Standard on leases, given the intention for the proposed Standard to be aligned with IFRS 16.



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 5 May 2021
To: NZASB Members
From: Tracey Crookston
Subject: Annual Review of Application of the PBE Policy Approach

Purpose and Introduction¹

1. The purpose of this agenda item is to give the Board the opportunity to review and confirm its previous decisions regarding the application of the [Policy Approach to Developing the Suite of PBE Standards](#) (PBE Policy Approach).²
2. The Board applies the PBE Policy Approach to:
 - (a) new or amending IFRS Standards and decides whether to incorporate the new standard or amendment into the PBE Standards or wait for the IPSASB to consider the pronouncement. The PBE Policy Approach is applied when the new or amending IFRS Standard is approved by the Board for issue in New Zealand; and
 - (b) new or amending IPSASs. There is a rebuttable assumption that these will be incorporated into the PBE Standards. The PBE Policy Approach is applied when the IPSASB issues the new or amending IPSAS.
3. The agenda provides an annual update, at a point in time, of which pronouncements issued by the IASB or the IPSASB are yet to be incorporated into the PBE Standards. The update includes a summary of the current status of applying the PBE Policy Approach together with staff recommendations.

Recommendations

4. The Board is asked to:
 - (a) REVIEW the application of the PBE Policy Approach; and
 - (b) AGREE the recommendations set out in the table below.

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

² The PBE Policy Approach was last updated by the XRB Board in August 2020.

IASB pronouncements not included in PBE Standards	We recommend that the Board:
Revenue	
IFRS 15 <i>Revenue from Contracts with Customers</i>	NOTES that it AGREED to wait for the IPSASB to complete its revenue projects and then apply the PBE Policy Approach to the IPSASB’s new and revised revenue standards.
<i>Clarifications to NZ IFRS 15 Revenue from Contracts with Customers</i>	
Leases	
IFRS 16 <i>Leases</i>	NOTES that it AGREED to: <ul style="list-style-type: none"> • wait for the IPSASB to develop its IPSAS on leases; and • comment on ED 75 <i>Leases</i> and the Request for Information <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
Interests in Other Entities	
<i>Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28)	NOTES that it AGREED to continue to MONITOR the IASB’s research project on the equity method of accounting. [The effective date of these IASB amendments has been deferred indefinitely]
<i>Effective Date of Amendments to IFRS 10 and IAS 28</i>	
Insurance Contracts	
IFRS 17 <i>Insurance Contracts</i>	NOTES that PBE IFRS 17 <i>Insurance Contracts</i> has been issued (with a scope modification to limit its application to Tier 1 and Tier 2 not-for-profit PBEs) and that a public sector specific insurance project is being jointly worked on with the Australian Accounting Standards Board.
Other	
Other IASB pronouncements	NOTES the status of the other IASB pronouncements that have not yet been incorporated into PBE Standards (see paragraph 37).
IPSASB pronouncements not included in PBE Standards	We recommend that the Board:
Social Benefits	
IPSAS 42 <i>Social Benefits</i>	NOTES that it AGREED to DEFER its decision to develop a PBE Standard based on IPSAS 42 <i>Social Benefits</i> until the IPSASB has issued a standard on transfer expenses.
Collective and Individual Services	
<i>Collective and Individual Services</i> (Amendments to IPSAS 19)	NOTES that it AGREED to DEFER making a decision about incorporating <i>Collective and Individual Services</i> (Amendments to IPSAS 19) into PBE Standards until the IPSASB has issued a standard on transfer expenses.

Improvements to IPSAS 2019	
<i>Improvements to IPSAS, 2019</i>	NOTES that it AGREED that some of the amendments in <i>Improvements to IPSAS, 2019</i> should be included in the next Omnibus Amendments to PBE Standards.
COVID-19: Deferral of Effective Dates	
<i>COVID-19: Deferral of Effective Dates</i>	NOTES that it AGREED not to defer the effective date of PBE IPAS 41 <i>Financial Instruments</i> and not to incorporate <i>COVID-19: Deferral of Effective Dates</i> in PBE Standards.
Public Sector Specific Financial Instruments	
<i>Amendments to IPSAS 41 Financial Instruments</i>	NOTES that it AGREED to consider <i>Public Sector Specific Financial Instruments</i> (Proposed non-authoritative amendments to PBE IPSAS 41) ITC and ED at a future Board meeting.
Other	
Other IPSASB pronouncements	NOTES the status of the other IPSASB pronouncements that have not yet been incorporated into the PBE Standards (see paragraphs 52–54).

Background

Applying the PBE Policy Approach and monitoring

5. Since 1 October 2013, the Board has applied the PBE Policy Approach to pronouncements that have been issued by both the IASB and the IPSASB. The pronouncement may be a new IFRS Standard or IPSAS or a change to an existing IFRS Standard or IPSAS.
6. For pronouncements issued by the IASB, the Board must decide whether to make a change to the PBE Standards, or whether to wait for the IPSASB to consider the IASB pronouncement for inclusion in the respective IPSASs.
7. The Board monitors pronouncements issued by the IASB but not yet considered by the IPSASB. We track these pronouncements and bring a summary to the Board at regular intervals so the Board can review its earlier decisions and monitor ongoing projects.

Staff tracking tables

8. Staff maintain tracking tables to ensure that the PBE Policy Approach has been applied to all pronouncements issued by the IASB and the IPSASB since 1 October 2013.
9. The staff tracking tables have not been included in the agenda papers as they are quite large and detailed. They are available on request from staff.

Structure of this memo

10. The remainder of this memo provides further information about firstly IASB pronouncements and secondly IPSASB pronouncements that are yet to be incorporated into the PBE Standards, together with recommendations for the Board (as summarised on page 2 and 3).

A. IASB pronouncements

Revenue

11. In the table below we have summarised the IASB pronouncements issued as NZ IFRSs that relate to revenue and have not been incorporated into the PBE Standards.

NZASB Approval and Date	IASB Pronouncement
Approval 44 – June 2014	IFRS 15 <i>Revenue from Contracts with Customers</i>
Approval 71 – May 2016	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>

12. In June 2014, the NZASB issued NZ IFRS 15 *Revenue from Contracts with Customers*. In August 2014, the Board agreed that IFRS 15 should not be incorporated into the PBE Standards at that time.
13. The Board agreed to wait for the IPSASB to complete its projects on revenue before applying the PBE Policy Approach to the IPSASB’s new and revised revenue standards.
14. On 21 February 2020 the IPSASB issued ED 70 *Revenue with Performance Obligations (ED 70)*. ED 70 is aligned with IFRS 15 *Revenue from Contracts with Customers* and includes *Clarifications to IFRS 15 Revenue from Contracts with Customers*. The Board has provided comments on ED 70 to the IPSASB.
15. The IPSASB is planning to issue final pronouncements on revenue in December 2021.

Recommendation

We recommend that the Board NOTES that it AGREED to wait for the IPSASB to complete its revenue projects and then apply the PBE Policy Approach to the IPSASB’s new and revised revenue standards.

Leases

16. In the table below we have summarised the IASB pronouncement issued as an NZ IFRS that relates to leases that has not been incorporated into the PBE Standards.

NZASB Approval and Date	IASB Pronouncement
Approval 68 – February 2016	IFRS 16 <i>Leases</i>

17. The IASB issued IFRS 16 *Leases* in January 2016. The Board approved and issued NZ IFRS 16 *Leases* in February 2016. In March 2016, the Board agreed to wait for the IPSASB to complete a project on leases before developing a PBE Standard based on IFRS 16.
18. In 2018, the IPSASB issued ED 64 *Leases* and the Board provided comments. Constituent feedback was divided on whether the public sector proposals in ED 64 should be carried forward. However, there was general support for the IPSASB to develop a standard aligned with IFRS 16.

19. During 2019 and 2020 the Board continued to monitor the IPSASB project on leases and asked staff to undertake some outreach on whether the Board should move ahead of the IPSASB. The feedback, on balance, supported continuing to wait for the IPSASB to issue a final pronouncement on leases before a PBE Standard is issued.
20. The IPSASB issued ED 75 *Leases* for comment in January 2021, with comments due by 17 May. ED 75 is based on IFRS 16.
21. The IPSASB has also issued a Request for Information (RFI) *Concessionary Leases and Other Arrangements Similar to Leases* seeking information on the prevalence and accounting requirement for concessionary leases and other arrangements similar to leases in constituents' jurisdictions.
22. At its February 2021 meeting, the Board agreed to comment on ED 75 and the RFI.
23. The IPSASB is expecting to issue a final pronouncement on leases (aligned with IFRS 16) in March 2022.

Recommendation

We recommend the Board NOTES that it AGREED to:

- wait for the IPSASB to develop its IPSAS on leases
- comment on ED 75 *Leases* and the Request for Information *Concessionary Leases and Other Arrangements Similar to Leases*

Interests in other entities

24. In December 2016, the Board approved for issue five PBE Standards dealing with interests in other entities, including PBE IPSAS 35 *Consolidated Financial Statements* and PBE IPSAS 36 *Investments in Associates and Joint Ventures*. These new PBE Standards incorporated most of the IASB's narrow scope amendments on these topics.
25. In the table below we have summarised the IASB pronouncements issued as NZ IFRSs that relate to interests in other entities that have not been incorporated in the PBE Standards.

NZASB Approval and Date	IASB Pronouncement
Approval 54 – October 2014	<i>Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28)
Approval 67 – February 2016	<i>Effective Date of Amendments to IFRS 10 and IAS 28</i>

26. The narrow scope amendments to NZ IFRS 10 and NZ IAS 28 established the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture, dependent on whether the sale or contribution of assets constitutes a business as defined in NZ IFRS 3 *Business Combinations*.

27. In December 2015, the IASB deferred the effective date of these amendments indefinitely, pending further research in this area as part of its research project on the equity method.³ The IASB did not want to force entities to change their accounting twice in a short period. The amendments remained available for early adoption. In New Zealand, in the for-profit sector, the Board deferred the effective date of these amendments until 1 January 2020 (and subsequently extended this to 1 January 2025).
28. The IPSASB issued IPSAS 40 *Public Sector Combinations* in January 2017 and incorporated equivalent amendments to IPSAS 35 and IPSAS 36 (via consequential amendments in IPSAS 40). These amendments are to be applied from a date to be determined by the IPSASB.
29. In developing PBE IPSAS 40 *PBE Combinations* the Board reconsidered incorporating the amendments into PBE IPSAS 35 and PBE IPSAS 36. However, given the IASB’s 2016 decision to defer work on its equity method research project until it has undertaken post-implementation reviews of certain standards, the Board decided not to incorporate these amendments.
30. In 2019, the Board issued *2019 Amendments to NZ IFRS* which included amendments to NZ IFRS 10 and NZ IAS 28 to defer the effective date of *Sale or Contribution of Assets between and Investor and its Associate or Joint Venture* (amendments to NZ IFRS 10 and NZ IAS 28) from annual periods beginning on or after 1 January 2020 to annual periods beginning on or after 1 January 2025.

Recommendation

We recommend that the Board NOTES that it AGREED to continue to MONITOR the IASB’s research project on the equity method.

Insurance contracts

31. IFRS 17 *Insurance Contracts* was issued in May 2017.

NZASB Approval and Date	IASB Pronouncement
Approval 90 – August 2017	IFRS 17 <i>Insurance Contracts</i>

32. At its August 2017 meeting, the Board approved for issue NZ IFRS 17 *Insurance Contracts*. NZ IFRS 17 supersedes NZ IFRS 4 *Insurance Contracts* which is the basis for PBE IFRS 4 *Insurance Contracts*.
33. At this point, the IPSASB does not have an equivalent standard on insurance and has no plans to develop a standard.
34. The Board considered the application of the PBE Policy Approach to NZ IFRS 17 at its February 2018 meeting. The Board agreed to develop a PBE Standard based on IFRS 17.

³ In May 2016 the IASB deferred further work on the equity method project until the Post-implementation Reviews (PiR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are undertaken. As part of the PiR for these standards, the IASB has decided to seek feedback on investors’ information needs regarding investments accounted for using the equity method. A Request for Information on the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 has been issued with comments due by 10 May 2021.

35. PBE IFRS 17 *Insurance Contracts*, which applies only to Tier 1 and Tier 2 not-for-profit PBEs, was issued in July 2019.
36. In late 2020, the Australian Accounting Standards Board and the NZASB commenced a joint project to consider amendments needed to AASB 17/PBE IFRS 17 for public sector entities.

Recommendation

We recommend that the Board NOTES that PBE IFRS 17 *Insurance Contracts* has been issued (with a scope modification to limit its application to Tier 1 and Tier 2 not-for-profit PBEs) and that a public sector specific insurance project is being jointly worked on with the Australian Accounting Standards Board.

Other IASB pronouncements

37. The following table summarises other IASB pronouncements that have not yet been incorporated into the PBE Standards, and which we are continuing to monitor.

NZASB Approval and Date	IASB Pronouncement	Status
Approval 103 – [December 2018]	<i>Definition of a Business</i> (Amendments to IFRS 3)	<p>In December 2018, the Board considered this and noted that the IPSASB plans to include this project in its workplan for 2019–2023.</p> <p>The Board agreed to wait for the IPSASB to consider the amendments to IFRS 3 before deciding whether to incorporate them into the PBE Standards.</p> <p>At its June 2019 meeting the IPSASB considered a draft ED 68 <i>Improvements</i>. IPSASB staff had proposed to include the amendments set out in <i>Definition of a Business</i>. The IPSASB did not agree with that proposal. The IPSASB decided to consider these amendments as part of a narrow scope update of IPSAS 40 <i>Public Sector Combinations</i> (no date set).</p> <p>When considering, at its August 2019 meeting, whether to comment on ED 68 the Board agreed to continue to wait for the IPSASB to consider this pronouncement.</p>
Approval 104 – [December 2018]	<i>Definition of Material</i> (Amendments to IAS 1 and IAS 8)	<p>At its December 2018 meeting, the Board also considered these pronouncements. The Board agreed to wait for the IPSASB to consider these amendments before deciding whether to incorporate them into PBE Standards.</p>
Approval 105 – [December 2018]	<i>Definition of Material</i> (Amendments to Conceptual Frameworks)	<p>At its June 2019 meeting the IPSASB considered a draft ED 68 <i>Improvements</i>. IPSASB staff had proposed to include the amendments set out in <i>Definition of Material</i>. The IPSASB did not agree with that proposal. The IPSASB decided to consider these amendments as part of the <i>Limited Scope Review of the Conceptual Framework</i> (2020–2021).</p>

NZASB Approval and Date	IASB Pronouncement	Status
		<p>When considering, at its August 2019 meeting, whether to comment on ED 68 the Board agreed to continue to wait for the IPSASB to consider these pronouncements.</p> <p>In 2021, IPSASB staff indicated that some of these amendments will be considered as part of the <i>Limited Scope Review of the Conceptual Framework</i> and the other amendments will likely be included in <i>ED Improvements to IPSAS, 2022</i> (i.e. the changes to IPSAS 1 and IPSAS 3 will be made after the conceptual framework is amended).</p>
<p>Approval 116 – [March 2020] and Approval 127 – (deferring the effective date) [August 2020]</p>	<p><i>Classification of Liabilities as Current or Non-current</i></p>	<p>Issued by the IASB in January 2020, amends <i>IAS 1 Presentation of Financial Statements</i></p> <p>At its March 2020 meeting, the Board agreed to wait for the IPSASB to propose adopting these amendments into IPSAS before making changes to PBE Standards.</p> <p>IPSASB staff have indicated these amendments are likely to be included in the <i>ED Improvements to IPSAS, 2021</i>.</p>
<p>Approval 117 – [June 2020]</p> <p>Approval 133 – [June 2021]</p>	<p><i>Covid-19-Related Rent Concessions</i></p> <p><i>Covid-19-Related Rent Concessions beyond 30 June 2021</i></p>	<p>Issued by the IASB in May 2020 to provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification.</p> <p>At its June 2020 meeting, the Board agreed that no equivalent amendment was needed to PBE Standards. This was because there is no equivalent lease assessment required in PBE IPSAS 13 <i>Leases</i>.</p> <p>These amendments were included by the IPSASB in <i>ED 75 Leases</i>.</p>
<p>Approval 119 – [June 2020]</p>	<p><i>Onerous Contracts – Cost of Fulfilling a Contract</i></p>	<p>Issued by the IASB in May 2020, amends <i>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>At its June 2020 meeting, the Board agreed to wait for the IPSASB to propose adopting the amendments into IPSAS before making changes to PBE Standards.</p> <p>IPSASB staff have indicated these amendments are likely to be included in the <i>ED Improvements to IPSAS, 2021</i>.</p>
<p>Approval 120 – [June 2020]</p>	<p><i>Annual Improvements to IFRS 2018-2020</i></p>	<p>Issued by the IASB in May 2020, amends <i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i>, <i>IFRS 9 Financial Instruments</i> and <i>IAS 41 Agriculture</i>.</p> <p>At its June 2020 meeting, the Board agreed to wait for the IPSASB to propose adopting the amendments into IPSAS before making changes to PBE Standards.</p> <p>IPSASB staff have indicated that the IFRS 1 and IFRS 9 amendments are likely to be included in the</p>

NZASB Approval and Date	IASB Pronouncement	Status
		ED <i>Improvements to IPSAS, 2021</i> . The amendment to IPSAS 27 <i>Agriculture</i> has been included in IPSASB ED 77 <i>Measurement</i> .
Approval 121 – [June 2020]	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>	Issued by the IASB in May 2020, amends IAS 16 <i>Property, Plant and Equipment</i> . At its June 2020 meeting, the Board agreed to wait for the IPSASB to propose adopting the amendments into IPSAS before making changes to PBE Standards. These amendments were included by the IPSASB in ED 78, <i>Property, Plant, and Equipment</i> .
Approval 131 –	<i>Disclosure of Accounting Policies</i>	Issued by the IASB in February 2021, amends IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2 <i>Making Materiality Judgements</i> . The Board approved the New Zealand version of this pronouncement in March 2021 via circular resolution. The PBE Policy Approach is applied to this pronouncement at agenda item 4.2.
Approval 132 –	<i>Definition of Accounting Estimates</i>	Issued by the IASB in February 2021, amends IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . The Board agreed, by circular resolution in March 2021, to wait for the IPSASB to propose adopting the amendments into IPSAS before making changes to PBE Standards. IPSASB staff have indicated these amendments are likely to be included in ED <i>Improvements to IPSAS, 2021</i> .

Recommendation

We recommend that the Board NOTES the status of the other IASB pronouncements that have not yet been incorporated into PBE Standards.

B. IPSASB pronouncements

Social Benefits

38. At its February 2019 meeting, the Board noted that the IPSASB has issued IPSAS 42 *Social Benefits*.
39. Staff recommended that the most efficient approach would be to seek feedback from PBEs on all proposals for non-exchange expenses at the same time and then finalise all the relevant requirements together.

40. The Board agreed to defer its decision to develop a PBE Standard based on IPSAS 42 until the IPSASB has completed other related projects dealing with non-exchange expenses (now referred to by the IPSASB as transfer expenses).
41. The IPSASB issued ED 72 *Transfer Expenses* in February 2020.

Recommendation

We recommend that the Board NOTES that it AGREED to DEFER its decision to develop a PBE Standard based on IPSAS 42 *Social Benefits* until the IPSASB has issued a standard on transfer expenses.

Collective and Individual Services

42. *Collective and Individual Services* (Amendments to IPSAS 19) was issued in January 2020.
43. At its December 2019 meeting, the Board agreed to defer making a decision about incorporating the amendments to IPSAS 19 into the PBE Standards until the IPSASB has issued its standard on transfer expenses.
44. As noted in paragraph 37, the IPSASB issued ED 72 *Transfer Expenses* in February 2020.

Recommendation

We recommend that the Board NOTES that it AGREED to DEFER making a decision about incorporating *Collective and Individual Services* (Amendments to IPSAS 19) into the PBE Standards until the IPSASB has issued a standard on transfer expenses.

Improvements to IPSAS, 2019

45. *Improvements to IPSAS, 2019* was issued in December 2019. At its March 2020 meeting the Board agreed that some of the amendments should be included in the next Omnibus Amendments to PBE Standards. A PBE Omnibus Amendments 2021 project is currently on the NZASB work plan.

Recommendation

We recommend that the Board NOTES that it AGREED that some of the amendments in *Improvements to IPSAS, 2019* should be included in the next Omnibus Amendments to PBE Standards.

COVID-19: Deferral of Effective Dates

46. *COVID-19: Deferral of Effective Dates*, issued by the IPSASB in November 2020, defers the effective dates of IPSAS 41 *Financial Instruments* and certain other recently issued IPSASB pronouncements by one year, from 1 January 2022 to 1 January 2023.
47. In November 2020, the Board considered the application of the PBE Policy Approach to the amendments. Staff recommended not to defer the effective date of PBE IPSAS 41 *Financial*

Instruments for several reasons. The other deferrals proposed by the IPSASB in the amending standard were not relevant to PBE Standards.

48. The Board agreed not to defer the effective date of PBE IPSAS 41, and not to incorporate *COVID-19: Deferral of Effective Dates* in PBE Standards. As required by paragraph 26 of the PBE Policy Approach, the Board notified the XRB Board of the decision and its rationale.

Recommendation

We recommend that the Board NOTES that it AGREED not to defer the effective date of PBE IPSAS 41 *Financial Instruments* and not to incorporate *COVID-19: Deferral of Effective Dates* in PBE Standards.

Public Sector Specific Financial Instruments

49. In December 2020, the IPSASB issued some non-authoritative amendments to IPSAS 41, *Financial Instruments*. These were amendments to the Implementation Guidance and Illustrative Examples to clarify the accounting treatment of certain public sector specific financial instruments.
50. The Board considered these amendments and agreed that staff should draft an invitation to comment (ITC) and exposure draft (ED) for a future meeting based on *Non-Authoritative Amendments to IPSAS 41, Financial Instruments*. The Board also agreed the effective date for the amendments should be 1 January 2023, with early adoption permitted, and that no changes be proposed to PBE IFRS 9.
51. At its February 2021 meeting, the Board considered a draft ED and ITC. The Board discussed the lack of clarity around the current accounting in New Zealand for Special Drawing Rights (SDR) Allocations and SDR Holdings. It was agreed that staff would contact the relevant stakeholder to seek more information. Consequently, the Board deferred further consideration of the ITC and ED *Public Sector Specific Financial Instruments* (Proposed non-authoritative amendments to PBE IPSAS 41) to a future Board meeting.

Recommendation

We recommend that the Board NOTES that it AGREED to consider the ITC and ED *Public Sector Specific Financial Instruments* (Proposed non-authoritative amendments to PBE IPSAS 41) at a future Board meeting.

Other IPSASB pronouncements

52. The IPSASB issued *Improvements to IPSAS, 2018* in October 2018. We sought feedback on the proposals concurrently with the IPSASB and in nearly all cases we proposed to incorporate equivalent amendments into the PBE Standards. The only IPSASB proposals not incorporated in the *2018 Omnibus Amendments to PBE Standards* were in relation to certain amendments to IPSAS 16 *Investment Property*.
53. At its 31 October 2018 meeting the Board agreed to consider the IPSASB's amendments to IPSAS 16 in a future omnibus ED.

54. We have subsequently contacted IASB staff to see if the IASB plans to incorporate these IPSASB amendments into IAS 40 *Investment Property*. IASB staff have indicated that at this stage they do not propose to include these amendments in IAS 40.

Recommendation

We recommend that the Board NOTES that it AGREED to consider the amendments to IPSAS 16 *Investment Property* as part of a future PBE Omnibus ED.

Related links

[PBE Policy Approach \(August 2020\)](#)



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 5 May 2021

To: NZASB Members

From: Gali Slyuzberg

Subject: **PBE Policy Approach: *Disclosure of Accounting Policies***

Recommendation¹

1. The Board is asked to:
 - (a) CONSIDER the application of the [Policy Approach to the Development of PBE Standards](#) (PBE Policy Approach) to *Disclosure of Accounting Policies*, which amends NZ IAS 1 *Presentation of Financial Statements*; and
 - (b) AGREE to wait for the IPSASB to consider adopting the amendments into IPSAS via its *Improvements to IPSAS 2022* project.

Background

2. In February 2021, the IASB issued *Disclosure of Accounting Policies*, to amend IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*. The amendments to IAS 1 require entities to disclose their material accounting policy information, rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 include guidance and examples on the application of materiality to accounting policy disclosures. These amendments are part of the IASB's Disclosure Initiative, which aims to promote better communication in financial reporting.
3. The Board approved *Disclosure of Accounting Policies* in March 2021 (by circular resolution). The New Zealand amending standard amended NZ IAS 1, but excluded the amendments to IFRS Practice Statement 2, as IFRS Practice Statements do not form part of NZ IFRS. However, we have provided a link to the updated IFRS Practice Statement on our website.
4. In line with our PBE Policy Approach, the next step is to consider whether the amendments should be incorporated into PBE Standards and, if so, when. When the Board approved the amendments in March 2021, it was not clear whether and when the IPSASB would consider these amendments. The Board agreed to defer the application of the PBE Policy Approach to these amendments until this matter is clarified. IPSASB staff recently advised that the amendments are expected to be considered as part of the *Improvements to IPSAS 2022* project.

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

5. In the next section of this memo, we apply the PBE Policy Approach to the *Disclosure of Accounting Policies* amendments.

PBE Policy Approach

6. 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). Specifically, *Disclosure of Accounting Policies* amended IAS 1, which was used as the basis for IPSAS 1 *Presentation of Financial Statements*.
7. Paragraphs 28–32 of the PBE Policy Approach set out the matters to be considered, with paragraphs 29–30 highlighting 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 31 establishes a rebuttable presumption that the 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

Will the IPSASB consider these issues in an acceptable timeframe?

IPSASB staff indicated that the IPSASB is likely to consider *Disclosure of Accounting Policies* as part of the *Improvements to IPSAS 2022* project, i.e. next year. The reasons for this are:

- *Disclosure of Accounting Policies* sets out requirements for entities to disclose their *material* accounting policy information. These requirements are based on the IASB's updated definition of materiality, as per the amending standard *Definition of Material*, issued in 2018.
- However, the IPSASB has not yet considered the amendments introduced by *Definition of Material*. IPSASB staff note that it would be premature for the IPSASB to consider *Disclosure of Accounting Policies* before *Definition of Material* is considered.
- *Definition of Material* amended IAS 1 and IAS 8, as well as the IASB's *Conceptual Framework for Financial Reporting*. The amendments to the Conceptual Framework would be considered as part of the next stage of the IPSASB's *Conceptual Framework Limited Scope Update* (as *Definition of Material* updated the IASB's *Conceptual Framework for Financial Reporting*). An Exposure Draft in relation to this project is expected later this year. The amendments to IAS 1 and IAS 8 are likely to be considered as part of *Improvements to IPSAS 2022*.
- Consequently, *Disclosure of Accounting Policies* is also expected to be considered as part of *Improvements to IPSAS 2022*.

Are the amendments minor?

The amendments are not extensive. They require entities to disclose material accounting policy information, rather than significant accounting policies, and explain what accounting policy information is likely to be material. The amendments do not affect recognition and measurement requirements.

Costs and benefits of getting ahead of the IPSASB

Costs

When the IPSASB considers *Disclosure of Accounting Policies*, there is a risk that the IPSASB might incorporate some, but not all, of the amendments, or that it may modify some of the amendments. If the Board proposes to incorporate the amendments into PBE Standards before the IPSASB considers these amendments, there is a risk that a 'second round' of changes to PBE Standards may be needed.

If the IPSASB decides not to incorporate the amendments into IPSAS, waiting for the IPSASB would not increase the cost of developing a domestic amending standard, if one is required.

Who would benefit?

The IASB expects that the proposed amendments will:

- Improve the relevance of the financial statements by helping entities identify and disclose accounting policy information that is material to users of financial statements; and;
- Reduce the cost of preparing and using financial statements, by reducing the disclosure of immaterial accounting policy information.

If the NZASB moves ahead of the IPSASB in relation to these amendments, then the benefits above would be available to Tier 1 and Tier 2 PBEs sooner.

However, we have not received any feedback that this is a pressing issue for PBEs.

RDR

The amendments clarify the circumstances in which accounting policies should be disclosed, rather than adding to or changing existing disclosure requirements. Therefore, no RDR concessions were proposed in the For-Profit amendments.

Next steps

8. Based on the analysis above, staff are of the view that it is appropriate to wait for the IPSASB to consider *Disclosure of Accounting Policies* as part of the *Improvements to IPSAS 2022* project.
9. 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 *Disclosure of Accounting Policies* as part of the *Improvements to IPSAS 2022* project?



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 7 May 2021

To: NZASB Members

From: Jamie Cattell

Subject: **Post-implementation Review of Tier 3 and Tier 4 Standards Cover Memo**

Purpose and introduction

1. The purpose of this memo is to:
 - (a) Inform the Board of the outreach activities we undertook during the comment period on the Request for Information: *Simple Format Reporting Standards–Post-implementation Review* (RFI);
 - (b) Provide an overview of the analysis completed to date which identifies general themes from the feedback received.

Recommendations

2. The Board is asked to:
 - (a) NOTE the high-level analysis of feedback received (see agenda item 5.2); and
 - (b) NOTE the summary of outreach activities undertaken (see agenda item 5.3).

Background

3. The NZASB issued the Request for Information *Simple Format Reporting Standards Post Implementation Review* (RFI) for public consultation in September 2020 to seek feedback from constituents on the Simple Format Reporting Standards (Tier 3 and Tier 4).
4. Staff were aware of the importance of obtaining a wide range of feedback on the RFI and conducted many outreach activities during the six-month consultation period. A summary of these outreach activities is included as agenda item 5.3.
5. In order to obtain feedback from smaller not-for-profit entities staff developed an online survey and feedback form as alternatives to providing formal submissions.
6. During the consultation period staff arranged 20 face-to-face meetings with constituents to obtain feedback on the RFI. The feedback obtained from these meetings has been included in the high-level analysis of feedback at agenda item 5.2.

7. The public consultation period closed on 31 March 2021. 10 formal submissions were received. 93 responses to the online survey were received, of which 65 were complete.¹ The 65 complete responses have been included in the high-level analysis.

Themes from the high-level analysis

8. The high-level analysis of general views on the Simple Format Reporting Standards (discussed in agenda item 5.2) indicates that:
 - (a) the Simple Format Reporting Standards are working well overall;
 - (b) there is general support for reducing the length and complexity of the Tier 4 standard;
 - (c) some constituents consider the XRB should take on a more educative role in relation to promoting the use and consistent application of the Simple Format Reporting Standards; and
 - (d) there is some concern about how well the Simple Format Reporting Standards are currently working for Māori entities.
9. The high-level analysis of themes from feedback received on the Simple Format Reporting Standards (discussed in agenda item 5.2) indicates there is the highest level of interest in the following topics.
 - (a) Service performance reporting
 - (b) Asset valuation in the Tier 3 standard
 - (c) The minimum categories for presenting income and expenditure
 - (d) Simplification of the Tier 4 reporting standard, guidance, and template (in relation to language used)
 - (e) Revenue recognition in the Tier 3 Standard
 - (f) Accumulated funds and reserve reporting in the Tier 3 standard
 - (g) Understandability of the requirements for the statement of cash flows in the Tier 3 standard
 - (h) Additional guidance on the requirements related opting up to the PBE standards for specific transactions or balances

Next steps

10. Staff plan to present the final detailed analysis of all feedback received along with proposed next steps at the Board's next meeting on 23 June.

Attachments

- Agenda item 5.2: High-level analysis of submissions
- Agenda item 5.3: Summary of outreach completed

¹ 28 of the 93 responses received to the survey were not usable. Most of these responses had been started but no answers to the questions were provided.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 7 May 2021

To: NZASB Members

From: Jamie Cattell

Subject: **Post-implementation review of Tier 3 and Tier 4 Standards – Analysis of feedback**

Purpose and introduction ¹

1. The purpose of this paper is to give the Board an opportunity to NOTE the summary and common themes arising from feedback received from the Request for Information *Simple Format Reporting Standards – Post-implementation Review* (RFI).

Structure of this memo

2. This memo is structured:
 - (a) Respondents;
 - (b) Process used to analyse submissions;
 - (c) General views on the Simple Format Reporting Standards;
 - (d) Themes from specific feedback on the Simple Format Reporting Standards;
 - (e) Detailed summary of general views; and
 - (f) Analysis of trends in the specific feedback.
3. Links to all formal submissions received are included in Appendix 3.

Respondents

4. This section provides an overview of the respondents to the RFI.
5. Table 1 below lists all the respondents who provided formal submissions or completed the online feedback form as well as organisations we met with throughout the consultation period to obtain feedback. All these respondents have been analysed collectively and treated as “written feedback” in the rest of this paper.
6. Table 2 provides a summary of the respondents who completed the online survey outlining their role and whether they have previous experience in accounting or finance.

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. We received one confidential submission (see agenda item 1C). This submission has therefore not been discussed in this memo.

Table 1 – List of respondents who provided “written feedback”

Formal Submissions	
R1	Audit New Zealand
R2	Audit Professionals
R3	Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia
R4	Department of Internal Affairs – Charities Services
R5	Community Capacity Accounting
R6	David Walker
R7	John Morrow (JBWere New Zealand)
R8	Northern Masonic Association Trust Board
R9	Paul Dunmore
R10	Perpetual Guardian
Face-to-face meetings	
R11	Academics Roundtable
R12	Accountant and Auditor roundtable
R13	AGNIU Accounting
R14	BDO
R15	Bellyful New Zealand
R16	Dr Bev Gattenby (Charities Registration Board Member)
R17	CA ANZ Māori Resource Development Group
R18	CA ANZ Practice Review
R19	Community Foundations New Zealand
R20	Community Networks Aotearoa
R21	D.V Bryant Trust
R22	Foundation North
R23	KPMG
R24	Louise Edwards
R25	Methodist Church of New Zealand
R26	National Collective of Independent Womens’ Refuges
R27	Presbyterian Church of Aotearoa New Zealand
R28	Rata Foundation
R29	Ruth Sio-Lokam
R30	Upper Hutt City Council
Feedback Form	
R31	Confidential Respondent 1
R32	Volunteer Nelson
R33	Blind Low Vision NZ
R34	Integrity Audit
R35	Confidential Respondent 2
R36	New Zealand Ukelele Trust

Table 2 – Online survey respondents

Complete responses		65 ²	
Role	Accountant/Auditor	26	40%
	Chairperson/Officeholder	7	11%
	Treasurer/Finance Manager	23	35%
	Other	9	14%
Financial Experience	Yes	51	78%
	No	14	22%

Process used to analyse responses

8. The overall objective for the analysis of RFI responses was to:
 - (a) summarise the general feedback received; and
 - (b) identify any common themes or key topics of interest.
9. The process used to analyse the feedback differs slightly across the sources of feedback.
10. Formal submissions, face-to-face meetings, and feedback form responses have been analysed as follows.
 - (a) Responses have been collated based on the RFI question for each respondent.
 - (b) We then identified the high-level topic each of these responses relates to.
 - (c) The general views captured within each of these topics is then explained in the rest of this paper.
11. Survey responses have been analysed as follows.
 - (a) Responses have been collated based on the reporting tier to which they relate.
 - (b) Responses have been split into general information and specific information.
 - (c) Additional comments provided by respondents have also been included.

General views on the Simple Format Reporting Standards

12. This section summarises the feedback received on the following question from the RFI:

1. *What is your overall view on how the standards are working?*

13. This section also summarises the feedback received on the general information questions in the survey in which respondents were asked to rate how much they agreed with the following statements.

² 93 responses were received to the survey in total however 28 of these responses were unusable and have been removed from the analysis

<i>Tier 3 / Tier 4 performance reports provide the right kind of information</i>
<i>The Tier 3 / Tier 4 standard covers everything it needs to</i>
<i>Preparing our performance report helps others to better understand our organisation</i>
<i>The costs of using the Tier 3 / Tier 4 standard are about what we expected</i>
<i>The Tier 3 / Tier 4 standard is easy to understand and use</i>
<i>The Tier 3 / Tier 4 template is easy to understand and use</i>

High-level summary of responses

14. 28 of the 36 written respondents provided general views in response to the above RFI question. In summary:
 - (a) Most respondents consider that the Simple Format Reporting Standards are working well overall.
 - (b) Many respondents note that there are ongoing compliance issues among Tier 4 not-for-profit entities. These respondents support reducing the length and complexity of the Tier 4 standard to help address this.
 - (c) A few respondents do not consider the Tier 4 standard should be simplified any further.
 - (d) Some respondents consider the XRB should take on a more educative role in relation to these standards.
 - (e) A few respondents do not consider the Simple Format Reporting Standards are currently working for Māori entities.
 - (f) A few respondents had mixed views about the appropriateness of retaining a cash-based standard.

15. The 41 Tier 3 and 27 Tier 4 online survey respondents generally agreed with the above statements. Those that disagreed raised concerns around the length and complexity of the standards and the reports produced in accordance with these standards.

Themes from specific feedback on the Simple Format Reporting Standards

16. This section summarises themes arising from responses to the following RFI questions.

2. *What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?*

3. *Are there any specific issues that you have encountered in applying the standards, guidance, or templates?*

17. This section also summarises the feedback received on the general information questions in the survey in which respondents were asked to identify specific parts of the standards, guidance, or templates which were working well or creating issues for them.

High-level summary of responses

18. 17 of the 36 written respondents provided a response to RFI question 2 above. All respondents provided a response to RFI question 3 above. Based on these responses the following specific themes or concerns were identified (noting whether these relate to Tier 3, Tier 4 or both):
- (a) Service performance reporting – Both tiers
 - (b) Asset valuation – Tier 3
 - (c) Minimum categories of income and expenditure – Both tiers
 - (d) Simplification of the optional reporting templates – Tier 4
 - (e) Revenue recognition – Tier 3
 - (f) Accumulated funds and reserves – Tier 3
 - (g) Cash flow – Tier 3
 - (h) Opting up – Tier 3
19. The 41 Tier 3 survey respondents reported the greatest difficulties with:
- (a) the statement of service performance; and
 - (b) the statement of cash flows.
20. The 27 Tier 4 survey respondents reported the greatest difficulties with:
- (a) the statement of resources and commitments; and
 - (b) the Tier 4 reporting template.

Detailed summary of general views

Written feedback

21. Most respondents provided comments on question 1 — *What is your overall view on how the standards are working?*
22. Table 3 below shows the high-level themes identified in the feedback received and the number of respondents who provided comments which fit into that theme. Most respondents provided comments which fit into more than one theme.

Table 3 – General feedback

Total number of respondents - 28	
Themes	Comments on individual themes
Working well	17
Useful	2
Not working well	1
Capability and understanding	15
Balance of cost and benefit	6
Education	6
Awareness	4
Cash-based standard	4
Te Ao Māori	3
Appropriateness for different types of NFPs	2

Working well, useful, and not working well

23. 60% of respondents commented that they considered the standards to be working well overall or that they were providing them with useful information.
24. One respondent did not consider that the standards were working well as they considered the information users are looking for is less readily available. The respondent also noted the information presented in accordance with the XRB Simple Format Reporting Standards is very different to what users are used to in small business.

Capability and understanding

25. Many respondents noted the increasing rate of non-compliance among Tier 4 not-for-profit entities and considered that the standard was difficult to apply. Their reasons for holding this view included.
 - (a) The Tier 4 standard and associated guidance is too long and complex for most Tier 4 not-for-profit entities .

- (b) The language used in the Tier 4 standard is too technical to be understood by non-accountants.
 - (c) It is still common for not-for-profit entities to view preparing their performance reports as simply a compliance exercise, rather than as an important part of managing their organisation and discharging accountability. One respondent suggested that this could be improved by making it easier for entities to follow through the entire thought process starting with XRB A1.
 - (d) Small not-for-profit entities find it difficult to attract and retain volunteers or staff who understand the reporting requirements (and are often under-resourced). There is a general lack of financial capability in the not-for-profit sector.
26. These respondents generally considered that our key focus should be to reduce the length and complexity of the Tier 4 standard and to simplify the language used. They considered this could be achieved without compromising transparency and accountability provided that the standards are focused on the key information required.
27. However, a few respondents considered that the current Tier 4 standard is appropriate given the accountabilities these entities owe to the public. These respondents also commented they could not see much scope for simplifying the requirements of the standard beyond what they are currently.

Awareness and education

28. Some respondents considered that part of the non-compliance was due to an ongoing lack of awareness of the standards in the sector. To address this concern and the previous concerns raised, some respondents considered that the XRB should take on a more educative role in relation to the Simple Format Reporting Standards.
29. These respondents specifically identified the work done in conjunction with Charities Services when the Simple Format Reporting Standards were first introduced. They indicated that while they would not necessarily expect any ongoing activity to be as significant, they consider similar activities would have a significant positive effect on awareness and understanding.

Cash-based standard

30. Some respondents questioned whether a cash-based standard was appropriate for small PBEs. Among these respondents, there were mixed views, including:
- (a) Charities Services considers that retaining a cash-based standard for Tier 4 entities is essential to encourage reporting in the not-for-profit sector (especially for smaller entities).
 - (b) Some respondents consider that there should not be a Tier 4 standard at all and applying Tier 3 to all smaller NFP PBEs would be simpler and ensure more consistency across the sector.

Te Ao Māori

31. A few respondents did not consider that the Simple Format Reporting Standards were working well from a Te Ao Māori perspective. These respondents noted.
- (a) The standards and associated guidance do not provide examples relevant to Māori entities.
 - (b) The standards do not include any Te Reo or encourage its use in preparing performance reports. One respondent noted that many entities he deals with would like to include more Te Reo in their performance reports but are unsure whether they are allowed to under the standards.
 - (c) The terminology and associated concepts in the standards are often not appropriate for entities with a Kaupapa Māori focus. Specific examples cited included Taonga and Koha which may conflict with the concepts of significance and donations in the standards. Difficulties with applying the concept of related parties in a marae context and determining the appropriate accounting treatment of Māori land were also raised.
32. Charities Services, CA ANZ, and CPA Australia recommend that we develop specific guidance and examples to address these issues and provide a template which includes Te Reo. CA ANZ and CPA Australia also recommend that we conduct more detailed outreach to identify other issues specific to Māori entities.

Appropriateness for different types of NFPs

33. Two respondents considered that the Simple Format Reporting Standards do not adequately accommodate different types of not-for-profit entities. They consider there to be an assumption that most entities are “doing” entities when many are “funding” entities. Specific concerns were raised with the requirement to prepare a statement of service performance for these “funding” entities.

Survey responses – Tier 3

34. Table 4 below summarises the responses to the general feedback questions in the online survey for the Tier 3 standard. Specific comments on each of these questions are discussed below. A full list of comments on each question are included in Appendix 1.

Table 4 – Tier 3 responses (general feedback)

Total Responses - 41	Strongly Agree	Agree	No opinion	Disagree	Strongly disagree
Tier 3 performance reports provide the right kind of information	17%	59%	12%	7%	5%
The Tier 3 standard covers everything it needs to	5%	68%	20%	5%	2%
Preparing our performance report helps others to better understand our organisation	17%	59%	12%	12%	0%
The costs of using the Tier 3 standard are about what we expected	7%	56%	27%	10%	0%
The Tier 3 standard is easy to understand and use	5%	68%	10%	17%	0%
The Tier 3 template is easy to understand and use	5%	51%	22%	22%	0%

35. Most respondents agreed or strongly agreed with the statements “Tier 3 performance reports provide the right kind of information” and “The Tier 3 standard covers everything it needs to”. These respondents generally considered that the Tier 3 standard provides:
- (a) the necessary information at an appropriate level of detail to enable Tier 3 entities to meet their transparency and accountability requirements;
 - (b) a clear structure for how entities should report; and
 - (c) a helpful framework for reporting non-financial information.
36. Respondents who disagreed with these statements raised concerns that the aggregation required in some parts of the standard had the effect of obscuring, rather than clarifying, meaningful information for some entities. These respondents considered the standards need to be more flexible to allow for meaningful reporting with one respondent quoting a charity which controls a trading business as an example.
37. One respondent did not consider that the standard provides information which would be understood by most end-users.
38. Another respondent considered that the reports were too complex for the average preparer.
39. Most respondents agreed or strongly agreed with the statement “preparing our performance report helps others to better understand our organisation”. These respondents generally considered that the inclusion of non-financial information was an important part of helping others to understand their entities. They also considered that having a standardised format

for performance reports is beneficial as it allows readers to become familiar with reading performance reports and therefore more able to identify meaningful information.

40. Respondents who disagreed with this statement did so primarily for practical reasons, noting a lack of consistency in practice and low quality of service performance information being reported. One respondent considered that performance reports were irrelevant to how well people understand their organisation.
41. Many respondents agreed with the statement “the costs of using the Tier 3 standard are about what we expected”. These respondents generally noted that after changing over from their previous reporting to the current standard, it is simple to prepare on an ongoing basis. However, several respondents noted that many entities still need to use a chartered accountant to prepare their reports which makes the process more costly.
42. Respondents who disagreed primarily commented about audit and/or review costs. While these do not necessarily reflect the cost of using the Tier 3 standard, we thought it was important to raise as many not-for-profits still have audit requirements in their founding documents.
43. Most respondents agree or strongly agree with the statement “The Tier 3 standard is easy to understand and use”. However, many respondents, regardless of whether they personally agreed or disagreed, stated or implied that it is easy to understand and use “for an accountant”. Based on the comments made it appears that there a general consensus that the standard would be difficult to apply for those without previous financial reporting experience.
44. Most respondents agree or strongly agree with the statement “The Tier 3 template is easy to understand and use”. These respondents generally considered that the template provides a useful starting point and ongoing reference tool.
45. Those who disagreed raised similar concerns to those raised in relation to the standard. They considered that the template requires previous accounting knowledge to complete. They also raised some practical concerns with the template.

Survey responses – Tier 4

46. Table 5 below summarises the responses to the general feedback questions in the survey for the Tier 4 standard. Specific comments made on each of these questions are discussed below. A full list of comments made in relation to each question is included in Appendix 2.

Table 5 – Tier 4 responses (general feedback)

Total Responses – 27	Strongly Agree	Agree	No opinion	Disagree	Strongly disagree
Tier 4 performance reports provide the right kind of information	4%	67%	11%	15%	4%
The Tier 4 standard covers everything it needs to	4%	56%	19%	19%	4%
Preparing our performance report helps others to better understand our organisation	7%	59%	22%	4%	7%
The costs of using the Tier 4 standard are about what we expected	0%	48%	37%	11%	4%
The Tier 4 standard is easy to understand and use	7%	56%	26%	11%	0%
The Tier 4 template is easy to understand and use	4%	48%	33%	7%	7%

47. Most respondents agree or strongly agree with the statements “Tier 4 performance reports provide the right kind of information” and “The Tier 4 standard covers everything it needs to”. These respondents generally considered that the Tier 4 standard:
- (a) provides the necessary information at an appropriate level of detail to enable Tier 4 entities to meet their transparency and accountability requirements;
 - (b) has an appropriate focus on non-financial information which makes the reports more relevant for users with non-accounting background; and
 - (c) is much easier to understand than accrual-based reports.
48. One respondent noted however that there is too much “boilerplate” practice among entities applying the Tier 4 standard and that parts of the statement of entity information are not useful for the primary users.
49. Respondents who disagreed with these statements had a general concern about the completeness of the information in performance reports prepared under a cash-based standard. These respondents generally thought the standard needed to provide a more complete picture of Tier 4 entities’ financial position. Some of these respondents would prefer

the Tier 4 standard to require reporting of specific accrual items such as accounts payable and accounts receivable.

50. One respondent noted they view the performance report as a compliance exercise only and that they did not consider it was of value to the organisation.
51. Many respondents agree or strongly agree with the statement “Preparing our performance report helps others to better understand our organisation”. These respondents generally considered that the inclusion of non-financial information was an important part of helping others to understand their entities and helped to highlight their achievements. They also considered that preparing their report on a cash-basis made their reports more clear, concise and understandable.
52. Respondents who disagreed with this statement did so for a variety of reasons, including the following.
 - (a) One respondent commented that they find it difficult to explain the performance report at their AGM, but agreed that entity and service performance information were useful.
 - (b) One respondent did not think many people outside their entity look at their performance report.
 - (c) One respondent noted that they find their internal reports far more useful than their performance report.
53. Many respondents agreed with the statement “The costs of using the Tier 4 standard are about what we expected”. A few of these respondents noted that they can complete the template themselves, one of these also noted they had previous experience and training. A few of these respondents noted that they still rely on chartered accountants to complete their performance report.
54. Many respondents either had no opinion on or disagreed with the statements. These respondents’ comments generally indicate that there was a significant time cost involved in preparing their performance reports.
 - (a) One respondent considered the standard has resulted in increased costs for no benefit to their organisation.
 - (b) One respondent noted that to complete their statement of resources and commitments they essentially need to prepare a full set of accrual accounts to ensure they are completely capturing all resources and commitments.
 - (c) One respondent noted that they did not expect the significant time investment in measuring their outputs which has put an increased burden on their volunteers.
55. Many respondents agree or strongly agree with the statement “The Tier 4 standard is easy to understand and use”. Some of these respondents noted that they found the standard easy to interpret and understand, that it was well written, and that all the answers they need are in the standard.

56. One respondent noted that while the standard may be easy to understand and use, the reports may not be of value, presumably to users.
57. Many respondents either had no opinion on or disagreed with this statement. These respondents provided a variety of comments.
- (a) One respondent who had no opinion noted that they consider the statement of resources and commitments to be accrual-based and inconsistent with the cash-based nature of the standard.
 - (b) One respondent who disagreed commented that the language and concepts are at the wrong level for most small not-for-profit entities to understand or relate to and is presented in a similar fashion to a Tier 1 standard. They suggested that it would be a significant improvement to have the standards rewritten by someone with experience in writing user documentation.
 - (c) One respondent who disagreed considers there is a large amount to read and understand in the Tier 4 standard.
58. Many respondents agree or strongly agree with the statement “the Tier 4 template is easy to understand and use”. No specific comments beyond this were made.
59. Many respondents either had no opinion on, or disagreed with, this statement.
- (a) One respondent who had no opinion noted that while it may be easy to use, the template is not well formatted to be readable by end users.
 - (b) Two respondents who disagreed considered the template is too complex for Tier 4 entities.
 - (c) A few respondents who disagreed noted that template is difficult and time consuming to operate and lacks flexibility.

Analysis of trends from the specific feedback

Written feedback

60. Many respondents provided comments on question 2 and all respondents provided comments on question 3. Table 6 below shows the eight themes on which more than five respondents commented. Some respondents provided comments in relation to a theme for both question 2 and question 3.

<p>2. <i>What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?</i></p> <p>3. <i>Are there any specific issues that you have encountered in applying the standards, guidance, or templates?</i></p>

Table 6 – Summary of written responses to question 2

Respondents to question 2	17		
Respondents to question 3	36		
Themes	Comments on individual themes		
Service performance	9	19	21
Assets	0	15	15
Minimum categories	3	12	15
Templates	8	10	15
Revenue recognition	0	13	13
Cash flow statement	1	6	7
Accumulated funds and reserves	0	7	7
Opting up for specific transactions	1	5	6

Service performance

61. The most feedback received was on service performance reporting, respondent's views were mixed about whether this part of the standard was working well.
62. The responses given in relation to question 2 indicate that service performance reporting is considered a useful part of the performance report and provides a more complete picture of the reporting entity than financial information alone.
63. Two respondents who had experience working with funders noted that the information provided in entities' statements of service performance served as a key input into their funding decisions. In some cases, this has reduced the number of points of contact before funds are able to be allocated.
64. The responses given in relation to question 3 primarily related to difficulties entities are having in selecting appropriate outputs. Respondents generally noted that entities appear to be selecting outputs based on what they can already measure or what they think will look the best as opposed to what would most faithfully represent the activities of the entity. Many of these respondents indicated that they would like more practical guidance on selecting outputs and illustrative examples of the types of outputs that may apply to different types of entities.
65. Some respondents also commented that many entities are having difficulty understanding what they are being asked to report in the statement of service performance. These respondents noted that entities find the terminology of outputs and outcomes confusing.

Assets

66. Many respondents made specific comments in relation to the requirements relating to assets in the Tier 3 standard. Almost all of these respondents raised concerns with the requirement in the Tier 3 standard to report assets at cost unless the entity opts to apply the Tier 2 standard. Most commonly this concern was raised in the context of investment properties and financial investments. These respondents would like the option to report investment assets at fair value included in the Tier 3 standard.

Minimum categories

67. Many respondents made specific comments in relation to the minimum categories for revenue/receipts and expenses/payments in the standards. Most of these respondents raised issues with the requirements. However, a few respondents did consider they were working well.
68. Among the respondents who raised issues with the minimum categories three main themes were identified.
- (a) Many considered that the standards are unclear about the degree to which disaggregation and relabelling of the minimum categories is permissible. They noted this is leading to diversity in practice with many entities essentially still presenting full lists of all expense lines based on their trial balance. They would like any intended limitations to be more clearly stated within the standards.
 - (b) Many considered that the specific categories required were inappropriate and do not do a good job of describing the activities of most entities. These respondents also considered that aggregation of some items has obscured important information. For example, some respondents considered that bequests, public donations, and government grants should be separated.
 - (c) Some raised issues with determining the appropriate category for particular items and considered that the guidance in the standard is too generic. They noted that this is leading to diversity in practice with entities categorising what are essentially the same transactions differently or simply putting anything they are unsure about into the “other” category. These respondents considered that this reduces the comparability and usefulness of the financial information provided by these entities.
69. Respondents who thought they were working well primarily expressed that they considered implementation of minimum categories to be a good idea which, if correctly applied, would have a positive effect on enhancing comparability between entities. One respondent did, however, concede that they did not think many charities were using them well.

Templates

70. Many respondents commented on the optional reporting templates made available on the XRB website. Overall feedback was mixed.

71. Respondents who thought they were working well generally considered that the templates provide a good framework that sets out what the minimum requirements are and a format for reporting which entities can build on. They also noted that these templates are widely used. Some of these respondents did however consider that the templates are quite long and complex which may be off-putting to small PBEs.
72. All respondents who raised issues with the templates considered that they needed to be simplified. While some respondents considered both the Tier 3 and Tier 4 templates needed to be simplified, these comments primarily related to the Tier 4 template. They considered that for the smaller Tier 4 charities with few transactions, the current template is excessive. They noted that it is not uncommon for a small Tier 4 entity to prepare a performance report using the template which consists of mostly incomplete template pages. Some respondents indicated that they would like to see more automation in the template and for it to be made easier to customise.

Revenue

73. Almost all respondents who raised issues with the requirements related to revenue recognition in the Tier 3 standard which only allows revenue from a grant to be deferred when there is a specific use or return condition.
74. Many respondents would like revenue deferral to be more widely permitted, noting that the current requirements are leading to large fluctuations in income when grants are given for multiple periods or capital projects. They also noted that this leads to large accumulated funds balances which, in some cases, is leading to entities being denied funding.
75. One funder noted that as a result of this issue, they have stopped giving out multi-year grants and will now only provide single year grants. They noted this places additional administrative burden on their applicants.

Cash flow statement

76. Some respondents commented on the statement of cash flows. In general, these respondents considered that entities were finding the statement of cash flows difficult to understand due to the technical language used. Respondents generally identified that entities struggled to understand the difference between capital and operating cash flows and the difference between investing and financing cash flows.
77. Charities Services considered that this statement was working well and is useful to them in assessing complaints made against registered charities.

Accumulated funds and reserves

78. Almost all comments on accumulated funds related to reporting of reserves. These respondents generally considered that more guidance is needed on reserves, particularly in relation to restricted reserves. They also considered there needs to be more clarity about the difference between reserves for accounting purposes and “operating reserves”.

79. Many of these respondents considered there should be a requirement in the Tier 3 standard for entities to disclose a reserves policy to provide greater transparency over entities’ reasons for accumulating resources, the purposes for which this is done, and any restrictions on those reserves.

Opting up

80. Some respondents commented on the option in the standards to opt up and apply the Tier 1 and 2 PBE standards for specific transactions or balances. All these respondents thought this option was helpful however almost all these respondents considered there was a need for more guidance on this topic. They did not consider the standards were clear about how this was done. A specific area where this presented challenge was for Tier 3 entities wanting to opt up to specific Tier 2 standards to fair value their investment assets.

Online survey responses – Tier 3

81. Table 7 below summarises the responses to the specific feedback questions in the survey for the Tier 3 standard. Respondents most frequently responded that the statement of service performance and statement of cash flows were the areas that were not working well. Specific comments from these respondents are discussed further below. Full comments have been included in Appendix 1.

Table 7 – Tier 3 survey responses – what is working well and not working well

	Working well	Not working well	No opinion
Entity Information	66%	2%	32%
Statement of Service Performance	39%	20%	41%
Statement of Financial Performance	61%	5%	34%
Statement of Financial Position	63%	5%	32%
Statement of Cash Flows	44%	12%	34%
Statement of Accounting Policies	49%	0%	51%
Notes to the Performance Report	59%	7%	34%
Tier 3 Guidance Notes	49%	5%	46%
Tier 3 Template	39%	0%	61%

82. Respondents who thought the Statement of Service Performance is not working well primarily gave feedback consistent with that received from the written responses. In general, respondents raised issues relating to selection of appropriate performance measures and what is required when reporting on outcomes.
83. Respondents who identified the statement of cash flows as not working well considered it to be “very time consuming and difficult” and “too much for smaller organisations”.

Survey responses – Tier 4

84. Table 8 below summarises the responses to the specific feedback questions in the survey for the Tier 4 standard. Respondents most frequently reported the statement of resources and commitments and the Tier 4 template as the areas that are not working well. Specific comments from these respondents will be discussed further below. Full comments are provided in Appendix 2.

Table 8 – Tier 4 survey responses – what is working well and not working well

	Working well	Not working well	No opinion
Entity Information	48%	7%	45%
Statement of Service Performance	44%	7%	49%
Statement of Receipts and Payments	41%	7%	52%
Statement of Resources and Commitments	33%	11%	56%
Notes to the Performance Report	44%	0%	56%
Tier 4 Guidance Notes	37%	4%	59%
Tier 4 Template	30%	19%	51%

85. No specific comments were made by respondents who considered the Statement of Resources and Commitments was not working well.

86. Respondents who considered the Tier 4 template is not working well generally considered that the Tier 4 template is too complex for very small entities and needs to be simplified.

Appendix 1 – Tier 3 survey responses received (as provided, unedited)

Tier 3 performance reports provide the right kind of information
Strongly Agree
Although the T3 reporting standard itself is a bit light on some aspects, it does provide a good basic disclosure that is (mostly) understandable by lay people.
It allows scope for organisations to include narrative about their work as well as financials
It gives more outline to a financial report
Using generally accepted accounting principles but with a couple of appreciated pragmatic exceptions. Enabling clarity and comparability. Having an overriding principle of cost shouldn't outweigh benefit in standard setting is appreciated.
Agree
Consistent, high level and to the point information. stops people getting bogged down in minutiae
I like they are a standard format. I like there is one standard as opposed to Tier 1-2 where there are multiple to consider. But for some of my clients it is just too much information on too many pages. Their eyes glaze over after the first page of figures and expecting them to read the Notes is just not realistic
includes statement of service performance, and provides for consistency by categories of expenses
It has everything that you need to report on. No figures are missing so this is very transparent
It is appropriate to the level
On the whole the reports provide all the suitable information necessary for transparent charities & not for profits
Statement of Service Performance provides an opportunity to talk about what really drives an NFP and motivates its members or volunteers, which isn't the financial information.
The cashflow statement and SSP give enough information to lay persons to get an idea of how the organisation has operated.
We can be as detailed or as simple as we want based on the template. Easy enough to add in extra disclosures if we deemed it important
We previously complied with NZ GAAP and qualified for differential reporting in preparing our accounts and the reporting requirements under tier 3 are similar. The added value to our members, (which comprise four incorporated societies) of the requirement to include Entity Information, Service Performance Reports and Statement of Cash Flows, is questionable.
Disagree
As a funder we are interested in what other foundations / funders have provided significant donations. So would like charities to detail the major grants received in the notes. So not one figure of \$100k but \$50k from xyz Foundation, \$25k from gaming trust. \$25k various
I believe the reporting standard obscures information rather than clarifies. so we always publish a more traditional set of accounts as well which many find clarifying

Tier 3 performance reports provide the right kind of information
Too complex. Our previous auditor stopped doing not-for-profit accounts because of this
Strongly disagree
We find that some auditors require strict adherence to the templates, resulting in financial statements which provide little meaningful information, particularly where the charity operates a trading business. More flexibility should be allowed, to enable financial statements to be prepared in a more traditional layout; but with the proviso that all required information is still included. If this flexibility already exists within the standards, it would be helpful if that could be communicated strongly to auditing firms. 2) The statement of cash flows is far too summarised, adding nothing to the reported financial information. The idea may have been sound, but the i is that they simply add compliance cost to the charity for no gain. This dinosaur report has no place in the 21st century!
The information is not designed for an end user to understand.

The Tier 3 standard covers everything it needs to
Strongly Agree
Yes, it covers just about everything relevant to organisations of this size. The areas where it is a bit vague are whether independent contractors ought to be reported into employee expense line and what to do with a construction work in progress situation, e.g. church being rebuilt. Treat as W>I>P> current asset until completion? One client is a golf club and their improvements to bunkers etc., being land are very tricky on the capex vs R&M question
Agree
Didn't really change anything from what we previously doing apart from the service performance information. We already had good detailed reports
I haven't come up against anything that wasn't covered.
In my role as qualified auditor, I find that - on the whole - the organisations/ accountants do know what is required - this has improved through auditor involvement since the standard was introduced. Although with any changes to the standard and or audit regulations - such as the SSP/accounting estimates there is significant work required by the auditor to establish new audit programmes, which may or may not be understood by either the organisation or the accounts, and can results in additional time/fees by the auditor, which are not always able to be re-cooped.
In our view, it covers more than it needs to as per the previous question.
It has everything that you need to report on. No figures are missing so this is very transparent
Some of the changes in requirements this year (COVID note re going concern for example) have not been widely circulated to preparers. Auditors also vary in their inclusion of questions in workpapers about this.
Usually we can't put everything into these reports we would like to
When I've had to refer to it I've found what I've been looking for
Yes, but too much eg unspent funds all the pages and pages of notes, etc. Far too complex for small organisations to do. I am no accountant.
Disagree
It merges information and therefore effectively hides some
To avoid fraud and abuse in the charities sector, it might be wise to require that the reporting organisation disclose the remuneration of the highest paid staff member, as well as the annual remuneration of any staff making over a certain high threshold (e.g. \$175,000). This practice is required of (Tier 3 and above equivalent) non-profit charities in the US, as part of the federal IRS Form 990 annual return. If required in New Zealand, it would allow the public to identify charities who might be paying executives more than a market rate, who might have a high staff remuneration to programmes and service delivery ratio, and what charities might be less legitimate than their name and mission implies.
Strongly disagree
The categories are too general and you don't really understand how a charity operates.

Preparing our performance report helps others to better understand our organisation
Strongly Agree
Informal feedback indicates this is the most valuable part of the report to the majority of readers.
Narrative and outputs rather than just financials
While there is a lack of consolidation by many that should be, the performance reports generally give a good indication of what is happening.
Agree
A standardised report allows others to become familiar with what a reader of the accounts expects to see
Agree with this. Readers can find out sources of income, qualitative metrics, assess financial stability and more. This is about what I would expect.
as above
I think the Tier 3 reporting is an excellent concept aimed at the middle ground between tiny and large. The same comments apply here as to Tier 4 regarding performance reporting: I don't think a lot of organisations have seen it as a positive so have taken a minimum compliance approach instead of using the annual report as a means of selling the idea of whatever it is that they do.
If people are looking at several organisations then they should start to be able to more easily compare results across organisations. The service statement that is provided definitely adds more info than we previously gave which helps people understand what we are about more easily.
It can be difficult trying to compile non-financial information. People "doing the work" don't necessarily have the time or inclination to keep statistics or data for the purposes of completing the SSP, because they are too busy actually doing the work of the NFP.
It has everything that you need to report on. No figures are missing so this is very transparent. Others can understand it as it is not too technical.
Non-financial information is critical for other stakeholders of charities & not for profits
Simple and consistent. Many other formats have so much detailed information non accountants don't read them.
There is info for Africa
Yes, but I suspect the majority of people who want to know about an organisation are more attracted to the web videos and glossy photos of animals being rescued, children looking cute etc. than the annual performance report which lets be hones is mostly of interest and often only understood by accountant type minds!
Disagree
It is mostly irrelevant to peoples' perceptions
See above
The information to spread out
The Statement of Service Performance could use more input from the very diverse charities sector, and some kind of adjustment or improvement. The requirement, above the larger Tier 3 organisations of auditing the SSP data is also a strange burden for many accountants/auditors who do not have complete knowledge of what is being reported there. As a reference for those who want to look up and learn about an organisation, it suits some of that

Preparing our performance report helps others to better understand our organisation
purpose. Perhaps an annual questionnaire (12-20 key questions) might better covering what the charity has accomplished, changes, operational concerns, service demographics, etc.
Whilst the idea is a good one in an effort to obtain a level of consistency across the industry, the preparation of these historical documents takes much time and effort, and the product quality can vary significantly depending upon whether or not a proper auditor and or accountant has been engaged for the task. Some reports in the charities register are very poorly done and in fact contravene the legislative requirements of the accounting standards, thereby negating the original purpose of consistency and understandability that was proposed.

The costs of using the Tier 3 standard are about what we expected
Agree
\$51.11 is a small price to pay in comparison to having a software package for accounting purposes
I am contracted to provide the service so the organisation knows in advance what it will be paying to have the accounts prepared.
I have not seen this as a cost barrier for any client. That said there are still many CAs in public practice who have little or no exposure to the standard simply because they only have less than a handful of NFP clients
Increasing audit work year on year is increasing audit costs.
Not much extra involved and it is all done by volunteers anyway so no monetary cost.
Once people got past the changes, the format is very simple to prepare and not too onerous
Our clients still require a Chartered Accountant to prepare their Performance report
The need to prepare and have audited the Entity Information, Service Performance Report and Statement of Cash Flows has added, in our view unnecessarily, to the cost of our audit. This leads to members questioning to need for the accounts to be audited, although it is currently a constitutional requirement. From our perspective, the need to prepare the three mentioned reports simply means more time is spent on preparing the accounts.
No opinion
Depending on the organisation, can be a bit costly at times, especially for orgs nearer the \$125k expenditure mark.
My organisation is below the full audit threshold, but we commission a formal annual audit anyway. Our independent auditors provide us with a fee reduction, so I do not actually know what market rates might be to provide both audit and Tier 3 reporting.
There is a range of costs involved, and if dis-aggregation of those costs is not adopted in the performance report, they remain hidden to the readers.
Disagree
Cost is greater particularly when a charity should use an Accountant to ensure the reporting is compliant
If the financial statements are subject to audit or review, the cost can be far too high for Tier 3 level charities - far too high - depending on how fussy the audit/review firm chooses to be. The reality is that it has become very difficult to find auditors who are prepared to do this work, meaning larger firms need to be engaged. A solution might be to increase the thresholds for review/audit.
In the first few years, it was definitely more expensive to prepare the annual performance report and have it audited or reviewed. There are ongoing costs to compiling information and completing the performance report which were not incurred under the previous regime. It all impacts on the bottom line and transfers resources from the "front line" to "compliance".
Strongly disagree
Costs more for Auditor/reviewer
Very expensive. Cost us \$3k now when it used to cost a few hundred dollars. We are not well resourced

The Tier 3 standard is easy to understand and use
Strongly Agree
However, non-accountants often don't understand it - even individuals who have been on Boards or have managed non-profits for many years rely on the preparer for understanding. They often don't understand what they are looking at, so aren't fulfilling their Board/management due diligence. As the accountant who prepares these reports for four organisations this is frustrating.
I am professional chartered accountant and qualified auditor with over twenty years' experience in auditing charities and schools, so I would say that they are easy to understand..... I am also a chairperson of a registered charity and understand that SSPs are not always understood as to how much detail is required and also the distinction of cashflow and accrual reporting. Many accountants prefer to "dump" the trial balance into the notes, which creates added audit work - with not always an opportunity to recognise the added fees.
Agree
Agree, but it could be formatted in a way that is easier to read and refer to.
Fine for accountants and those familiar with financial reporting, but probably difficult for those who were used to preparing cash accounts "on the back of an envelope". Charities Services and XRB have done a good job in trying to explain what is required to non-accountant treasurers, but it has probably still been a big leap in requirements for some people and entities.
Generally the answers can be found and do not require further consultation or review.
I was a chartered accountant so no issue for me to understand as I had prior knowledge
it is for me now that I have been doing it for four years but at the beginning, it was confusing and in some situations I need to ring and get clarity around like GST
Mostly yes. The other day I noted para A62 and A68 seemed in conflict on whether to journal in a value for donated goods and services received or not
There are no complex calculations or judgements to be made. The hardest thing for most to get their heads around is whether grants are donations/fundraising or for service provided.
Disagree
For an accountant yes. For the average treasurer of a charity, certainly not! But I don't see that anything can be done about that. Professionals like accountants and auditors will need to be involved in many cases.
I would wager that there are confusing parts, but I don't really live and breathe the standard.
It was eventually for me and I have been doing NFP accounts for over 20 years, but for those without an accounts background or ESOL volunteers it is complicated. It was much easier the way it was before. It takes at least twice as long to prepare financial reports now.
Its not easy for an end user to complete
The headings are easy to understand but the information is obscured
Yes for a trained Accountant. No for a Treasurer who isn't an Accountant.

The Tier 3 template is easy to understand and use
Strongly Agree
Excel spreadsheet that totally makes sense
I have repeatedly said how grateful I am the template was provided. THANK YOU
Agree
Albeit I'm not sure that some people appreciate this is a suggestion only and can be modified and improved upon. Very helpful that provided to get people started.
Best thing ever. Most of the thinking already done for me.
Excellent to refer to when necessary
Follows traditional reporting with the addition of the SSP
it is for me now that I have been doing it for four years but at the beginning, it was confusing
It is straight-forward in general terms, as there is an "A - Z" process to follow. You just fill in the cells where required.
It's a good resource and provides a good starting point. My preference is to use the model independently developed, which is a "sanitised" version and much more tidy for publication.
Overall the template works well but initially you have to reference the standard and guidelines to understand what is required and why it is required.
The online filing process, once the audit and Performance Report have been finalised, is fairly easy.
Yes, except for the formatting around the embedded page numbers and printing the final version.
No opinion
I do not like the template
Usually use the Xero template which is great.
Disagree
A lot of the cells are locked, which while they can be unlocked makes it a bit clunky
easy to understand but the technology makes the template difficult to use
Fine for accountants and those familiar with financial reporting, but probably difficult for those who were used to preparing cash accounts "on the back of an envelope". Charities Services and XRB have done a good job in trying to explain what is required to non-accountant treasurers, but it has probably still been a big leap in requirements for some people and entities.
Many entities from my observations use an accountant to format them for them, using standard programmes like MYOB or Xero to provide the format. This often means just running the accounts trial balance through the system along with a fixed assets register. The performance measures are then poorly completed, for the reasons set out above.
Need accounting knowledge to adequately complete

The Tier 3 template is easy to understand and use
The excel version is fairly easy to use but not liked by auditors/reviewers. The word version is difficult to use if you want to add long lists that exceed the parameters or remove sections. A simple word version that is easily amended would be much more useful

Statement of Service Performance
Difficulty in determining what to include in the SSP that can actually be measured and monitored. Despite the intention that the SSP is something that the Board, rather than the accountant prepares, it is almost impossible for the accountant not to end up being responsible for the non-financial aspects of the performance report. Because the majority of the performance report hinges on financial information, it is still seen as the accountant's responsibility for compliance, not the Board's.
Organisations understanding this
People are still focusing almost solely on the outputs. Outcomes are much harder to measure for various reasons. Many describe the desired outcomes without being able to verify them. It is no doubt beneficial for the organisations to at least be aware of the outcomes they are trying to achieve. It is often difficult to obtain the information from the client (also audit clients) but gradually as their understanding increases this is getting easier.
SSP quantities still not well understood by clients and can be difficult to prove the information. e.g. do I look at list of counselling client names and add them up to check number of clients?
Statement of Service Performance concentrates too much on outputs in the last financial year when in fact some of the issues facing the charity are to do with inputs or the outcomes may not occur until some time in the future. It does not adequately address issues arising from changes in social and economic circumstances. For example a charity may appear to be very busy with lots of output information but face future uncertainty over the level of support due to economic recession that gives rise to the activity. Also the lockdown due to Covid 19 meant that some activities were curtailed so it looks like outputs declined if comparing one year to another. The fact that only 12 months outputs are reported also means it is difficult to explain work done on long term activities that you need to plan years in advance and may not see the outcomes for some time. Unfortunately the current statement has become a list of activities with no explanation of why they were undertaken and how they impact the future.
Statement of Cash Flow
Very time consuming and difficult.
Although we use Xero & this is generated automatically - it seems too much for smaller organisations.

Appendix 2 – Tier 4 survey responses received (as provided, unedited) Tier 4 performance reports provide the right kind of information
Strongly agree
The information provides quite a lot of data about the organisation, regardless of the fact that it is small. Most people are literate with spreadsheets these days, and the format used and types of disclosures required easily fits into a spreadsheet format. The financial information is simply defined and conceptually simple- receipts and payments, analysed into quite broad basic descriptions.
Agree
I consider that the level of performance and financial information currently required sufficiently illustrates and adequately covers the expected outcomes of the organisations that I represent.
A greater overview than just the numbers
But it would be helpful to make sure the needs of funders are catered for, because if funders are requiring separate reports, it defeats the purpose of the comprehensive financial reporting requirements for registered charities and adds unfairly to the compliance burden. There should be an ability to "report once, use often"
For those organisation who use it, it fits the purpose, however the same information is required in Tier 3 so is rather a duplication.
Gives all the information we require
good emphasis on non-financial information with SSP and Entity info pages
I agree because it is all set out for me to copy onto the Charities Services format
I have run the draft reports under Tier 4 past a non-accounting board member, and her view was that it is much clearer and easier to understand than the hybrid accrual accounts that the society's professional accountant had been providing, which were basically, I think, the output of a standard accounting package. However, the standard requires too much boilerplate. Tier 4 statements are read by members of the society/organisation at an AGM. Outsiders have no interest in the report. General information about the organisation, its purpose and governance, is already known to the members (and if it is not, the financial report is not the place they would go looking for it).
Our client's responses to the Tier 4 reports have been very positive - they say they make much more sense from a non-accountants point of view
The optional outputs does give flexibility to tell more of an organisations 'story' but also allows for no information about events during that year as a downside for this part of reporting to being optional
They give a good overview of the organisations performance.
Yes all questions pertain to the business of the trust
Disagree
Cash basis doesn't give a full picture of the organisation's position.
For a very small club I find presenting the Tier 4 reports confusing for members with no accounting background. Due to the summarised formatting of the Receipts & Payments you have flip back and forward pages. I find the Statement of Resources and Commitments lacking in that it does include total of resources / commitments. Therefore not recording the entities equity.

Appendix 2 – Tier 4 survey responses received (as provided, unedited) Tier 4 performance reports provide the right kind of information
<p>I'm somewhat torn on this standard. At one level I think the concept of a very simple form of cash accounting to be very sensible. However I and others sometime struggle with the lack of a balance sheet. There is the related issue of this standard being used by entities with significant value of assets (millions) yet still qualify as tier 4 as low level of expenditure. Personally I find this inappropriate.</p>
<p>The template/standard is too restrictive and does not allow the disclosure of financial information in a meaningful way. Returning to a simple income-expenditure sheet and a balance sheet would allow more meaningful reporting.</p>
<p>Strongly disagree</p>
<p>It is of no value to us as an organisation, it is treated as a compliance requirement only</p>

The Tier 4 standard covers everything it needs to
Strongly agree
It gives plenty of non-financial information about the organisation and what it aims to do. The financial information required is in my view appropriately simple.
Agree
I can't think of anything that should be reported that is not covered.
It covers same as Tier 3, without all the accruals
It does, but could be improved.
Receipts & Payments reports covers all transactions of organization Resources & Commitments looks to the future of the organization Notes included Related Parties
Yes everything is explained clearly for either a yes/no or NA
Disagree
Accounts payable & receivable should be included.
As above, output being optional means events during the year or how the organisation is going can be hidden
See answer above re assets.
The discussion about GST is partly inconsistent between the standard and the template, and no=either of them really makes it clear how GST should be reported by GST-registered organisations. The reporting is different if the organisation reports exclusive or inclusive of GST, and both are different from a non-registered organisation. (Non-registered organisations should be required to report GST-inclusive: exclusive accounts make no conceptual or practical sense.)
There are many challenges not covered in historical records
Strongly disagree
We are not convinced anyone looks at it. We are very data driven with clear plans and strategic intent this reporting does not enhance our processes

Preparing our performance report helps others to better understand our organisation
Strongly agree
Accountability
Agree
Easily understandable, clear & concise
In kind is really what matters our many clients are benefit dependent, we only acquire funding to assist with resources like paper, ink & computer needs.
It allows for the provision of a reasonable summary of purpose and achievements.
It draws out aspects that are not necessarily seen from the perspective of people not seeing the report.
It is up to the organisation to select appropriate performance measures. The entity should see this as a marketing opportunity to the world at large, and refer to the performance report every time it seeks to persuade someone (to join, support its aims, donate money etc). The information should be readily understandable and hopefully concrete and measurable: I'm not sure all entities see it this way which is why I have marked it less than strongly agree.
Service performance reporting against the organisation's objectives is particularly useful, both for officers and for members. Apart from that, there is interest in the cash and liabilities position and in the major categories of revenue and expense. Cash accounting is easier to understand than accrual accounting for organisations that lack significant inventories or fixed assets.
Summary of what has happened
Disagree
I find it difficult to present to members at the AGM. I agree that the Entity Information and Statement of Service Performance add valuable information regarding the entity.
Strongly disagree
I'm unsure what "others" would see the report to better understand our organisation, it is not something the majority of people would even think to look at.
Our organisation internal reports are much more useful.

The costs of using the Tier 4 standard are about what we expected
Agree
i agree to the above with no particular reason other than a cost has to be paid and the rate is affordable
I manually create using template. More notification/requirement to use all parts of template would ensure better transparency and 'story' of an organisation to be seen
Our clients still require a Chartered Accountant to prepare their Performance report
We have implemented it with only volunteer time, but were fortunate that the treasurer (me) had previous experience and training.
No opinion
Measuring some outputs adds to workload for some volunteers. We were not expecting that. Most are as expected.
Disagree
Our associated accounting and financial reporting costs have gone up with no gain to the organisation. The justification to our small trust was the increased compliance costs.
Our experience with using a professional accountant to prepare the accounts was that he produced statements that were not really in the spirit of Tier 4 Cash reports, but were what he was used to in accounting for small businesses (and what his accounting package produced). In filing for the Charities Commission, he then had to restructure the report to fit the template. By re-implementing our accounting system in a spreadsheet, I have been able to produce proper Tier 4 reports, including service performance reporting, directly from the ledger table and other tables of data that we maintain anyway. There is thus no significant end-of-year work required.
We find that because the standard requires a Statement of Resources and Commitments which is really a Balance Sheet, we need to prepare accrual accounts for our charity clients in any case to ensure all resources and commitments are captured. And then prepare a stmt of cashflows as required. So it becomes more than our non-charity clients who are required by IRD for only P&L and Balance Sheet (no stmt of cashflows). For some Tier 4 qualifying charities we end up preparing based on Tier 3 as we end up doing full accrual accounting reports in any case to get an accurate Resources/Commitments stmt.
Strongly disagree
The cost is one of volunteer time. We prepare much better documentation and useful reports then spend time converting to Tier 4 standards for no reason other than to save time for civil servants.

The Tier 4 standard is easy to understand and use
Agree
Agree but the value of them is the issue
I have found it reasonably easy to interpret and understand.
Receipts and payments with reconciliation to the bank balance is simple.
well written
When I've had to refer to the standard I've found what I'm looking for
No opinion
AS an accountant i find having a Resource /Commitments (accrual based) and cashflow stmt without a P&L odd as there seems to be a gap in the info (accrual P&L missing).
It is what it is.
Disagree
The language and concepts are at the wrong level for most officers of tiny non-profits to understand or relate to. The Tier 4 standard is written in a style reminiscent of the Tier 1 standards. It would be a significant improvement to have them completely rewritten by a expert in writing user documentation, although this would be a major overhaul.
There is a large amount to read and understand. It is not easy but necessary.

The Tier 4 template is easy to understand and use
Strongly agree
found it fairly easy to use
Agree
biggest confusion/difficulty we find is in the interpretation over what is Govt Grant type income and what is Grants and Donations
Easy to follow
No issues for me.
No opinion
In coming to grips with the Tier 4 requirements, I started working with the template. However, although it is good at identifying the categories of information required, it is not formatted to be readable.
Disagree
It is not easy to use as all the previous year's information has to be shifted and retyped. Time consuming.
It has value as a reference to check understanding of the standard but is too complex to be labelled as easy to use.
The answer to this question depends on who is meant to understand and use the template. When asking questions on understanding documents the answer will always depend on the experience, education, and personality of the reader. For most people involved in Charities, the template is gobbledegook.
Strongly disagree
The basis of it is good, but tailoring the template to your own needs is not that easy and leads to over-standardisation of disclosures. This is the reason I developed our own excel-based template.
The template does not work in a satisfactory way and is difficult to understand how it is working and lacks flexibility

Tier 4 Template
Direct use of the template is too complex for our relatively straight forward organisation. It would produce a multipage document that would be too long for many people to read (and would use an unnecessary quantity of paper at the AGM). I/we produce a 4 page document that fulfils the requirements of the standard (I believe).
It does not work
It needs to be simplified - as discussed above, I prepared a set of financial statements for a tier 4 charity, which had about 5 transactions for the whole year, but nevertheless the report ran to some 12 pages.

Appendix 3 – List of formal submissions

Agenda item Number	Submitter
5.4	Audit New Zealand
5.5	Audit Professionals
5.6	Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia
5.7	Department of Internal Affairs – Charities Services
5.8	Community Capacity Accounting
5.9	David Walker
5.10	John Morrow (JBWere New Zealand)
5.11	Northern Masonic Association Trust Board
5.12	Paul Dunmore
5.13	Perpetual Guardian

PIR of the Tier 3 and Tier 4 Simple Format Reporting Standards

Summary of completed outreach activities

Key dates:

Request for Information (RFI) issued: 30 September 2020

Comment close date: 31 March 2021

Summarised as follows:

Table 1 [Targeted outreach activities](#)

Table 2 [Presentations/webinars](#)

Table 3 [Other communications](#)

Agenda Item 5.3

Table 1: Targeted outreach activities							
	Date	Staff	Type of outreach	Organisation/Group	Members/approx. reach	Met with	Notes
1	30 Oct 2020	LK	Phone call	National Maori Accountants Network	Unknown client base	Chair Elizabeth Richards	Provided with comms to push out to small practitioners group
2	6 Nov 2020	LK/JC	Virtual meeting	Volunteering NZ	90 national bodies (70-80 clubs under each) 17 regional volunteer services (50-200 members)	CE Michelle Kitney	Will conduct own outreach and submit on behalf of members Provided with comms to push out to members
3	11 Nov 2020	JC	Virtual meeting	Community Networks Aotearoa	48 community network organisations	CE Ros Rice	Already pushed out comms to members Shared preliminary views
4	17 Nov 2020	LK/JC	Virtual meeting	Presbyterian Church	450 churches	CFO Sandra Kennerley	Shared feedback (including challenges of consolidation) Provided with comms
5	19 Nov 2020	JC	In-person meeting	CA ANZ Maori resource development group	Unknown client base	Talia Tiori Anderson-Town (Silks) Cameron Town (Silks) Solomon Dalton (BDO)	Have Marae and iwi related clients Shared feedback, they plan to pull together submission
6	24 Nov 2020	LK/JC	Virtual meeting	Rata Foundation (Funder)	80% of funding to Tier 4 entities	CE Leighton Evans	Shared feedback
7	25 Nov 2020	LK/JC	Virtual meeting	Community Foundations NZ (Funder)	17 community foundations in NZ	Executive Director Eleanor Cater	Provided with comms for 17 community foundation and also comms to push out to charities they fund

Agenda Item 5.3

Table 1: Targeted outreach activities							
	Date	Staff	Type of outreach	Organisation/Group	Members/approx. reach	Met with	Notes
8	25 Nov 2020	LK/JC	Virtual meeting	Foundation North	Fund over 650 organisations	Liam Sheridan CFO and Craig Innes (Accountant)	Shared feedback Provided comms to push out to members
9	26 Nov 2020	JC	In-person meeting	National Collective of Independent Womens' Refuges	40 separate organisations in NZ	CEO Ang Jury	Preliminary feedback Provided with comms to push out to members
10	1 Dec 2020	LK/JC	In-person meeting	Charities Services	100 approx in attendance, streamed live via Facebook	Various	Attended annual meeting, had informal chats with those in attendance. Not a high attendance rate this year. Was also on facebook live.
11	1 Dec 2020	LK/JC	In-person meeting	Methodist Church	100, majority in Tier 3 and Tier 4	Peter Van Holt	Provided high level feedback Will be providing a submission
12	2 Dec 2020	LK/JC	In-person meeting	OAG NZ	233 public entities in Tier 3 and Tier 4	Todd Beardsworth, Lay Wee Ng and Sara Moonlight	Contact details for SOLGM, Fish & Game Councils and REAP Aotearoa, data list of 233 audited entities
13	2 Dec2020	LK/JC	Virtual roundtable	Accounting and Auditing providers	9 Unknown client base	9 partners from mid-size firms	Shared feedback
14	9 Dec 2020	LK/JC	Virtual meeting	Audit NZ	Audit 233 public entities	Brett story	Shared feedback
15	9 Dec 2020	LK/JC	Virtual meeting	DV Bryant Trust (Funder)	Fund a lot of smaller charities	CFO Karlene Verryt	Shared feedback (transitioned from Tier 3 to Tier 2)
16	19 Jan 2021	LK/JC	Virtual meeting	IRD (Users)	2	Stewart Donaldson, Senior Policy Advisor; Annette Stenberg, Customer	Shared feedback

Agenda Item 5.3

Table 1: Targeted outreach activities							
	Date	Staff	Type of outreach	Organisation/Group	Members/approx. reach	Met with	Notes
						Compliance Specialist	
17	19 Jan 2021	LK/JC	Virtual meeting	Bellyful New Zealand Tier 3 Charity (Preparer)	3	Wendy Thompson – General Manager Leigh Cooke – Accountant Aruna Hill – Finance Officer	Winner of CA ANZ reporting awards Shared feedback
18	26 Jan 2021	LK/JC	Virtual Roundtable	Academics	3	Cherrie Yang AUT Nives Botica-Redmayne Massey University Yimei Man University of Otago	Shared feedback Cherrie shared preliminary results from research in pacific island charities
19	22 Feb 2021	AH/LK/JC	KPMG		3		
20	25 Feb 2021	LK/JC	Virtual meeting	AGNIU Accounting Limited	2	Agnes Masoe Director Assistant accountant Nikki Phillips	Shared feedback from Pacific Island Charities
21	25 Feb 2021	LK	Direct email	Funders	7		Direct email to list of large funders
22	3 Mar 2021	LK/JC	Virtual meeting		1	Julia Fink	Julia was the accountant for Charities Services as was very involved with helping Charities implement the Tier 3 and Tier 4 Standards. She shared her insights with us.

Agenda Item 5.3

Table 1: Targeted outreach activities							
	Date	Staff	Type of outreach	Organisation/Group	Members/approx. reach	Met with	Notes
23	4 Mar 2021	LK/JC	Virtual meeting	BDO	1	Natalie Tyndall Accounting TRG member	Natalie shared feedback received from BDO network
24		LK	Direct email	Community accounting groups			
25	4 Mar 2021	LK	Direct email	Previous submitters/contributors	26		Direct email to
26	5 Mar 2021	LK	Direct email	National Maori Accountants Network – small practitioners group			Invitation to attend our webinar
27	8 Mar 2021	LK/JC	Virtual meeting	Ruth Sio-Lokam	Client base not known		Shared feedback from Pacific Island Charities
28	8 Mar 2021	LK/JC	Virtual meeting	Louise Edwards Former CEO Rata Foundation Head judge CA ANZ Charity awards CA ANZ Trans-Tasman NFP Advisory Panel			Shared feedback
29	10 Mar 2021	LK/JC	Virtual meeting	NZICA Practice review		Paul Selwyn Smith	Shared feedback
30	16 Mar 2021	LK/JC	Virtual meeting	Expressions Whirinaki Arts and Entertainment Centre		Leanne Wickham Director	Public Sector Tier 3 Entity Shared feedback

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Table 2: Presentations/webinars					
#	Date	Staff	Type	Organisation	Approx. attendees
1	27 Oct 2020	JC/JP	Live Presentation	Interchurch bureau	16
2	3 Nov 2020	JC	Webinar – Overview of Tier 4 reporting JC presented at end of Webinar on the PIR	Charities Services	500
3	4 Nov 2020	AH/JC	Virtual presentation	Charity Law, Accounting and regulation Conference	100-110 approx
4	11 Feb 2021	JC/LK	Live Presentation	Joint Board meeting of NZAuASB and NZASB	35-40
5	26 Feb 2021	AH	Virtual Webinar	CAANZ – Anthony from XRB and Alyssa from Charities services	214 Recording to 360 who registered
6	4 March 2021	AH/JC	Virtual Webinar	CPA	125 Recording to 206 who registered
7	10 March 2021	JC/LK	Virtual Webinar/roundtable discussions	Hui E	20 30 registered
8	11 March 2021	AH/LK	Virtual Webinar	XRB/Charities Services	78 119 registered

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Table 3 : Communications				
<i>Creating awareness of the post-implementation review and the various ways for constituents to provide feedback</i>				
#	Date	Who	Chanel	Content of Comms
1	28 Sept 20	XRB	XRB Website	Separate page created on website All content for the PIR was published on the website including one-page summaries
2	28 Sept 2020	XRB	Not-for-profit Update Issue 5 Newsletter	PIR T3 and T4, what is a PIR ,how comment PIR only topic in newsletter
3	6 Oct 2020	CA ANZ	Newsletter Edition 19 Reporting and Assurance News	Publicising PIR and advising members how to make comments
4	6 Oct 2020	CPA	Member Newsletter CPA Update	Publicising PIR and advising members how to make comments
5	8 Oct 2020	XRB	Newsletter NZASB Update 19/2020	Headline article
6	8 Oct 2020	Charities Services	Newsletter Charities Services Newsletter- October 2020	Included XRB content on PIR
7	20 Oct 2020	XRB	LinkedIn Post	General post for both NFP and PS
8	22 Oct 2020	XRB	LinkedIn Post	Post for NFPs – pushing survey
9	30 Oct 2020	XRB	Newsletter NZASB Update 20/2020	Included in the “have your say” section of update
10	30 Oct 2020	BDO	Newsletter BDO Accounting Alert October 2020	Publicising PIR and advising clients how to make comments
11	11 Nov 2020	Community Networks Aotearoa	Newsletter Website	They pushed comms out to members

Table 3 : Communications				
<i>Creating awareness of the post-implementation review and the various ways for constituents to provide feedback</i>				
#	Date	Who	Chanel	Content of Comms
12	13 Nov 2020	XRB	Newsletter NZASB Update 21/2020	Included in the “have your say” section of update
13	18 Nov 2020	Volunteering NZ	Newsletter	Included infographic on XRB relationship to charities services Also information about PIR and how to comment
14	26 Nov 2020	Charities Services	Facebook Page	Link to survey
15	14 Dec 2020	XRB	Newsletter NZASB Update 22/2020	Included in the “have your say” section of update
16	22 Dec 2020	XRB	Newsletter NZASB Update 23/2020	Included in the “have your say” section of update
17	22 Dec 2020	XRB	Not-for-profit Update Issue 6 Newsletter	Two topics: FAQs for Tier 3 and Tier 4 NFPs – changing your Tier PIR
18	21 Jan 2021	SOLGM	Newsletter	Information about PIR and how to comment local government finance managers and directors
19	29 Jan 2021	CPA	Member Newsletter	Information about PIR and how to comment
20	5 Feb 2021	XRB	Website	PIR moved onto home page
21	9 Feb 2021	XRB	Newsletter NZASB Update 1/2021	Included in the “have your say” section of update
22	10 Feb 2021	XRB	LinkedIn	Only a few weeks left to have your say – complete our online survey
23	15 Feb 2021	CA ANZ	Perspective Article	Information on the PIR and how to comment
24	17 Feb 2021	XRB	LinkedIn	Post to Funders – are the reports meeting funders user needs

Table 3 : Communications				
<i>Creating awareness of the post-implementation review and the various ways for constituents to provide feedback</i>				
#	Date	Who	Chanel	Content of Comms
25	19 Feb 2021	XRB	Newsletter NZASB Update 3/2021	Included in the “have your say” section of update
26	24 Feb 2021	XRB	LinkedIn	Shared CA ANZ Sharing Knowledge Series Event – opportunity to hear from Director of Accounting Standards Anthony Heffernan.
27	25 Feb 2021	Charities Services	Charities Services Newsletter – February 2021	Promoted the joint XRB and Charities Services Webinar
28	26 Feb 2021	XRB	Not-for-profit Update Issue 7 Newsletter	Promoted the joint XRB and Charities Services Webinar
29	1 March 2021	Charities Services	Guest Blog Post	Reinforce that the guidance notes and reporting templates are also open for comment
30	2 Mar 2021	CA ANZ	Reporting and Assurance New Edition 03	Included in the ‘spotlight’ section Information about PIR and how to comment
31	3 Mar 2021	Charities Services	Facebook post	Promoted the joint XRB and Charities Services Webinar
32	3 Mar 2021	XRB	LinkedIn post	Promoted the joint XRB and Charities Services Webinar
33	3 Mar 2021	Hui E	Newsletter	Promoting event with Hui E to get feedback on the standards
34	24 March 2021	XRB	LinkedIn post	Survey closes soon – calling for views
35	25 March 2021	XRB	Newsletter NZASB Update 5/2021	Article and reminder closing 31 March 2021

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12 April 2021

Level 2, 100 Molesworth Street
Thorndon
PO Box 99, Wellington 6140

External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142
New Zealand

Submitted to: submissions@xrb.govt.nz

Request for information – Simple Format Reporting Standards – Post Implementation Review

We appreciate the opportunity to provide comments to the New Zealand Accounting Standards Board on the *Request for information – Simple Format Reporting Standards – Post Implementation Review*.

Our comments in this submission are in the context of the Public Sector Simple Format Reporting Standards.

Overall, we believe the simple format reporting standards are generally working well. We have outlined in our submission some areas of concern, and where improvements or clarifications to the standards would be beneficial to their users.

Our responses to the Questions for Respondents are attached.

In preparing this submission, we have consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss our comments, please phone me on 021 222 6107 or email me at robert.cox@auditnz.parliament.nz or Brett Story on 021 222 6247 or at brett.story@auditnz.parliament.nz.

Yours sincerely



Robert Cox
Director and Head of Accounting

Our responses to the questions for respondents:

1. What is your overall view on how the standards are working?

Overall, we believe the standards are generally working well in the public sector. We have outlined in question 3 below and in the appendix to this submission some areas of concern, and where improvements or clarifications to the standards would be beneficial to their users.

2. What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?

No comment to add.

3. Are there any specific issues that you have encountered in applying the standards, guidance, or templates?

We have identified some issues in applying the standards.

Our main areas of concern are:

- The Tier 3 standard includes multiple revenue examples of recording some revenue types using cash accounting. This conflicts with the principle of paragraph A64 of recognising revenue upon the occurrence of a recognition event, which is when there is a legal right to receive cash now or in the future. Our view is all revenue types must be accounted for based on accrual accounting concepts to comply with paragraph A64 and to be consistent with the fact that the standard is an accruals standard.
- The Tier 4 standard requires disclosures of information about significant resources and commitments. We have been concerned that this disclosure requires working capital items, such as inventories, receivables and payables, to be determined and disclosed. We consider working capital items should be outside the scope of these disclosures as the standard is a cash standard.
- The Tier 3 and 4 standards sometimes include disclosure requirements that Tier 2 entities are not required to make. Our view is there should be a general principle in developing these standards that disclosures should not be any greater than those required by Tier 2 entities.

We have outlined our detailed comments in the appendix to this submission.

4. Have you developed any custom guidance to help apply the standards?

Yes, we have developed:

- a model set of financial statements for a Tier 3 entity (based on a Trust that is council-controlled organisation);
- an excel template for cemeteries that apply the Tier 4 standard; and
- an excel template for reserve boards and administering bodies that apply the Tier 4 standard.

The model and excel templates are available on our website at the following link:

<https://auditnz.parliament.nz/good-practice/mfs-under-pbe-standards>

5. Do you have any other comments you would like to raise about the standards, guidance, or templates?

Refer to our detailed comments in the appendix to this submission.

Appendix – Detailed comments on application of the simple format reporting standards

Tier 3 Simple Format Reporting Standard

Paragraph reference	Comment
<i>Application of PBE Standards</i>	
7	The reference to the financial instrument standards should also refer to PBE IPSAS 41 <i>Financial Instruments</i> .
<i>Entity information</i>	
A40	<p>Consistent with our comments on paragraphs A44 to A47 below (statement of service performance), we suggest that a more plain English terminology be used and the reference to “outputs” be removed. We consider the requirement in PBE IPSAS 1 paragraph 150(b) may be easier for tier 3 and 4 entities to understand and apply: “a description of the nature of the entity’s operations and principal activities”.</p> <p>However, we also note that the PBE IPSAS 1.150(b) has a disclosure concession for tier 2 entities. Whether this disclosure concession is appropriate could be debated, but it exists. Therefore, the options we suggest for consideration are either to delete paragraph A40 as it is more onerous than the disclosure requirements applying to tier 2 entities or alternatively to change the language of the requirement to make it easier for small entities to understand by aligning with PBE IPSAS.150(b).</p>
<i>Statement of Service Performance</i>	
A42	This paragraph needs to be amended and be clear that this part of the Tier 3 standard only applies to entities that are required by legislation to provide a SSP <u>in accordance with generally accepted accounting practice (GAAP)</u> . This will then align with practice and the scope of PBE FRS-48 where Tier 1 and 2 public sector PBEs only apply PBE FRS-48 if legislation requires the service performance information to comply with GAAP (PBE FRS-48 paragraph 3(b)).
A44 to A47	Since the tier 3 and 4 standards were issued FRS-48 on service performance reporting has been issued for tier 1 and 2 entities. FRS-48 has taken a broader view of service performance and uses straightforward language (e.g. paragraph 15) and does not explicitly require the use of an outcomes and outputs framework. The NZ ASB’s decisions to remove the use of the terms outcomes and outputs from FRS-48 are explained in the basis for conclusions (BC26 to BC28). We suggest that the SSP requirements of the tier 3 and 4 standards be reviewed to see if they can be more aligned with the high-level principles in FRS-48.
<i>Statement of financial performance</i>	

Paragraph reference	Comment
A64, A65, A69	<p>The principle in para A64 is to recognise revenue upon the occurrence of a recognition event, which is when there is a legal right to receive cash now or in the future i.e on an accrual basis.</p> <p>Some of the examples in the table are not consistent with this principle as they state revenue is recognised on receipt or when funding or cash is received. For example, this is the case for general funding from government, donations and grants with no use or return conditions, including grants for current operations and capital grants.</p> <p>Some other examples also state that revenue is recorded when the funding is received, implying cash accounting. For example, this is the case for general funding from central or local government.</p> <p>Our view is the accounting for revenue, including all the examples paragraphs A64 and A65 must be accrual's based as the Tier 3 standard is an accrual's standard.</p>
A64	<p>Other fees and charges category – The guidance needs to be clearer on “on-going benefits” for registration fees. It is unclear from the current wording whether it is the entity providing on-going benefits to the registrant that is the determining factor for revenue recognition or whether it is the registrant receiving on-going benefits from the registration. We would expect the key determinant for revenue recognition is whether the registry body has an obligation to provide on-going benefits to the applicant.</p>
A82	<p>We recommend the reference to “entitlement” in recording wages, salaries and leave upon entitlement be removed as it suggests only vested annual leave (i.e entitled annual leave up to the last anniversary date) is recorded and not accrued annual leave (i.e. annual leave accrued since the last anniversary date).</p> <p>It would be helpful to include long-service leave and retiring leave as an example of recording a staff expense upon entitlement to the leave entitlement i.e. when the entitlement vests for the employee.</p>
Statement of financial position	

Paragraph reference	Comment
A116	<p>It would be helpful if guidance was provided on how an entity presents revaluation movements when it opts up to PBE IPSAS 17 to revalue land and/or buildings given there is no other comprehensive revenue and expense concept or statement of changes in equity in the Tier 3 standard. We note para A116 states that the entity only applies the relevant requirements of PBE IPSAS 17 when revaluing.</p> <p>Our view is the movement should be credited directly to a revaluation reserve in the statement of financial position, with a required disclosure on the movement in the reserve balance for the year provided in the notes. Guidance would also be required on when to recognise valuation movements in the surplus/deficit, such as when the revaluation reserve for the class of revalued assets becomes exhausted. We do not support Tier 3 entities preparing a statement of comprehensive revenue and expense simply because they have opted up to the revaluation aspects of PBE IPSAS 17.</p> <p>We note the same issue arises if an entity elects to opt to the Tier 1 and 2 standards for financial instruments and under those standards some instruments are measured at fair value with movements recorded in other comprehensive revenue and expense (e.g for those instruments classified as available-for-sale).</p>
Notes to the performance report	
A200	<p>Our strong view is the scope of the commitment disclosures needs reducing to align with those required by the Tier 2 requirements. At present, the Tier 3 standard requires commitment disclosures for all significant operating commitments. This is significantly wider and more onerous than the Tier 1 and 2 operating commitment disclosure requirements, which generally only apply to operating leases.</p>
Illustrative examples	
Example 1	<p>The difference in the revenue recognition points for scenarios 2 and 3 are unclear. In both scenarios, the Fish and Game Council and the Registration Board are providing a right to the applicant but the entities are not required to provide any additional services to the applicant beyond the issuance of the license/registration. Based on the scenario information provided and guidance in the standard, we would expect the revenue for the Fish and Game Council to be recognised up front and not spread over the license period.</p> <p>Additionally, Scenario 3 says revenue is accounted for when the fees are received, which implies when the cash is received. This is not consistent with para A64 where other fees and charges are recorded as revenue when the fee is due to be received.</p>

Tier 4 Simple Format Reporting Standard

Paragraph reference	Comment
A28	Our comment about paragraph A40 of the tier 3 standard applies here too.
A30	<p>This paragraph needs to be amended and be clear that this part of the Tier 4 standard only applies to entities that are required by legislation to provide a SSP <u>in accordance with generally accepted accounting practice (GAAP) or non-GAAP standard</u>. This will then align with practice and the scope of PBE FRS-48 where Tier 1 and 2 public sector PBEs only apply PBE FRS-48 if legislation requires the service performance information to comply with GAAP.</p> <p>We note that we are not currently aware of any public sector tier 4 entities that are required to produce a statement of service performance. However, we see no harm in retaining the service performance requirements in the tier 4 standard as this will future proof the standard for any future changes in reporting requirements. Note Reserve Boards previously were required to produce a statement of service performance, but this requirement was removed by the Public Finance Amendment Act 2013.</p>
A32 to A36	Our comment about paragraphs A44 to A47 of the tier 3 standard applies here too.
A79	<p>This paragraph requires entities to disclose the nature and amount of significant resources and commitments of the entity. It is unclear on what is mean by “amount” of significant resources and commitments. Is it intended to be a monetary amount or a physical amount, or some other basis? If it is monetary amount, how should this be determined?</p> <p>Our view is this disclosure should only require a qualitative description of the resource (e.g land and buildings located at [xx]). Quantitative information should only be optional e.g. rateable value of land and buildings or number of livestock units.</p>
A80-81	We have been concerned that this disclosure suggests working capital items require disclosure. We consider working capital items should be outside the scope of these disclosures as the accounts are a cash set of accounts. Requiring such information is inappropriately forcing accrual concepts onto preparers and auditors.

The Manager
Technical Accounting Issues
External Reporting Board XRB
P O Box 11250
Manners Street Central
Wellington 6142

19 January 2021

Dear Sir/Madam

Clarification – Charity Annual Accounts - Tier 3 and Tier 4 reporting

I am writing to seek clarification please concerning presentation of items in the annual performance reports for Charities whose annual reports follow the Tier 3 (simple accrual) and Tier 4 (simple cash) accounting standards.

We audit and review numerous financial statements for Registered Charities. Their accountants, who prepare the required Tier 3 and Tier 4 Performance Reports, often look to us for guidance on best presentation.

To date a great deal of effort has been made to ensure that Charities use the standard categories of revenue and expenses for Tier 3 reports and receipts and payments for Tier 4 reports, including ensuring that all revenue/receipts and all expenses/payments are captured within the total revenue/receipts and expenses/payments. This has required a significant change for many accountants who are used to preparing special purpose annual accounts for income tax purposes and where total revenue, for example, is not shown as a separate total.

While accountants have made significant progress in recent years, it has come to my attention recently that the Tier 3 and Tier 4 accounting standards may not be as flexible as ourselves and others have appreciated and that further changes should be recommended to meet the requirements of the standards.

Two matters in particular:

1. For Tier 3 reporting in the Statement of Financial Performance – A54 of the standard specifies minimum aggregated categories. For example. “Donations, fundraising and other similar revenue” as a category of revenue. This is fine with general acceptance now, but the majority of accountants we deal with continue to show breakdowns within each category on the face of the Statement of Financial Performance, rather than in the notes. In most instances this does not make it difficult for users to understand the overall picture (as mentioned in A60), even though there is greater disclosure on the face of the financial statements than is envisaged by the accounting standard. The same issue applies to the categories and detail for both the Statement of Financial Position and the Statement of Cash Flows. **How strictly is the XRB interpreting the standard for requiring accountants to show only the category totals only on the face of the financial statements with the detailed breakdown in the notes?**
2. For Tier 3 reporting in the Statement of Financial Position – A88 and A89 of the standard sets out the format which includes showing Accumulated Funds after showing Assets and Liabilities. Many accountants show Accumulated Funds/Equity at the top of the Statement of Financial Position, rather than at the bottom of the page as this follows their standard template. **While either presentation provides the required disclosures, please advise how strictly is the XRB interpreting following the layout presentation of A88 and A89?**

While the examples above relate to the Tier 3 annual reports, the aggregated categories and detailed breakdown disclosures also affects those Charities following the Tier 4 reporting.

It is apparent that Tier 3 and Tier 4 accounting standards promote consistency by Charities in presentation to enable funders and the public accessing the performance reports on the Charities Services website ease of understanding with comparability amongst charities. In the last few years we have seen a significant improvement in the standardisation of presentation following the standards across the board for the Charities we deal with.

Your guidance on the matters above will be greatly appreciated. We will ensure that your advice on these matters is disseminated to accountants promptly.

Yours faithfully



Phillip Trounson
Director

31 March 2021

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

Via website: www.xrb.govt.nz

Dear April

Submission on Simple Format Reporting Standards – Post-implementation Review

As the representatives of over 280,000 professional accountants in Australia, New Zealand and around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to make a submission to the External Reporting Board (XRB) on its Post-implementation Review (PIR) of the Simple Format Reporting Standards applied by Tier 3 and Tier 4 public benefit entities (PBEs).

CA ANZ and CPA Australia welcome the PIR as it is an important exercise in establishing whether the Tier 3/4 standards remain fit for purpose and what, if any, improvements are required to ensure their ongoing applicability.

Feedback from our members and other stakeholders indicates that whilst the framework that includes the Tier 3/4 standards has been a worthwhile exercise and has been implemented well overall, there are significant areas for improvement, in particular within the Tier 4 Reporting Standard. We also observe that the findings from the PIR and subsequent developments could benefit future financial reporting by the Australian Not-for-profit (NFP) sector as they could inform the Australian Accounting Standards Board (AASB) and its current project to develop a differential reporting framework for the Australian NFP sector.

The Tier 3/4 standards are widely used in New Zealand across the NFP sector, including a significant number of Māori NFP organisations that are registered charities and other public sector entities. The *Charities Act 2005* requires all registered charities to prepare and lodge financial statements based on XRB Reporting Standards. According to the 2019/2020 Annual Review¹ published by Charities Services, a large proportion (93%) of the 27,700 registered charities in New Zealand currently apply either the Tier 3 (36%) or Tier 4 (57%) standards in complying with their financial reporting obligations.

The aforementioned Charities Services Annual Review notes that smaller charities experienced the greatest difficulties in complying with financial reporting requirements, particularly in the last two years. Only 72% of smaller charities applying the Tier 4 standard were considered compliant in 2018 with compliance declining to 59% in 2020. This compares to a 94%-100% compliance by other charities in Tier 1/2/3 over the same period. It is possible that the COVID-19 pandemic was a contributing factor in the decline in compliance in 2020. However, these

¹ [Charities Services Annual Review Report 2020](#)

findings suggest that any significant improvements may need to be focused on the Tier 4 standard. Feedback we have received from our members also appears to validate these findings, suggesting that any improvements should be focused on the Tier 4 standard applicable to smaller charities.

As noted in the Request for Information, the PIR and any improvements to the Tier 3/4 standards arising thereon could also have a bearing on the Incorporated Societies Act Reform² that is currently in progress. There are over 23,000 organisations that operate as incorporated societies, of which about two thirds are not registered charities and therefore do not currently have statutory financial reporting obligations. A draft bill to replace the *Incorporated Societies Act 1908*, which is pending approval by Cabinet for introduction to Parliament, proposes to require all incorporated societies to report in accordance with standards issued by the XRB when they satisfy one or more of the following criteria:

- annual payments of \$10,000 or more; and/or
- assets of \$30,000 or more; and/or
- donee status under the Income Tax Act 2007.

In our view, the current four-tiered differential reporting framework for PBEs adequately addresses the differing reporting needs of PBEs based on their size. While this structure provides an appropriate platform for proportional statutory reporting requirements, feedback received from our members suggests that the current single mechanism of operating expenditure/payments to decide the tier of reporting by a PBE may not always be the most appropriate way to determine the relevant reporting Tier. This is particularly relevant for PBEs with low operating expenditure/payments that hold assets of significant value. The incorporated societies reform proposals referred to above accommodate this multiple criteria based approach and we suggest the XRB also takes this into consideration in developing improvements to the PBE four-tiered reporting framework.

The **Attachment** to this letter sets out our responses to the specific questions posed in the Request for Information. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Your sincerely

Simon Grant FCA

Group Executive – Advocacy and International
Chartered Accountants Australia and New
Zealand

Dr Gary Pflugrath CPA

Executive General Manager, Policy and
Advocacy
CPA Australia

² <https://www.mbie.govt.nz/business-and-employment/business/regulating-entities/incorporated-societies-act-review/>

Attachment

Specific matters for comment

1. What is your overall view on how the standards are working? To help you answer this question you might want to consider whether:

- (a) performance reports prepared using the standards provide the right kind of information;**
- (b) any new issues have emerged since the standards were issued;**
- (c) there is anything we did not think about or anything we did not get right; and**
- (d) the costs of applying the standards are higher than you expected.**

The four-tier structure is one of the world-leading approaches to differential financial reporting for PBEs that appropriately balances risk and reporting complexity. However, as identified in our cover letter, the level of non-compliance by smaller charities required to apply the Tier 4 standard indicates that the XRB's efforts should be focused on improving the requirements for this Tier. This is particularly relevant since New Zealand has a significant number of very small charities and many are staffed by volunteers with minimal financial expertise. Many of our members have expressed the view that whilst qualified accounting professionals will have little difficulty in applying the Tier 4 requirements, the same cannot be said for volunteers and staff with little accounting knowledge who are often tasked with the preparation of financial reports for smaller charities.

The Tier 4 standard consists of over 30 pages, with an additional 46 pages of guidance. We consider the length and complexity of the Tier 4 standard could be substantially reduced and simplified to enable smaller charities to apply the requirements while preserving the transparency and accountability required for these entities. Simplifications could be made to both the length of the standard and to some of the terminology used, that may not be very well understood by those with no, or limited, accounting background. Some suggestions for simplification include:

- Reducing the number of line items included in the Statement of Receipts and Payments. We note for both receipts and payments, there are several subheadings which may not be commonly used by Tier 4 entities due to their size and simple nature of operations. In particular, we believe any information presented after the Operating Surplus or (Deficit) line item should be optional. Including elements of both an income statement and a cash flow statement may be complex to understand and apply by those with no, or little, accounting background. We suggest including only end-of-year balances for bank and cash balances in the balance sheet.
- Renaming the Statement of Resources and Commitments to "balance sheet" or "assets and liabilities" and reducing the number of line items included in this statement. We suggest simplifying this statement to include a minimal list of assets and liabilities that the entity can easily determine (e.g. bank balances and cash at the end of the year). The level of detail required currently undermines the "cash based" approach to the Tier 4 standard.

- Simplifying some of the terms used. We note there are several terms included in the Tier 4 standard which may be commonly used within the accounting profession but may not be very well understood by others with little or no accounting background and are involved in the preparation of financial statements on a cash basis. Such terms include:
 - No offsetting of amounts
 - Schedule of resources
 - Schedule of commitments
 - Description and Source of Value (cost or current value required if practicable to obtain)
 - Guarantees
 - Grants or Donations with Conditions Attached (where conditions not fully met at balance date)
 - Resources Used as Security for Borrowings
 - PBE SFR-A (NFP)
- Reconsidering the need to assess whether a Tier 4 entity is “publicly accountable”. In our view the risk of Tier 4 entities meeting the definition of public accountability is relatively low and removing this requirement reduces complexity.
- The current standard templates should be substantially simplified. As an example, the optional Excel template is lengthy, with fourteen individual sheets including four separate sheets for notes to the performance report. A simple template with drop down boxes and prepopulated headings potentially would be much more effective.

The current Tiers 3 and 4 standards comprise both “required” information and “optional” information within the main standards. The optional information, which some entities may consider beneficial to provide, increases volume and complexity of the standards, especially for smaller Tier 4 preparers who only have to comply with the required information. Our outreach to members recommends removing the optional information from the standard and including it either as an appendix to the standard or as separate guidance for entities who may wish to use it.

As noted in our cover letter, currently there is a single mechanism (operating expenditure for Tier 3 PBEs and operating payments for Tier 4 PBEs) used to decide the Tier to which a PBE belongs. There are likely to be many very small entities, in terms of their operating expenditure/payments using this criterion but which have a large asset base. In our view, operating expenditure/payments alone may not be the only method to measure a charity’s size and may be misleading in some circumstances. The draft incorporated societies bill is proposing to introduce tiered reporting based on three criteria: income, assets and donee status. We recommend consideration be given to introducing a dual-criteria measure (income and assets) to improve the reporting outcomes for the NFP sector. If such an approach is pursued, we suggest retaining the current two-year test for entities moving between tiers.

We note that charities in Tiers 1, 2 and 3 are required to report annually on the funds they have accumulated over their lives and are also required to state their reserves and describe the restrictions and/or purposes of their reserves. Our view is that there is scope to improve the narrative description of a charity’s accumulation strategy, purposes and restrictions, on the grounds of increased transparency and enhanced confidence in the sector. We consider this requirement to disclose a reserves policy may be better placed within the accounting standards rather than legislation.

2. What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?

We have received several positive comments about the Tier 3 standard during our member outreach, as highlighted below:

- The Tier 3 standard, guidance and templates are generally working well, subject to our comments below in respect of the statement of service performance and the provision of guidance on frequent transactions.
- Many Tier 3/4 entities make use of the templates to prepare their performance reports, although as noted above in our response to Q1, we have suggested some potential ways to simplify the Tier 4 template.
- Entities find the option to elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements, for non-routine or one-off transactions, helpful.
- The guidance issued by the XRB, such as the FAQ publication on *Changing Your Reporting Tier* and NFP Tier 3 FAQs on *Assessing and reporting on your entity's ability to continue operating*, aimed at helping Tier 3 and Tier 4 not-for-profit entities understand the requirements for changing their reporting tier, is considered to be useful.

3. Are there any specific issues that you have encountered in applying the standards, guidance, or templates? If you can, please outline:

- (a) the specific part of the standard, guidance, or templates that you are commenting on (where relevant);**
- (b) the types of entities affected, how many entities are affected (if you know) and the impact the issue has on them; and**
- (c) how the issue should be addressed.**

Please refer to our comments in the cover letter and in response to Question 1 above.

Generally, smaller charities and other NFP entities with limited resources find it challenging to prepare the Statement of Service Performance and effectively report on relevant outcomes and outputs that are measurable in the manner expected by the Tier 3/4 standards. Often, smaller entities do not have the systems or resources to record service performance information. We suggest the development of illustrative examples, and practical approaches to describe and report “outputs” and “outcomes” and other reporting mechanisms, to help improve the reporting of service performance.

The Tier 3 standard permits entities to elect to apply the requirements of the Tier 2 PBE standard to specific transactions (e.g. investment properties, heritage assets and financial instruments, such as equity investments). When an entity elects to apply the Tier 2 standard, it is required to apply that option to all transactions of that type and cannot choose to return to applying the Tier 3 standard for such transactions unless there is a change in the accounting policy. Feedback we have received from our members indicates a need to introduce simple requirements within the Tier 3 standards for such types of transactions that are more common

across the NFP sector, such as fair valuing investment properties and equity investments. Currently, such entities have to rely on the Tier 2 standard when accounting for these transactions. Complying with the full requirements of a Tier 2 standard in this manner, for more frequent transactions, can be complex and time consuming.

4. Have you developed any custom guidance to help apply the standards? If yes, please tell us what the guidance covers and whether you think it could be useful to others? We would love to see a copy of it (by separate email to submissions@xrb.govt.nz). Any guidance you send us will remain confidential and will not form part of your formal comments.

CA ANZ and CPA Australia have issued several publications to enhance financial reporting outcomes by NFPs and Charities. These guides are designed to assist preparers and auditors to effectively interact with the NFP accounting standards framework in New Zealand.

CA ANZ guidance:

- [Guidance for not-for-profit financial reporting in New Zealand](#)
- [Enhancing not-for-profit reporting](#)
- [Guidance for assurance engagements for NZ not-for-profits](#)

Guidance issued by CPA Australia:

- [A guide to understanding the financial reports of not-for-profit entities \(New Zealand\)](#)

5. Do you have any other comments you would like to raise about the standards, guidance, or templates?

As stated in the cover letter, there are a significant number of Māori NFP organisations in New Zealand that use the Tiers 3 and 4 standards by virtue of being registered charities or part of a larger audited group. The current standards do not include guidance notes in Te Ao Māori and do not include examples specific to Māori organisations. We note reference to “Koha” twice in the guidance notes as part of donations and revenue from members, but there is no proper definition or description provided of Koha in the context of donations. As an example, there are different types of Koha which are generally given or received for various services including food, building services, gifts to welcome members in Marae and more.

The guidance on related parties also is difficult to apply in the case of a Marae where many stakeholders/members may be related by being close members of families. Another pertinent matter in Maori organisations is the accounting treatment of Maori land, including lands provided through inheritance and cemeteries. Our members have informed us there is a lack of guidance on this matter and that information needed to estimate fair value is not readily available.

Based on feedback received from our members, we recommend that the NZASB consider performing detailed outreach on these matters to gather evidence of matters relevant to Maori organisations. In the meantime, consideration should be given to providing specific guidance and examples reflective of the issues raised in this submission, including a financial report template translated into Te Ao Māori where relevant.

Accurate compliance with financial reporting requirements by charities at all tiers is critical to public trust and the integrity of the system. Non-compliance with reporting standards, especially at the Tier 4 level, is an issue arising from a lack of financial literacy and understanding of accounting concepts. It is important for the board members and trustees of smaller charities to possess the appropriate skillset, financial literacy and access to adequate resources to ensure these entities can better fulfil their statutory obligations. We recognise that Charities Services and the XRB commit significant time and resources to assist smaller charities to meet their financial reporting compliance requirements. We recommend that the NZASB conduct further outreach to assess whether the current support and guidance is sufficient and, if not, consider providing training events on the current requirements, guidance, and templates.



26 March 2021

New Zealand Accounting Standards Board

Charities Services
45 Pipitea Street, Wellington, 6011
PO Box 12138, Thorndon, Wellington, 6011
New Zealand
Freephone 0508 242 748
Website www.dia.govt.nz; www.charities.govt.nz

Tena koutou katoa

Simple Format Reporting Standards – Post-implementation Review

I am pleased to provide a submission to the New Zealand Accounting Standards Board (“the NZASB”) on the Post Implementation Review of the Simple Format Reporting Standards. Charities Services’ functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to prepare financial statements that comply with these standards.

Our vision is that our work contributes to a well-governed, transparent, and thriving charitable sector with strong public support. We strongly support any changes to the Simple Format Reporting Standards that make it easier for charities to comply, and that promote public trust and confidence in the charitable sector. Now that the not-for-profit financial reporting standards have been in place for five years, we support this review as an opportunity to assess whether the Simple Format Reporting Standards are functioning well for charities and the public. It also represents timely consideration of the process by which the financial reporting standards are set to ensure they remain relevant and appropriate for registered charities.

The feedback we have provided in the enclosed submission reflects the work that we do as a regulator, the key themes of low compliance with the standards, and the feedback we have received from the sector.

Since the introduction of the reporting standards, we have assessed a sample of Performance Reports and Financial Statements for compliance. Through this work, we have seen a low and declining rate of compliance with Tier 4 charities over the past three years. This has influenced our submission. When we have engaged with these charities, the feedback is often that they find the reporting standards too difficult.

We support the calls from the majority of submitters who commented on this issue in response to the Discussion Document on the modernisation of the Charities Act. More than two thirds of submitters that commented on this issue favoured reducing reporting requirements for smaller Tier 4 charities. Many submitters noted that the reporting requirements did not reflect the realities of governing a small entity, with limited resources and part-time volunteers.

Nga mihi,

Stephen Reilly

General Manager – Charities Services Ngā Ratonga Kaupapa Atawhai
Department of Internal Affairs Te Tari Taiwhenua



Our Operational Context

1. Under the Charities Act 2005, Charities Services has several functions. This includes educating and supporting registered charities to meet their obligations under the Act, monitoring registered charities, responding to complaints about charities, inquiring into possible breaches of the Act or possible serious wrongdoing, promoting research into charities, and developing forms to support this work.
2. In performing our functions, we take a modern, responsive, risk-based approach. We target our resources to the areas that potentially have the biggest impact on promoting public trust and confidence in the charitable sector, and the effective use of charitable resources. Transparent and accurate reporting supports us carry out our functions and supports our vision of a well-governed, transparent, and thriving charitable sector with strong public support.
3. The financial information that is reported in charities' annual financial statements and performance reports is available on the publicly accessible charities register. The full statements/performance reports can be downloaded from the individual charity's listing on the register. Researchers and others interested in the sector can also search for information at the sector-wide level through the advanced search function. For the financial information to be searchable in this way, it must be included in our annual return form. Therefore, we align the information we collect through the annual return forms with the minimum reporting categories required to be reported by the standards.

General Comments

4. Transparent and accurate reporting supports us to carry out our functions and supports public trust and confidence in the sector. We have heard comments that more reporting, and more detailed reporting, contributes to higher levels of trust and confidence. This is not what our research suggests. Our research shows that the key drivers of public trust and confidence include charities spending their money wisely and effectively, ensuring that the majority of donations get to the end cause, and letting the public know how they raise funds, use their resources, and the positive difference they make. We support annual reporting requirements that enable charities to easily do this.
5. We consider that the ability for small reporting charities (under \$125,000 operating payments) to use a cash-based reporting approach is essential to encouraging reporting in the charitable sector. Through our engagement with the sector, it is apparent that when a level of accounting knowledge is required to understand and use the standards it may discourage reporting as often small charities do not have the capability to engage someone who has this knowledge. Charities Services supports simplicity in the reporting standards for charities that are considered small and believe that the effort involved in reporting should be reflective of the size of the charity.
6. We have noticed a low and declining rate of compliance of charities reporting under Tier 4. Declining compliance rates have occurred despite our continued efforts to educate and inform the sector about the reporting standards through a range of mechanisms, including newsletters, webinars, resources, and support for individual charities (through email, telephone, online clinics and face-to-face meetings).
7. Within the submissions on the discussion document for the Modernisation of the Charities Act, some submissions identified reasons why compliance with the standards may be difficult, stating that small charities; *"Have insufficient resources (time and money) to meet requirements; lack suitably experienced and qualified personnel or volunteers; have high personnel turnover; find the*



reporting forms unnecessarily complicated; and have insufficient support materials to assist them.”

8. We consider the use of accrual reporting for Tier 3 charities is appropriate due to the options it provides charities as well as enabling some comparability when shifting to a higher reporting Tier.
9. In our view, the terminology used in the standards, guidance and templates is too complicated for most preparers and users of the Performance Reports. This is more prevalent in Tier 4 reporting charities. We have provided examples below.
10. We understand that often the standards are only read by accountants, reviewers or auditors. While we request that changes are made to simplify the standard where possible, there is the need to focus on simplifying the Guidance and Templates. We find that many preparers of Performance Reports for charities have not read the standards but are more willing to use the guidance we provide them due to the plain language we use.

What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?

11. Compliant Performance Reports contain information that assists us to perform our functions as the regulator of registered charities in New Zealand. We use the Performance Reports as a starting point for assessing complaints or other compliance concerns raised about individual charities. Some of the key ways that the current standards assist this follows:
 - a. the Statement of Cash Flows (Tier 3) and Statement of Receipts and Payments (Tier 4) can help us identify unusual cash flows.
 - b. a lot of concerns and risks that we identify through our complaints and investigations work relate to related party transactions, major costs incurred by the charity, or large liabilities held for undisclosed reasons. The note disclosures in the Performance Reports help us assess these risks, and we therefore we support keeping the disclosures relating to these key points.
12. We support the reporting of non-financial information as it provides charities of all sizes a simple way to report an overview of their charity and the positive difference they make through the services they deliver. This provides readers of all backgrounds the ability to understand the charity, even if they cannot interpret financial statements.
13. We have had feedback from some governance teams of charities who also support the reporting of both financial and non-financial information annually, as they feel that they gain trust and confidence in how they are running the charity.
14. Charities Services’ staff that regularly use the information in the Performance Reports have provided the following feedback about the Tier 3 and Tier 4 standards:
 - a. Significantly more information is available from these statements than special purpose reporting, without the information being overly complex and extensive, such as reports provided under PBE Tier 1 or Tier 2.
 - b. A better understanding of the charity is gained without having to ask for further information. Compliant Performance Reports provide a holistic view of the entity, especially with the Statement of Service Performance.
 - c. The Simple Format Reporting (SFR) accounts are generally quick and easy to review, and it is easier to identify anomalies as we have a base level of expectation from the accounts.



15. The similarities in the structure and requirements between the two standards allows for a simpler transition from Tier 4 to Tier 3 reporting when charities grow and creates a minimum level of transparency in the charitable sector. In addition:
- The similarities between the two standards allows us to support charities in both tiers by using the same or similar resources.
 - We have also been able to support charities through the transition from Tier 4 to Tier 3 reporting due to the same minimum categories being used, and similar structured templates.
 - Having these similarities allows us to provide a consistent and comparable set of data from our public Charities Register database when reporting internally and externally.

Are there any specific issues that you have encountered in applying the standards?

16. While we do not apply the standards, we do review Performance Reports and Financial Statements prepared by charities and engage regularly with charities about the use of the standards. Our feedback below is based on this experience.
17. For the year ended 30 June 2018, 72% of Tier 4 charities were making some attempt to use the appropriate reporting standards. This dropped to 65% in 2019 and 59% in 2020, based on the compliance assessments we have done. We have also performed follow up compliance, to assess charities where we have let them know of their compliance issues in the past, to see if there has been some improvement. Almost 50% of Performance Reports that were assessed for Tier 4 charities were still not compliant even after being informed of their errors in the past.
18. There may be a range of reasons why charities aren't using the Tier 4 standards. From our engagement with charities, many find the standards and templates to be too complex for their operations. While not all the requirements in the standards will apply, those involved in preparing the accounts will need to make an assessment about each category and requirement to determine this. These assessments can be difficult, especially given the language used in the standards (which is reflected in the templates and guidance) may not be familiar to non-accountants. This lack of knowledge around terminology often results in many queries, or requests for advice in reporting. For example:
- Cash is referenced throughout the Tier 4 standard. While the term "Cash" is used to distinguish this standard from the accrual standard, many charities do not receive or pay cash in their ordinary course of business so can be confused about whether this cash standard applies to them.
 - Often, we have questions about the term "Receipts" as people associate this with the physical receipt they get in exchange for a payment they have made for a good or service, and not the receiving of cash or other funds. It's not often a term people necessarily associate with money that comes in to the charity. When combined with the title "Operating" often this confuses the term further. A suggestion would be to replace this with a term that is more direct and plain language, such as "Money Received" or "Incoming funds". The distinction between operating receipts and capital receipts adds further complexity to the term receipts.
 - We have had charities ask what is meant by a "Capital Receipt" or "Capital Payment" as the word capital is confusing to them. To provide clarification, we often must provide further examples of the type of transactions that would be described as capital. We understand the need to clarify payments between Operating and Capital, as this distinguishes between Financial Performance Payments and those that would generally



be reported in a Statement of Financial Position. We suggest using simplified versions of the terminology from the Statement of Cash Flows in Tier 3 or relating the cash transactions to the Statement of Resources and Commitments. Examples could be:

- i. Money received from a resource ("e.g. sale of building")
 - ii. Money paid for a resource ("e.g. purchase of building")
 - iii. Money received from a commitment ("e.g. loan drawdown")
 - iv. Money paid to a commitment ("e.g. loan repayment")
- d. We have heard concerns with splitting payments receipts between "Member and Non-Member", as many small charities are only concerned with whether what they are receiving in total is covering their costs. Separating money that comes from members and non-members creates additional complexity for those preparing the reports. We question whether this is a worthwhile distinction, particularly where members also pay for goods or services delivered by the charity (perhaps at a reduced member rate). This can distort the overall picture of how much money the charity receives in return for providing goods and services, as this would be captured in the "other receipts from members" category.
- e. The term "Reserves" is often mistaken for a 'reserving of cash' and recorded incorrectly in the Accumulated Funds. We find when engaging with charities, there is the lack of understanding that the recording of reserves in the accounting practice is more restrictive than the plain language 'reserves of cash'. A suggestion would be to simplify the term to "resources specifically held". Within the submissions for the Modernisation of the Charities Act, some submissions covered the obligations on reporting accumulated funds and supporting greater transparency on the accumulated of funds, such as further disclosure of their approach to the accumulation of funds.
- f. The use of the terms "Outputs" and "Outcomes" in the Statement of Service Performance causes confusion, and the quality of information reported under these headings is extremely varied. As the regulator, we find this information very useful to know however due to the confusion, often this is not reported correctly, accurately or completely. Often charities will interpret this as a need to separately record their expenditure. We suggest that simplifying this to be more direct in the content it is requesting, such as "Goods or Services Delivered".
- g. The term "Performance" is used throughout the two standards, but this covers multiple facets, which results in this having multiple meanings. Such as the report being called a Performance Report, while having separate statement of Statement of Service Performance and Statement of Financial Performance

Are there any specific issues that you have encountered in applying the guidance, or templates?

19. In our view, the templates that are currently available have several limitations.

- a. Charities have told us that once they have understood the templates, they find it useful to roll forward. However, it often takes on average two points of contact with the charity to explain the template and then provide further comments/ guidance where errors have been made, to reach the point of compliant accounts.



- b. The feedback we have received notes that the format can be confusing on what is required to be filled out, or the number of pages required results in missing information or entirely missed pages. This makes it difficult for preparers to keep the Performance Reports internally consistent.
 - c. For small charities where only a small number of fields apply, the templates are often submitted in full but with lots of blank sections. The resulting report is lengthy and may be difficult for a reader to easily digest and understand holistically.
 - d. Charities Services occasionally come across very small charities who have little to no financial activity, and the reporting requirements seem burdensome and have no benefit to them. A simplified version of the template that allows charities who have no financial transactions to report their non-financial information and a simplified financial information page would go some way to address this issue.
 - e. The templates reflect the complexity in the standard, and this feedback indicates the template may need to be simplified, or the required information made more obvious to the user.
20. We also see the need for further examples in the guidance, and diversity within those examples to reflect the needs of our diverse charitable sector. We have, for example, received feedback about the limitations of the standards for charities that have a Kaupapa Māori focus.
 - a. Preparers of Performance Reports have asked for the ability to report using bilingual headings. We suggest providing Māori headings for all key Statements.
 - b. The terminology of “significant” can be confused with “taonga”. The standards should address how to record items that don’t belong to the charity in a legal sense, but the charity has a custodian or kaitiaki relationship and looks after and cares for it for current and future generations. We suggest that the reporting standards provide examples and terminology options that encompass these different types of assets.
 - c. Another example is that “koha” can have a range of cultural meanings and recording different types of koha can be difficult under the current standards. In the Tier 3 and Tier 4 standard Koha is combined with donations, however the context in the way koha is given and what is given can vary widely in different situations. We suggest providing worked examples in the standard of different koha and how this can be recorded.
 - d. A more technical issue that has been raised with us is about applying the related party disclosure requirements in Iwi or Iwi related charities. Many involved in these charities whakapapa or connect to each other on several levels.
21. A translation issue has also been identified in interpreting terminology into other Pacific languages such as Samoan or Tongan. Providing simpler terminology in English would aid in the translation to more languages used by charities.
22. Charities Services work with a range of researchers who use the register to collate and analyse information at the sector-wide level. From our discussions with these researchers, we are aware that there are limitations which have resulted from the minimum categories of information that must be reported under the standards. Concerns have been expressed about the inability to find out how much money has been collectively donated to charities by members of the public (as these are now combined with other fundraising efforts), granted by the government, bequeathed by individuals, and how much is spent on salary and wage costs.
23. As the minimum categories currently stand, many charities find that their transactions do not fit well within the categories. This results in many transactions being included in the ‘Other’ section of the Statement of Receipts and Payments and/or the Statement of Financial Performance.



Do you have any other comments you would like to raise about the standards, guidance, or templates?

24. We appreciate the opportunity for Charities Services to be working with the XRB on engagement with the charitable sector, and the opportunity to address some of the issues that the charities in New Zealand face when it comes to reporting.

Review of Accounting Standards PBE SRF-A (NFP) and –C (NFP)

A submission by the accountants at Community Capacity Accounting

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Summary

This is a submission by the accountants working at Community Capacity Accounting, who collectively have compiled or provided assurance on about 2,000 'Performance Reports' since the small NFP accounting standards came into effect in 2016 (we will refer to them simply as 'the standards' in this report for readability). Our mission is to help not-for-profits making sound financial decisions, and we have been working closely with the main funders in our region towards this. Meaningful and understandable annual financial reporting is an important part of that work.

The users of financial information compiled under the standards, and the people holding small not-for-profits accountable, are mostly non-accountants. It is fair to say that the introduction of the present accounting standards has made annual financial reports less useful to those readers, because the information they are looking for is less readily available, and presented very differently to what they are used to in small business. We argue that accountability and readability/understandability are closely linked.

The recommendations in this submission aim to improve such readability, and therefore accountability and the organisation's ability to genuinely take ownership of their annual financial reports rather than this becoming a paper exercise only.

We are critical of non-financial reporting within an accounting standard, and we recommend to remove this, or make it optional. The key disadvantage of requiring this information in this place is that it distracts from very important financial information at a key moment in a not-for-profit's reporting cycle. While in favour of the idea of non-financial reporting by charities overall, we argue that the XRB is the wrong agency to regulate it, and that putting it in the hands of the charities regulator instead could make it more meaningful and prominent.

The financial reports of a not-for-profit, and therefore purpose-driven entity need to show how they have applied the funds they had available, and what their overall levels of reserves are. We recommend the removal of the minimum categories in financial activity statements (such as Cash Flow, Financial Performance and Receipts and Payments) as they in effect hide the items the stakeholders of a particular entity are likely to be interested in. The categorisation of transactions within these minimum categories is highly inconsistent, and using these aggregated figures for comparisons between organisations would be misleading. For financial position statements we recommend putting greater emphasis on an organisation's true wealth by using market values for buildings and investments, where these are easily obtainable, and replace the definition of 'control' with something more workable, so the influence of organisations that exist mainly or solely to support the reporting entity can be better shown. This is of great importance to philanthropic and local government funders, and therefore a matter of equity between charities of a similar nature.

Other recommendations include clarifying accounting practice with regards to grants, fixed assets, capital donations, consolidation, recognition and measurement of investments, reporting of cash-based activity and other matters, that better take into account the information needs of the users of these reports, and can be expected to improve consistency in reporting.

We hope that the XRB is able to do this review with humility, critical self-reflection, and an awareness perhaps of the particular bubble they operate in, and resulting high risk of tunnel vision. We also hope that the XRB is able to show restraint where their regulatory powers have the potential to impose significant cost on others and divert funds away from good purposes.

1. The Submitters

In the last year, Community Capacity Accounting has compiled or provided assurance on almost 600 sets of not-for-profit accounts, the majority of them registered charities. Since the new standards came into effect we have compiled or provided assurance on about 2,000 sets of 'Performance Reports' – probably more than any other accounting office anywhere in New Zealand. There are, at present, eight of us working here, and not-for-profits are our exclusive focus. We are a diverse bunch, with six nationalities represented and a variety of qualifications. Apart from accounting and business ones, staff also hold degrees in biological sciences, finance, IT and physics, some up to Masters level. This submission is from us, as accountants.

While accounting and assurance is our 'bread and butter' business, it is mostly a way for us to engage with an organisation on financial capacity building. We spend large amounts of our time advising, trouble-shooting, running seminars, providing individual tuition, problem-solving – and listening! In Christchurch we are considered the go-to people for anything to do with not-for-profit accounting. We work well with other accountants and auditors, and are privileged to enjoy tremendous goodwill from community organisations as well as funders and other agencies interested in the capacity of the sector.

We set out about 10 years ago to make not-for-profit accounts more meaningful and understandable, and accounting more accessible. Accountants and the users of not-for-profit financial reports do not speak the same language and see different things when looking at the same report. It is not uncommon for those working in financial administration of small not-for-profits to feel disempowered and talked down to by accountants. Bridging the gap between professional accounting and 'accuracy' as an accountant sees it, and how the non-accountant users of financial information in not-for-profits understand such information, is a constant struggle in our daily work as well.

The regulation of financial reporting for not-for-profits has not helped our mission. The 'Performance Report' is often not even recognised by users as the financial statements of their organisation, and it is not uncommon for charities to produce a different report for their own purposes, and even seek assurance on that one rather than the 'official' one. There is a perception that the 'Performance Report' is something that has to be done for legal reason, or because Charities Services require it, rather than something of any importance for themselves.

The difference between the XRB and Charities Services is known or understood by only a minority of charities, let alone the general public, and the lack of interest and awareness for regulation of charity financial reporting makes it problematic to introduce and maintain something that is so different to what people are used to seeing for their businesses or tax returns. If the standards weren't enforced by the charities regulator, they may well fall into disuse. Unless similar enforcement will be undertaken at the Companies Office when the standards become mandatory for all registered societies, we do not think they will be used widely.

While some organisations have genuinely very little interest in what we put in their annual financial statements, what format they're in, or anything else about them, for many others they are the only financial report a board or committee receives in a year, where any attempt at accuracy has been made. We have taken on two new clients in the last month, with annual expenditure of \$400,000 and \$1.1m respectively, where the boards have received no financial reports whatsoever through the year for many years now. This is not a particularly unusual story. We cannot emphasise enough how important it is that these annual financial statements are understandable and have meaning to the users.

The rest of this submission, therefore, is about our suggestions to adapt the standards in a way that make the financial reports better suited again for the main users. While much of it focuses on presentation (which is extremely important if you want financial information to be read by non-accountants), there are also other some changes in accounting that we propose where the present rules have proven to be either unworkable, or are being applied too inconsistently.

2. The Users

Readers of not-for-profit accounts are rarely outsiders. Their 'investors', funders or donors, engage directly with them, and where they don't, the 'Performance Report' is not used prominently in their decision-making. People are not making decisions on the basis of these reports to work out a monetary return on their investment. They rarely, if ever, use them to determine which organisation is best suited to receive their donation, or could utilise it most efficiently. The case for extensive mandatory disclosures and detailed consistent accounting rules is, therefore, quite weak. The statements do, however, tell a story: where does the organisation put their money, and what are the funding streams and assets to do so? This story is important to stakeholders.

This means the main usefulness of the performance report is for those directly involved with the organisation, as well as funders – and almost all of them are non-accountants. Their interest in this particular report is in the financial sections. Non-financial information is available, and better reported, in other ways. The significant funders, such as DIA-Lotteries, Rata Foundation/Foundation North/Community Trusts, or City Councils engage with organisations, and find out about their non-financial activities through their local networks.

Where a financial report, that contains a lot of non-financial information, is tabled at an AGM or other meeting this has two effects:

- The likelihood of *any* of the information in it being read rapidly decreases with every added page. This is not helpful for financial accountability.
- People generally feel somewhat inadequate about their accounting knowledge, and they do not want to appear incompetent by asking a 'dumb' question. They are much more comfortable talking about what the organisation has done in the last year or so. This means a segment of the AGM or meeting, that is set aside to discuss financial matters, may turn into a discussion about the organisation's activities instead, or a detail on the 'entity information' page, if this information is presented in the same report. This is also not helpful for financial accountability.

Because accountants have also not really shown much enthusiasm for the standards either, the application of them is vastly inconsistent beyond the use of a template. Rather than aiding those with limited accounting knowledge to prepare the 'performance report', the templates have had the effect of allowing many accountants to skip any deeper understanding of the standards, and to just make sure that all the boxes are filled in with *something*.

To make reporting consistent with the standards, and achieve the goals for their implementation, would require a large education effort. If there were 50 accountants at Charities Services tasked with this, they would still have a gruelling caseload of more than 500 organisations each. Of course, there are nowhere near that many accountants at Charities Services, and no resources anywhere else (other than the kind of philanthropic funding we access) for such work. Given the complete absence of public interest in this matter, we cannot see parliament or government ever having the appetite to provide the appropriate resources for this task.

We would also like to point out that, generally, a high compliance environment is detrimental to not-for-profit entrepreneurship and social enterprise.

3. Presentation of Report

Focus on 'Performance'

We note that the Tier 3 standard explicitly allows re-naming of statements and categories, and we make use of that. However, the language used in the Tier 3 and 4 standards as well as associated reporting templates, with the ubiquitous use of the word 'performance', is regrettable.

The word 'performance' is not value-neutral. It assumes judgment by the reader. Financial 'Performance' suggests that the important bit of information is meant to be whether a surplus has been generated, how high it is, and how well the organisation has done in reducing costs. Ironically, the reporting templates ask at least some of the right questions in the header: 'how was it funded' and 'what did it cost'?

More precisely, this statement is about 'how have we applied our funds' and 'where did the funds come from'? For this reason, we call it the Statement of Funding, in line with the idea that this is meant to tell a story, and to denote the important difference to the financial 'performance' of a business. Early versions of our internal templates (before the changes of 2016) put expenditure above income to support this narrative of seeking funding to apply to a purpose (rather than generating expenses in the pursuit of revenue).

Equally, the wording 'Service Performance' does not suggest a telling of a story. It suggests an answer to the question: did you provide enough bums on seats? The word 'performance' could simply be removed from the title of the statement, or it could be replaced by 'activity'.

The title of the report, 'Performance Report' suggests the opposite of telling a story: it suggests that the organisation is meant to be stripped bare here to the numbers only. At CCA we use the much more neutral term 'Financial and Service Statements' and do not pretend that it is anything more, or less, than a record of the financial activity and position of the organisation.

CCA accounts have a table on the cover page to link the statement titles to titles that are in more common use (or, in this case, are preferred by the regulator), which can help in introducing more not-for-profit-friendly language.

More detail on our efforts to better emphasise the difference between a not-for-profit and a business in accounting can be found here: <https://commaccounting.co.nz/financial-reporting/not-for-profit-language/>

We recommend the removal of the word 'performance' from report and statement titles.

We also note that the order of presenting the different statements is not prescribed, but that the reporting templates put the non-financial information before the financial.

Where XRB deems non-financial information necessary for inclusion in a report regulated through an accounting standard, **we believe accountability is better served by having the financial information at the beginning of the report, and minimise opportunities for distraction from the numbers.**

4. Statement of Service Performance

We do agree with the idea behind service reporting, but (a) this report is not the right place for it, and (b) XRB is not the right agency to regulate non-financial reporting of charities.

We also note that the inclusion of this type of non-financial reporting within a financial reporting standard is outside internationally accepted practice.

We therefore recommend to remove this Statement from the Tier 3 and 4 standards.

Our first argument is, again, about consistency. The information that organisations choose to put in this statement differs widely, and it does not allow comparison between organisations. The requirements of the standard are very broad and rather vague, and there is no good way to tie the disclosures in this statement to those in the financial parts. The requirement to provide the comparative figures for previous years is also routinely ignored – the organisation simply changes the reporting category if this is unfavourable.

Our second argument is about the usefulness of the content. We can see no value in the ‘Outcomes’ disclosure, as it is routinely misunderstood, as is the difference between outputs and outcomes in the first place.

When it comes to outputs, we generally see an attempt at marketing the organisation rather than genuine factual reporting. The outputs tables are cluttered with data such as web site hits or ‘likes’ on Facebook, pointless indicators such as number of Board members, or number of sponsors approached. Many numbers are unacceptable to auditors, such as the attendance at events, because no evidence can be provided – but only reporting that the event has happened greatly reduces the value of this disclosure. Again, a large education effort would be needed for this Statement to achieve its intended goal – informative videos on web sites will not be nearly enough.

The Statement of Service Performance also has high nuisance value for accountants, and along with any other accountants we have talked to about this matter, believe that ensuring compliant non-financial reporting, and the associated judgment calls, should not be an accountant’s job at this level.

Instead, we suggest that non-financial reporting is handed back to the charities regulator. The idea behind it (telling a story beyond the financial) would be much better achieved by using an online form to be filled in annually by registered charities, which opens the possibility of making non-financial reporting more prominent on the register, and therefore more visible to the public than it is at present. Having the charities regulator in charge would also allow better involvement of researchers and others who have made not-for-profit evaluation their focus and are perhaps better qualified to do this than accountants. Evaluation is a much discussed topic in the social services sector especially, and the XRB is simply the wrong agency to have the power to describe the format and detail of such disclosures.

We note that the charities regulator at the moment does not give any prominence to this information, either. It remains hidden away in the Performance Report as an attachment under the label ‘Financial Statements’. The annual return asks organisations to include a financial summary extracted from the statements, but makes no attempt at extracting any non-financial information.

As non-financial outcome or output tracking within an organisation is usually done by a different person to the one(s) looking after financial matters, it makes sense to separate these two types of reporting, which would by itself likely improve the quality of it as well (especially if combined with higher visibility).

Many organisations choose to produce an annual report, of which the 'Performance Report' is a part. Where this is done, the Statement of Service Performance duplicates the information, but, because it is a mandatory part of the 'Performance Report', cannot be omitted.

The next best alternative to removal of the Statement of Service Performance from the standard is to make it optional. There is not a strong enough case to make this a mandatory part of a financial reporting standard, with content determined by an agency outside of direct government control, and we believe the costs of inclusion to an organisation, accountants and auditors far outweigh the benefits.

Also note our general comments about the title of this statement and placement within the report above.

5. Statement of Financial Performance

Categorisation

At CCA we have always interpreted the explicit provision in the Tier 3 standard to disaggregate and rename the minimum categories as a general permission to those entities to choose their own categories as they make sense to their particular stakeholders, provided there are no categories that combine transactions from the minimum categories. This is consistent with NZ IFRS and NZ IPSAS, and we can see no good argument why this should be changed, or why Tier 3 and 4 entities should be more restricted here than Tier 1 or 2 entities.

As many of our clients use the XRB templates, and we generally use the minimum categories as headers in our own templates as well, we nevertheless think that these categories are largely impractical, because they have, in practice, not led to the desired consistency and comparability of reporting. They are probably the result of the development of a standardised reporting template for a large variety of entities, whose only commonality is that they are registered charities. It also appears that the charities regulator is particularly intent on these aggregated categories, but they are not an important user of these financial statements. If the charities regulator wanted aggregated figures for its own purposes, it can ask for these in the annual return (as they do), without this having to be a prescribed format of general purpose financial statements.

To the stakeholders of individual charities these categories are meaningless. If they were used to compare entities with each other, they would be misleading, as categorisation is so inconsistent. We believe this cannot be addressed with guidance notes, simply because most accountants, who only have a very small handful of non-profit clients, will not read them.

The following are some examples of inconsistent reporting with large effects on comparability:

Donation v Service-generated Income

The treatment of grants within the categories of 'donations etc' and 'service provision' varies between organisations, leading to very large differences – and therefore no comparability between organisations.

Our own interpretation of 'use or return' (and other) grants is that they belong in the 'donations' category. The funders we are closely working with also very strongly emphasise that their grants are a contribution to the organisation's expenses, and in no way represent a purchase of outputs or outcomes, nor are they directly related to the total expenses incurred in the delivery of a particular service, and are entirely at the discretion of the funder.

However, a minority of the external auditors we work with, insist that some such grants are reported within the 'service provision' category. Some clients also put such grants there. While we understand their argument, we believe it is a misinterpretation of the nature of grants. If the categories are maintained, we believe that the standard should explicitly state that grants should be reported in the 'donations' category, to remove individual judgment calls and inconsistencies

Expenditure categories

Reporting within the minimum expenditure categories is very inconsistent, and some of the inconsistencies we see are:

- Staff/Volunteer expense section: sometimes includes contractor payments, sometimes doesn't; we also frequently see the following items reported here: expenses incurred by

staff and volunteers, including travel and accommodation or reimbursements; staff training; staff supervision; recruitment costs and others that inflate this category.

- 'Other' expenses vs 'Service'-related expenses: this is generally understood as meaning indirect vs direct costs, although the Tier 3 standard seems to indicate that 'other' expenses should be mostly extraordinary items not occurring regularly, and does state specifically that administrative expenses fall under 'service'-related. However administrative costs, travel costs, rent, office-related expenses such as subscriptions, marketing and promotion, accounting and audit or software subscriptions are all frequently reported in 'other expenses', although which ones of these are categorised where varies greatly. Incidentally, we do not understand why the Tier 3 standard prescribes depreciation to be listed under 'other' – the use of fixed assets is clearly an expense associated with the provision of services.
- Fundraising expenses: We believe the intention of this category is to make sure organisations disclose the cost of soliciting donations from the public separately, and we agree with this as a point of public accountability and direct interest to stakeholders. However, the standards are not very clear on this point. For example, we categorise the commissions charged by online donation facilities here as well as the fees paid to a professional grant writer, but most other accountants seem to classify these as expenses for service provision and, in the case of commissions, even allow netting out with donation income.

The classification of the same kind of expenditure within the minimum categories varies enough between organisations that comparability between organisations is not possible, and usage of minimum categories without disaggregation misleading.

The minimum categories also bar organisations from project-based financial reporting. Before the not-for-profit accounting standards put an end to it, CCA has been encouraging organisations to replace functional categories (wages, rent etc) with project-based ones. Forest & Bird (a Tier 2 entity) is a good example of an organisation managing to do this. We do not believe that tighter restrictions should be put on reporting in lower tiers if they don't exist in the higher ones.

We believe the main value of the statement of financial performance for charities lies in telling their story in financial terms. Or, to put it more bluntly: do they put their money where their mouth is? This cannot be achieved where a core functional category such as wages must be separated from other service-related categories. For those organisations who attempt project expense reporting, the Statement becomes clunky as payroll expenses always have to be separated out from the rest of the category. Project reporting is not possible at all in any way that would be remotely user-friendly when using the XRB-developed templates.

We also have privacy concerns around this. There are a large number of small groups with just one employee, where it is simply too easy to find out what a particular person earns with the present format of reporting.

We are not at all in favour of Statements that are cluttered with categories like 'Bank Fees', a separate interest category for each bank account, or similar. We agree that such detail can obscure the story that should be told. However, after the introduction of the NFP accounting standards this has simply been moved to the Notes, and the aggregated disclosures on the face of the statement are no less problematic. In most cases, such statements are indicative of poor bookkeeping capability within the organisation, which is a capacity issue, and cannot be resolved with accounting standards.

Given these issues, we recommend that minimum categories for the Statement of Financial Performance, Statement of Receipt and Payments, and Statement of Cash Flows are abolished, with the exception of mandatory separate disclosure of expenses relating to public fundraising, which is a figure of general public interest.

Revenue Recognition

A further issue with grants is the very arbitrary distinction of ‘use-or-return’ from other grants. We understand the reason for it, and do not disagree with the principle. However, the provision is impractical. Given the large number of philanthropic grants available, it is simply not practical for accountants or auditors to check in each individual case whether the organisation has signed an agreement that could potentially allow a funder to enforce return of the funds (let alone the probability that such enforcement would be executed).

Organisations (mostly) understand that grants usually come with obligations, and keep records of how such grants are spent. Even if there is no legal obligation to use or return funds, there is a moral one. Sometimes very substantial specific-purpose grants are made without a use-or-return provision, and this leads to a large distortion of an organisation’s accrual-based financial activity statement if no liability is recognised.

We therefore recommend that the ‘use-or-return’ condition is modified to include all grants for which there is a clear expectation that they are to be used to cover specific expenditure, regardless of whether the donor asks for return.

Below-the-line items

The Tier 3 standard at the moment does not specifically allow any transactions to be recorded after the net surplus/deficit figure. **However, we believe that there are three situations where organisations should be allowed (but not required) to report transactions below the ‘Net surplus’ line.** Separating these transactions from ordinary operating income or expenses may provide more clarity to the reader in specific cases.

- 1.) Income from grants specifically for capital expenses. Such grants can have a vastly distorting impact on an organisation’s ordinary operating income, especially if they concern a building, and lead to large paper surpluses that are widely misunderstood. Separating these from the other revenue categories and allowing them to be reported below the line would provide more clarity in such situations.
- 2.) ‘Comprehensive’ income from revaluations. This concerns either property revaluations, or unrealised gains or losses from investment portfolios. In the absence of ‘comprehensive income’, both these items would provide a distortion to an organisation’s operational surplus or deficit.
- 3.) Income from investments. Some organisations have substantial investment returns which, when included in the total figures, somewhat blurs the understanding of how much the organisation depends on such passive income to fund its activities. Sometimes, organisations find it useful to report this separately, because they want to make it more obvious whether or not the organisation can make ends meet without such passive income. This should be allowed.

6. Financial Position

The main usefulness of this statement to not-for-profits stakeholders at all levels lies in providing a record of the organisation's 'wealth', especially with respect to assets not used for the provision of services. Funders use this information to determine whether the organisation is actually in need of their funds or should be asked to use their own assets first. Users often analyse the assets or net assets in relation to annual expenses to get a measure of what financial buffer they have to provide for future adversity.

We are not aware that any users perform business ratio analytics, and do not believe that doing so would provide any useful information. This means that the structure of the position statement as well as certain disclosures need to be modified from its common business format to better accommodate the analyses that are commonly done in a not-for-profit context. It is especially important that assets not used in service provision are shown at realisable value, or at least a close proxy to it.

Valuation of Building and Land

We believe the reporting of buildings or land at cost (with or without depreciation) is meaningless in most cases, and misleads stakeholders about the financial position of the organisation. Where a GV of land or buildings is readily available, it should be used.

However, there is no need to mandate the use of accounting standard IPSAS 17 for this. This should be incorporated in both the Tier 3 and Tier 4 accounting standards directly, as it is a simple enough process.

We recommend to make the GV of land and buildings a mandatory disclosure in the Statement of Financial Position and the Statement of Resources and Commitments, without requiring organisations to use IPSAS 17

Tradeable Investments

Where an organisation invests in an investment portfolio, or publicly traded shares or other securities, the market value of such investments should be shown, as it is readily available. We believe it is not acceptable for organisations to state these at cost and at times substantially understate the value of such assets.

This also applies to investment properties. We believe the standard, template and guidance notes need to make it clearer that investment properties must be recorded in an investment category, and not as property, plant and equipment.

We recommend that disclosure of the market value of tradeable investments being made mandatory, at least in the Notes.

Intangible Assets

Both standards are silent on this, and it is not a common occurrence, but many organisations capitalise the cost of web sites and sometimes software.

We believe the ongoing measurement of a web site asset is too problematic to be meaningful, and the recognition of software expenses either as capital or operational too inconsistent in practice. **We recommend that both standards should say that intangible assets cannot be recognised on the Balance Sheet.**

Distinction between 'current' and 'non-current'

We have discussed the usefulness of the distinction between current and non-current assets or liabilities in a not-for-profit context amongst ourselves, and are somewhat undecided.

The distinction can be misleading. We know that some funders use 'working capital', but they do so as a proxy indicator for an organisation's financial stability and sustainability, rather than liquidity, as in a business situation. The figure they are actually interested in is the total amount of all assets that the organisation can liquefy without affecting service provision, less any significant liabilities, including commitments to funders. Where some of these assets or liabilities are broken up into 'current' and 'non-current', funders often get the wrong idea about the true wealth of an organisation. It is a matter of preference whether surplus funds are invested in cash deposits or by buying investment property, but the former are disadvantaged by this analytical process.

It is more important that assets are correctly classified as cash, investment, or PPE, and whether they *are able* to be liquefied within a reasonably short time, rather than whether they *are intended* to, which is what the current distinction between current and non-current is based on. This is perhaps a matter where we need to put aside traditional business-based accounting assumption in favour of usability, and requires some further discussion or thinking.

We recommend the distinction of current and non-current assets in the Tier 3 standard be reviewed, considering the actual usage of these disclosures in not-for-profit situations.

Capital Contributions

This line in the equity section of the reporting templates has no practical application and occasionally causes confusion. It is a rare occurrence for not-for-profits to have owners, they do not have any title to any part of the equity (other than what might be recognised as a liability), and no business analytics can be done on not-for-profits where this would be a useful figure. We recommend to remove this line and any reference to 'owners' in the standards.

Statement of Resources and Commitments

There is an overall problem with the brevity of the Tier 4 standard, as it is silent on so many matters, which is probably a result of wanting to encourage those with limited accounting knowledge. For our purposes, it would be desirable if some more detail would be given especially with respect to the Statement of Resources and Commitments.

Firstly, the title should probably be changed to 'Statement of Assets and Liabilities'. Those terms are more widely understood in this context, and the standard itself mentions that they are equivalent.

The statement is a great alternative to a balance sheet, and puts compilation of a Tier 4 report at least within reach of a non-accountant. Some more clarification could be given on what should be put here, however.

We generally post accruals here (other than Accounts Payable or Receivable), if they are significant, such as interest, prepayments, Annual Leave entitlements, Income in Advance from government contracts and, of course, unexpended grants (which need to be moved to the Liabilities section, not other information). Only unexpended grants are a disclosure specifically mentioned in the standard.

You may have intended to only require reporting of impending cash payments or receipts here, but the other accruals are of interest to users of these Statements. For example, an organisation may have received substantial amounts of registration payments for an event in the next financial year, or may have made significant payments itself for such an event, such as a venue booking.

Occasionally, an organisation separates such prepayments out in the Statement of Receipts and Payments as well. Funders use the disclosures in the Statement of Resources & Commitments in the same way as in a Statement of Financial Position, which makes it important to avoid significant omissions.

We recommend to make it clearer that significant items relating to the next financial year should be reported as well as Accounts Payable and Receivable, if practicable to obtain. Where accurate figures are not readily available, but the impact of such items must be considered significant, their existence should be reported in the Notes.

When it comes to Accounts Payable and Receivable, it would also be useful for the Standard and the template guidance notes to clarify that this includes items dated after the end of the financial year, if they relate to purchases that occurred before.

Regarding Annual Leave entitlements, an argument could be made for both inclusion or exclusion, but it should be clear. We find it useful, as where this figure is not readily available, the organisation is obviously failing its obligations under the Holidays Act, and this disclosure might provide the impetus to tidy this up. However, we realise that this can't be a consideration for or against making this a mandatory disclosure.

Many organisations prefer to have a book value reported for fixed assets, rather than cost, especially since the charities regulator requires including this figure in a total assets figure on its Annual Return form, which is misleading. **We recommend to allow using depreciation as a method of valuation for fixed assets for Tier 4 entities.**

The standard could also benefit from better clarification of what it considers 'significant'. We understand that there are considerations other than the actual monetary value which may make an item 'significant', but it is still reasonable for clarity to provide a percentage figure as a guide.

7. Cash Flows and Receipts & Payments

As it stands, the Statement of Cash Flows in Tier 3 is not being used and therefore obsolete. This is despite the fact that users of not-for-profit financial statements do not understand accrual accounting very well, however the present format of the Statement of Cash Flows makes it too hard to understand for a non-accountant what exactly is reported here. We have also noticed that accountants at all levels struggle with compiling it, and when we are auditing new clients there are almost always substantial inaccuracies in it.

It is fundamentally equivalent to the Statement of Receipts and Payments, and more comparable to it than the Statement of Financial Performance. If comparability between organisations is a goal, aligning the format of the Statements of Cash Flows with that of the Statement of Receipts and Payments would be an obvious advantage, as it would allow comparisons between Tier 3 and 4 entities as well as just entities within the same tier. **We recommend to align the formats of the Statement of Cash Flows (Tier 3) with that of the Statement of Receipts and Payments (Tier 4).**

Cash-based information is important to not-for-profits, probably more so than accrual-based information. An accrual-based Statement of Financial Performance, for example, can distort an organisation's performance in soliciting grants in the first place, as only grants that have been expended are reported as income. By the time a committee finds out that they have fallen woefully short of obtaining the required funds, it may be too late, if only accrual-based reporting is used. Furthermore, many organisations, ourselves included, can greatly control their reported accrual-based surpluses (and net assets) by controlling the timeframe over which they apply expenditure to generic operational grants, as this is a management decision that is fully compliant with accounting standards and the relevant funding agreements.

Cash-based statements also show the purchase of fixed assets, which is far more understandable to laypeople than depreciation, which many discard as not a 'real' expense. This generally makes this statement more 'real' and therefore credible (i.e. free of accounting trickery) to the readers than an accrual-based one.

Both statements could do with clarifying what should not be reported as operating transactions. We believe that reporting of movements in all funds held on behalf of other organisation or people are non-operating, including GST, bonds (i.e. deposits for venue hire, keys or similar), or funds of unrelated groups. Their balances are arbitrary and should not be allowed to distort operating cash flows. The wording of the categories in non-operating cash flow in Tier 4 also does not allow for loans given by the organisation to others – a more common occurrence than a not-for-profit taking a loan.

The definition of what constitutes cash omits credit or debit card balances, which should be included in cash flows. The inclusion of term deposits in the cash balance only, if they have maturities of 90 days or less, is completely arbitrary, and highly distortive of most readers' understanding of an 'investment'. Users of small NFP financial statements simply do not do the kind of business analytics that would make this distinction useful. Term deposits are cash that is almost instantly available if needed, regardless of maturity, and should always be reported in the cash balance.

8. Accounting Policies and Notes

The Notes are by far the least likely parts of the report to be read, but in not-for-profits especially they can be of great use in facilitating a reader's understanding of the financial information and the overall position of the entity.

Considering the users of small not-for-profit financials, we believe the usability of the Notes would benefit greatly from de-cluttering and de-jargoning to improve accountability.

Fixed Assets

The default Note regarding fixed assets fails to state whether there is a policy to expense asset purchases under a certain value, and also is not clear enough on whether the depreciation policy is based on the useful life of the asset, IRD tables, or some other measure of convenience. A ruling on whether IRD policies for Income Tax assessment are acceptable for the measurement of fixed assets of a Tier 3 entity would be desirable.

Going Concern

'Going concern' and 'Events after balance date' disclosures originated in the need of investors to be warned of events impacting on profit or profitability on a business, but are not relevant to most not for profits. Some do operate in a way that a reader could and should assume continuity based on past performance, but most do not. Many exist for the sole purpose of organising an annual or biannual event, with incomes or expenditures that can differ vastly between years due to location or other factors, and such organisations have no ongoing expenses. Others, such as conservation groups, may respond to a huge but very temporary increase of funding for the conservation need of the day, while having no costs whatsoever at times where there is no such activity. Those interested enough in a charity to pick up their accounts will know this. If they are complete strangers with only an academic interest, the disclosures in these notes are of not enough benefit to make them mandatory.

Related Party Transactions

We do not disagree at all with the intent behind this note, and our comments and recommendations are again based on practicality and experience. Related party transactions can significantly affect income and expenditure particularly, and by themselves are not 'good' or 'bad'. In practice, this provision is so poorly understood and inconsistently disclosed, and most accountants and auditors are so inexperienced in the nature and intent of these disclosures, that on balance we believe they do not meet their intended purpose.

Our clients, and quite possibly also many funding advisors, see a related party disclosure as something 'bad', and confuse them with a conflict of interest, or pecuniary benefit. New clients almost always answer 'no' to the question if there have been any such transactions, but in a large number of cases, perhaps even the majority, we find some, especially during audit. Almost all of these have an insignificant effect on the overall operation of the organisation, even though they may be significant in monetary value, or have to be disclosed for other reasons.

We have also noticed the regrettable practice of disclosing the names of those officers involved in a related party transaction, and therefore disclosing information in a public document that most would consider private or confidential from the individual's point of view. We always strongly discourage this, and know that it is not required, but it is another example of the negative effects a mandatory reporting provision can have, where it is widely misunderstood or misinterpreted.

We do not believe that there is a strong case for reporting related party transactions that are not significant. Under the current provisions, a committee member donating a second-hand stapler to the organisation represents a disclosable related party transaction. Free membership for committee members, or any donation from a committee member also come under this provision.

Views differed amongst ourselves whether the Related Party note should be mandatory at all, or whether the subject is sufficiently covered by A213 (Tier 3). This paragraph could include some guidance when disclosures such as Going Concern, Events After Balance Date or Related Party transactions should be made.

If related party disclosures remain a mandatory requirement, we believe some further examples of disclosable transactions are needed, especially cash donations from office holders, or transactions with a business fully or mainly owned by an office holder. It also needs to be made specific whether a paid manager is considered a related party (which would have the undesirable side effect of disclosing their salary).

9. Other Matters

Consolidation

We do not disagree with the intention behind making Tier 3 not-for-profits comply with IPSAS standards for consolidation if they control another entity; however, in practice the goal is not achieved.

We regularly strike cases where an entity should consolidate their accounts with another, but has not done so, usually out of ignorance for the rules (ignorance shared by most professional accountants as well).

Where an entity is familiar with those rules, but wants to avoid showing all its wealth, it can easily do so. Possible avenues for this are making sure the 'parent' entity reports under Tier 4 (or is not a registered charity at all); or structuring it in a way that the 'power' part of 'control' cannot be established with any certainty.

We would also argue that the reader is generally more interested in the financial activities of the 'parent' entity rather than the combined activity of all entities. To accommodate this need of the reader, we would recommend to have a 'parent entity' column added, if the requirement to consolidate remains.

The definition of 'control' is so technical, and so fraught with judgment, that even the charities regulator has been unable to update its web page with the latest changes to it for more than a year. It is unworkable. Where an auditor is convinced that control exists, but the entity disagrees, this becomes a matter of how thick-skinned that particular auditor is, especially when faced with a line-up of accountants and even lawyers with friends in high places.

Instead, the Tier 3 standard could simply be more explicit for the small number of situations where a single entity's financial performance or position alone does not paint an accurate enough picture:

- In cases where an entity is the sole or majority shareholder in a company, we believe the interests of the users are better served by not consolidating, but treating it as an investment. This is because the readers of the entity's financial statements are primarily interested in the financial activities of the parent organisation, and consolidating the company into it may obscure the 'story' that should be told.
- In cases where an entity's sole purpose of existence is to support or hold the assets of another, such as property trusts or 'friends of...' arrangements, we believe it should be mandatory to disclose the net surplus/deficit as well as the net assets of such entities within that of the benefitting entity, regardless of whether 'control' exists, provided this information is on public record (the supporting entities are almost always registered charities as well). This disclosure should be made at least prominently in the Notes.

We notice that some social service organisations, in particular faith-based ones, are successful in obscuring the wealth of the organisation(s) they are supported by to funders, and manage to secure funding for 'expenses' that represent internal transfers within the group, such as 'rent' or professional services. Some of us are referring to this as the 'Bermuda triangle', as money disappears from view in them as ships and planes did in the geographical one. The three corners of the triangle are the faith-based group, a property trust, and the social service organisation, and the money tends to be channelled towards an ever-increasing property portfolio. Sometimes the triangle gains more corners, where fully owned subsidiaries of a head church provide 'mortgages', or similar

arrangements. We also believe that members of the local congregations are often deceived about what their donation or tithe is really paying for through such structures.

We cannot provide an easy answer to this problem, other than that we believe these connections should be disclosed, and the wealth that often exists in such structures be made more obvious. This may well be a matter for a separate standard, or even legislation.

Recognition and Measurement of Fixed Assets

The majority of fixed assets purchased by our clients are funded through grants (or occasionally specifically asked-for donations). In many cases, the asset is purchased for a specific service, that would simply not be provided without such a grant. This causes two problems when using standard accounting assumptions:

- Since the Statement of Financial Performance in a not-for-profit tells the story of how their expenses were funded, recognising a donation for an asset, the cost of which are capitalised, as income, falsifies that story, as it no longer matches income with expenditure. Such a grant or donation is in nature more similar to the capital contribution of the owner of a business, than to sales income.
- Where such assets are depreciated, this is again a misrepresentation of the organisation's cost of using this asset. If the asset was funded through a grant, and it can be expected to be replaced through another grant (or not replaced at all), there really is no cost to the organisation in using this asset other than maintenance, and therefore recognising a depreciation expense is misleading.

The tools of accounting were developed with businesses in mind, not not-for-profits, and these are the situations where they stop being useful. The matching principle of accounting appears to be in conflict with standard accounting practice here.

Earlier in this submission, we have suggested to at least allow such grants to be a below-the-line item in the Statement of Financial Performance. We also suggest such grants to be reported in the capital section of cash-based statements, rather than operational, to better comply with the matching principle.

Budget Reporting

To be of any use, budgets need to be living documents, which respond to the vagaries of funding and other issues occurring through the year. Which budget, then, is meant to be reported here?

We cannot see any useful information for the user in this, but the potential for confusion (it may be mistaken for actual numbers), and attempts to make the actual figures look better than they are by comparing them to a fictional budget.

They are also problematic in audit. They cannot be tested for the same assertions as actual figures, so an auditor can only look at whether they are misleading using ISA 720, but what if an entirely ludicrous budget could be shown to have been put to the Board and approved?

We recommend to remove any reference to budgets from the Tier 3 and 4 standards, and remove the budget columns from the template.

10. Summary of Recommendations

Presentation

1. Change default order of Statements, and put financial information first, to ensure readers of the report are not distracted from its main purpose.
2. Remove or replace the word 'performance' in Statement titles and use titles more appropriate to the not-for-profit nature or the entity.

Statement of Service Performance

3. Remove this statement from report altogether, and hand non-financial reporting back to the charities regulator (or the companies office for non-charities). The next best alternative is to make this a voluntary disclosure only.
4. If it remains, remove Outcome disclosure requirement, as it is too poorly understood and does not add value to the reader.
5. If it remains, impose a limit of disclosures to a single page for readability.

Statement of Financial Performance

6. Remove minimum categories, which do not provide useful information to users, and are applied too inconsistently to allow inter-entity comparisons. Keep a separate mandatory disclosure of public fundraising expenses, however.
7. Allow below-the-line recognition of the following types of transactions:
 - a. Grants or donations given for capital expenses,
 - b. Property and investment revaluations,
 - c. (Realised) investment income.
8. Modify the 'use-or-return' condition to include all grants for which there is a clear expectation that they are to be used to cover specific expenditure, regardless of whether the donor asks for return.

Financial Position Statements

9. Make the use of GV for buildings and land mandatory, without requiring IPSAS 17, for both Tier 4 and 3. Allow revaluation gain or loss as a below-the-line item in Financial Performance, or allow as movement in an equity reserve only.
10. Review distinction between 'current' and 'non-current' assets with a view to better meet the information needs of users.
11. Mandate the use of market valuation for tradeable investments, where these are readily available, rather than recognition at cost.
12. Clarify that intangible assets must not be recognised under either standard.
13. Remove references to 'owner's capital'.
14. Clarify use of accruals other than Accounts Payable and Receivable under Tier 4.
15. Allow depreciation as a valuation method under Tier 4.

Statement of Cash Flows/ Receipts & Payments

16. Align the format of the Statement of Cash Flows (Tier 3) with that of the Statement of Receipts and Payments (Tier 4) to (a) make it more useful for Tier 3 entities and (b) allow better comparison between a Tier 3 and a Tier 4 entity.
17. Include all term deposits in the cash balance, regardless of maturity.
18. Clarify inclusion of credit or debit card balances in the cash balance.
19. Allow grants received for capital purchases to be listed in the non-operating section.

20. Clarify reporting for movement in funds held on behalf of others (or held by others on behalf of the organisation) - such as GST, bonds, unrelated organisations' funds - preferably as non-operating.
21. In templates, allow for others borrowing from the organisation, not just the organisation borrowing from others (non-operating movements).

Accounting Policies and Notes

22. Evaluate whether disclosures such as 'Basis of Reporting', 'Going Concern' or 'Events after Balance Date' provide enough usefulness for users of NFP financial statements that they should be mandatory.
23. Clarify that the Asset recognition note should contain a statement about asset capitalisation thresholds, if any, and the organisation's depreciation policy. Provide guidance whether the use of IRD rules for capitalisation and depreciation is, by default, acceptable.
24. Review Related Party disclosure rules to avoid insubstantial or inconsequential disclosures, and provide specific guidance on some more transactions.

Other Matters

25. Abolish the present requirement to consolidate entities, as the definition of 'control' is unworkable. Instead:
 - a. Require recognition of majority-owned companies as investments, using their net assets in the balance sheet, and the movement in net assets as investment income in Financial Performance. For Tier 4 entities, require the disclosure of the Net Assets of such a company in 'Resources and Commitments'.
 - b. Require disclosure of the net assets of a supporting entity, if publicly available.
 - c. Consider how complex arrangements between related groups could be better regulated.
 - d. If the requirement to consolidate remains, add a column showing the financial activities of the parent entity only.
26. The present recognition of grant-funded fixed assets is unsatisfactory, and should be reviewed.
27. Budget reporting is potentially distorting, and should not be encouraged.

Christchurch, 30 March 2021

Dennis Zhang

Nick Hsu

Eugenia Pokusai

Othonia Konstantionopoulou

Harald Breiding-Buss

Rhys Pickett

Jessica Jamieson

Yvette Zeng

Post-implementation review of the Simple Format Reporting Standards

Name: **David Walker**

Email address: **dfwalker@outlook.co.nz**

<p>I am answering:</p>	<p><input type="checkbox"/> As an individual</p> <p><input checked="" type="checkbox"/> On behalf of an entity</p> <p><input type="checkbox"/> On behalf of several entities</p>
<p>Which of the following best describes your role?</p>	<p><input type="checkbox"/> Chairperson</p> <p><input type="checkbox"/> Treasurer</p> <p><input type="checkbox"/> Officeholder / Governor</p> <p><input checked="" type="checkbox"/> Accountant</p> <p><input type="checkbox"/> Auditor</p> <p><input type="checkbox"/> Other (<i>please specify</i>)</p> <div style="border: 1px solid black; height: 15px; width: 100%;"></div>
<p>Do you have a background in commerce, finance, or accounting? <i>Including both professional experience and education</i></p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>
<p>Which standard(s) are you commenting on?</p>	<p>Not-for-Profit</p> <p><input type="checkbox"/> Tier 3</p> <p><input checked="" type="checkbox"/> Tier 4</p>

Tier 4 Reporting template

“Total receipts” are not the same as “Gross income”

Some receipts do not constitute income. Under tier 4 reporting when the liability for the annual fee is calculated the present format of Tier 4 reporting treats some receipts as part of Gross income when they are not. If the same figures are put into Tier 3 reporting format this shows these receipt amounts do not comprise part of Gross income. An example is funds received from members to pay for specific trip accommodation. These funds are effectively held in trust for individual members before paying for the specific accommodation. This method avoids the members having to pay the provider individually and do not form part of the Gross income of the entity. The funds when received are posted to a liability account in the Balance Sheet and do not go through the Profit and Loss account/ Income statement. This issue arises when the receipt and payment is not made in the same income year.

Solution

Provide another classification below the Operating surplus as is done for “Capital Receipts”

Comments from John Morrow (JBWere NZ)

We acknowledge XRB may not be able to accommodate all our requests in its current revision of the standards for GPFs, but we would appreciate XRB considering the following - knowing that the Charities Services annual reporting framework that we rely on will align / match with any revision you make to this reporting standard:

- **“Operating receipts”** (Charities Services - Annual Return Summary Template)
 - Change so it separately itemises “bequests” from “donations and grants” – as bequest income is often irregular, and can be disproportionate in size to regular donations and granting income sources
 - Change so it separately itemises “government grants” from “donations and grants” - so can identify the donations and grants that are purely philanthropic

- **“Operating payments”** (Charities Services - Annual Return Summary Template)
 - Change so it separately itemise “salaries and wages” - so can assess this as a proportion of total costs

- **Volunteer / staff profiles** (Charities Services - Annual Return Summary Template)
 - We note the current summary template requires charities to report total number of volunteers and hours for an average month. We are then multiplying by 12 to notionally determine the FTE volunteers for the year. As a charity health indicator this is contrasted with annual paid staff part time and fulltime numbers. If we can get direct reporting on annual FTE volunteer numbers than we would welcome that.

- **“Main activity” “Main Sector”** (Charities Services - Annual Return Summary Template)
 - This is not well defined and there is inconsistent use in the current annual reporting. For example, those who identify their main activity as “international activities” does not capture the top ten international aid and development charities, registered in NZ. Can this be better defined and assured?

- **Identifying giving versus doing charities ”** - (Charities Services Annual Return Summary Template)
 - In the current reporting it is difficult to identify those charities on the supply side (private funders) versus those on the demand side (grantees). It seems the only way this can be done is by reference to “grant and donations made” relative to “expenses related to providing goods and services.” We would welcome the standard supporting more clarity in the reporting to better identify the ‘giving charities’ over the ‘doing charities’ on the Register

Thank you for the opportunity to make this submission.

Name:	Judith Miller
Job title (if relevant):	Chief Executive
Organisation (optional):	Northern Masonic Association Trust Board
Location (optional):	Auckland
Email address:	judith@freemasonsfoundation.org.nz

I am answering:	<input type="checkbox"/> As an individual <input checked="" type="checkbox"/> On behalf of an entity <input type="checkbox"/> On behalf of several entities
Which of the following best describes your role?	<input type="checkbox"/> Chairperson <input type="checkbox"/> Treasurer <input type="checkbox"/> Officeholder / Governing Body Member <input type="checkbox"/> Accountant <input type="checkbox"/> Auditor <input checked="" type="checkbox"/> Other (please specify) <input type="text" value="Chief Executive"/>

<p>Do you have a background in commerce, finance, or accounting? <i>Including both professional experience and education</i></p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>		
<p>Which standard(s) are you commenting on?</p>	<table border="1"> <tr> <td data-bbox="309 629 518 1025"> <p>Not-for-Profit <input checked="" type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p> </td> <td data-bbox="309 190 518 629"> <p>Public Sector <input type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p> </td> </tr> </table>	<p>Not-for-Profit <input checked="" type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p>	<p>Public Sector <input type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p>
<p>Not-for-Profit <input checked="" type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p>	<p>Public Sector <input type="checkbox"/> Tier 3 <input type="checkbox"/> Tier 4</p>		

Ref	Question	Response <i>(Please try to give clear reasons to support your feedback.)</i>
1	<p>What is your overall view on how the standards are working?</p> <p>To help you answer this question you might want to consider whether:</p> <ul style="list-style-type: none"> (a) performance reports prepared using the standards provide the right kind of information; (b) any new issues have emerged since the standards were issued; (c) there is anything you think we did not think about or anything we did not get right; and (d) the costs of applying the standards are higher than you expected 	<p>We have concerns with the treatment of donations.</p>

Ref	Question	Response <i>(Please try to give clear reasons to support your feedback.)</i>
3	<p>Are there any specific issues that you have encountered in applying the standards, guidance, or templates?</p> <p>If you can, please outline:</p> <ul style="list-style-type: none"> (a) the specific part of the standard, guidance, or template that you are commenting on (where relevant); (b) the types of entities affected, how many entities are affected (if you know) and the impact the issue has on them; and (c) how the issue should be addressed. 	<p>Please refer to the attached page</p>

The Foundation is a funder that historically made significant multi-year donations primarily in the areas of Research, Education, Community Health and the Arts. The current year's donation would be expensed and the balance of a multi-year donation shown as a Commitment in the Notes. This worked well.

Under Standard A80, grants and donations made are required to be recorded as an expense when the grant or donation has been approved and the recipient advised. Our auditors advised that this required all of a multi-year donation to be expensed in the year it was approved and the recipient advised.

As a result of this, the Foundation stopped funding multi-year donations.

As part of the XRB's Review of Simple Format Reporting Standards, we would like to comment on three areas of concern.

1 When the Foundation made a multi-year donation, a report was required showing satisfactory progress with the project before any additional year funds were remitted.

For a donee, under Standard A62, revenue for grants and donations that have a use or return condition attached is recorded as a liability which is reduced as the condition is met. If they have no use or return condition, it is recorded as revenue when the cash is received.

Given that we had a condition of satisfactory reporting, it would appear that a multi-year donation could potentially be treated differently by the donor and donee in that the donee may only record one year.

2 If all of a multi-year donation is expensed in the year it has been approved and the recipient advised, the figures shown for donations and creditors could be significant.

This may require a change in Tier leading to additional reporting and audit costs. More importantly, it could also result in showing a deficit in the Performance Report as the corresponding income to cover these expected donations is not recorded until some future year. This has the potential to give the wrong impression about the organization's viability to readers of the Performance Report.

3 Not funding multi-year projects has a resulting impact on the donee organizations who are now required to complete year by year applications. This involves staff spending additional time and resources on administration rather than getting on with the job. It also has the potential to lead to a shorter outlook rather than a multi-year development plan.

If the application is for a four-year postdoctoral fellowship or research project with no guarantee of funding for the full period, it is possible they will not be accepted for the fellowship or commit to the research if the full funding is not in place.

Many of the research projects we have funded, while in the name of a University, are undertaken by researchers under contract. Where a project has a timeframe spread over many years, our inability to grant the entire funds creates uncertainty and is not best practice. Previously we were able to grant funds for a multi-year project, subject only to appropriate progress being made year on year. The current practice is now to grant one year's funding and require a new application for future years which goes before our grants committee for consideration. There are unintended administrative consequences on both donor and donee through the application of this Standard and frankly we fail to see any benefit that results.

Anthony Heffernan
Director – Accounting Standards, XRB
PO Box 11250
Manners St Central
Wellington 6142

20 September 2020

Dear Mr Heffernan

I am writing to report an inconsistency in the current version of *PBE SFR-C (NFP) Tier 4: Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit)* in connection with GST.

Tier 4 entities which are registered for GST are permitted to present the performance report exclusive of GST (paragraph A18, A107), with the GST payable or refundable disclosed in the Statement of Resources and Commitments (paragraphs A86 and A98).

Consider a newly formed entity with operating receipts of \$3,000+GST and operating expenses of \$2,000+GST and which, by the end of the year, has not yet paid the net \$150 GST to Inland Revenue. Exclusive of GST, the performance report takes the following form, in accordance with A35:

Operating receipts (by category)	3000
Less operating payments (by category)	<u>2000</u>
Operating surplus or (deficit)	1000
Add capital receipts (by category)	0
Less capital payments (by category)	<u>0</u>
Increase or (decrease) in cash	1000
Plus bank accounts and cash at the beginning of the financial year	<u>0</u>
Total bank accounts and cash at the end of the financial year	<u>1000</u>
Represented by:	
Bank account(s)	1150
Term deposit(s)	0
Cash on hand (includes petty cash)	<u>0</u>
Total bank accounts and cash at the end of the financial year	<u>1150</u>

The GST is not part of the operating cash flows, but is part of the cash in the bank. The amount is disclosed elsewhere, but that does not fix the mismatch in the performance report.

The obvious resolution would be to add a line, Net change in GST, in the same area as the capital receipts and payments. This would leave the operating surplus as \$1,000, while correctly reporting the change in cash as \$1,150.

Sincerely



Paul Dunmore, CMA
100 Marine Parade
Paraparaumu 5032

To: submissions@xrb.govt.nz

Prepared 25 March 2021

XRB Responses – Post-Implementation Review

Respondent Information

Perpetual Trust Limited (trading as Perpetual Guardian) is a registered statutory trustee company pursuant to the Trustee Companies Act 1967. Perpetual Guardian (and its predecessors, including The New Zealand Guardian Trust Company Limited) has been in the business of providing estate planning options, trustee services and philanthropic support for over 135 years.

The responses to the questions for respondents are on behalf of Perpetual Guardian.

Perpetual Guardian acts as trustee for approximately 600 independent registered charitable entities established either during the donor's lifetime or on their death.

The charities for which Perpetual Guardian is trustee typically do not solicit donations from the public. The charities are funded from initial settlements or bequests which are invested to provide a return to the charity to distribute for its charitable purpose(s).

Most of the trusts for which Perpetual Guardian acts as trustee are Tier 3 or Tier 4. However, Perpetual Guardian has 'elected up' to treat the Tier 4 charities as Tier 3 as accrual accounting provides a more accurate picture of the long term position of the Charity and allows for better management. It also enables a more streamlined preparation process to keep costs as low as possible. As such the comments below relate to the not-for-profit version of the standards for Tier 3 reporting entities.

Please consider this context when reviewing the comments below as we expect this background will be different from many of the charities making submissions.

We are happy to provide further information is useful, please contact us at philanthropy@pgtrust.co.nz.

Responses to Questions

1. What is your overall view on how the standards are working?

Generally the standards appear to be working in the sense that there is a framework for reporting that provides various stakeholders with the ability to assess a charity's financial and non-financial performance from a charity's Performance Report.

As highlighted above, Perpetual Guardian has elected to treat Tier 4 charities as Tier 3 on the basis that Performance Report prepared using accrual accounting provides better information. Such flexibility, along with the ability to apply specific accounting standards applicable to Tier 2 is useful.

2. What parts of the standards, guidance or templates have been working well? Are there any that have been particularly useful?

The overall structure of the Tier 3 standard is helpful for the following reasons:

- The guidance is structured by each separate statement/report which helps users access and navigate the requirements;
- Clear direction is provided on what the minimum required information is with some additional optionality, which provides welcome flexibility for the preparation of financial statements.
- The inclusion of examples is helpful to illustrate treatments for some of the more likely circumstances charities will encounter. The examples are however relatively generic and do not address some of the more nuanced differences that can arise, particularly involving charitable trusts.

3. Are there any specific issues that you have encountered in applying the standards, guidance or templates?

Application of guidance to trusts

The standards and guidance uses generic terms, presumably to apply too as wide a range of circumstances as possible.

This does not always translate to trusts and creates uncertainty in how the standards should apply. For example, cash flows from investing and financing activities includes capital contributed from owners or members. The settlement of funds on trust would not usually be described as being contributed from an owner or member. Judgment has to be exercised which can result in different treatments being adopted by different charities in similar circumstances. This potentially reduces the comparability of financial statements.

Distributions from trusts

The treatment of distributions from a trust may be different to the treatment of distributions from other types of charities.

For instance, if a charitable trust has fixed (named) beneficiaries with a direction to allocate a specific portion of the charity's income to each beneficiary, this could be viewed as 'distributions to owners' reported through Accumulated Funds.

If treated this way, the distribution would not be a grant included as operating expenditure in the Statement of Financial Performance. As a result, the requirement for a review or audit may not be triggered.

This could be the correct answer for some charitable trusts, particularly where the beneficiaries are specifically named and the trust does not accept donations from the public.

Review or Audit Requirement

We would suggest that the review or audit requirement be removed for situations where a charity does not solicit or receive donations from the public. While these charities have a degree of public accountability to ensure funds are applied in accordance with a charity's governing document and rules, the absence of public funding may suggest that the effort and cost required for a review or audit is unnecessary.

In addition, Charity Services would appear to be better placed to assess whether a distribution furthers a charitable purpose than auditors are.

Reporting Capital & Income in charitable trusts

Following on from the comments above relating to distributions from trusts, the standard does not always accommodate the reporting of income and capital from a trustee's perspective. As you will be aware, trustees are required to follow trust law and the trust's governing document in the management and administration of the trust property.

This involves the classification of payments made and received as either income or capital. In some situations, expenses are paid from the trust's capital balance. If the standard is followed then these payments would be shown in the Performance Report's Statement of Financial Performance which would result in the net surplus being less than what it would be had the trustee's treatment being followed.

There would also be a difference with the trustee's record of the capital and income balance which could require the trustee to prepare a second set of financial statements that are prepared in accordance with trust law.

A potential solution to this additional cost would be to have flexibility to use the trustee's accounts with appropriate disclosures.

Revaluation of financial assets and liabilities

We consider that the ability to elect to revalue financial assets and liabilities to fair value should be retained. This is on the basis that charitable trusts can exist in perpetuity and not revaluing the financial instruments could result in a materially misleading view of the charity's financial position due to changes in investment values over time.

It would be useful to provide preparers of Performance Reports with guidance on the disclosures and presentation required. This would also hold true for other items that charities regularly elect to apply tier 1 or 2 treatments.

Going Concern

The models used to establish the ongoing viability of some types of charities, in particular funding charities, may not be appropriate for the following reasons:

- a) Not-for-profits can generate income without the existence of any assets through donations and fundraising. They may also be funded on the occurrence of an event, such as a donor's death.
- b) The future income of some not-for-profits cannot be estimated from past income with a sufficient level of certainty.
- c) Not-for-profits do not necessarily incur expenditure for tasks in the same way as businesses do, as they have at least potential access to free labour, material donations for shell trusts or 'through and through' donation trusts and other 'free' goods and services.
- d) Some not-for-profits may intend to provide funding over multiple years, in advance of the not-for-profit having the funds available.

Multi-year distributions

A charitable trustee may enter into a long term granting partnership with a recipient charity. In some situations the Trustees may not view this as creating a liability for the Trust and on the following basis:

- a) Grants are re-evaluated and confirmed on an annual basis i.e., the Trustee may or may not continue with the proposed partnership.
- b) The strategic direction for the grant recipient may change and the grant request may be withdrawn.
- c) Grants are only payable on the basis of available funds i.e. the performance of the Trusts investments or fund raising activities.

Including some guidance on this, or expanding an example, would help clarify the required treatment.

4. Have you developed any custom guidance to help apply the standards?

Yes, the Client Accounting & Tax team at Perpetual Guardian created proprietary guidance for preparing financial statements, including Performance Reports. The guidance includes comments on areas specific to the nature of our business as a Statutory Trust company and our charitable trusts (as opposed to incorporated or unincorporated organisations).

5. Other comments?

In regards to usability and compliance with the standard, a significant portion of the charities seeking funding from trusts stewarded by Perpetual Guardian are very diverse and the smaller entities can lack accounting knowledge, or access to advice, that would enable them to use the XRB standards effectively.

One of the difficulties in reporting is the large variety of non-for profits. We query whether the nature of a non-profit is adequately captured in the reporting framework, i.e., there is a difference between a funding charity and an operational charity which should be reflected in different reporting and auditing requirements.

For example, the standards appear to have not-for-profits in mind that provide 'services' to the community and can be considered a fairly close equivalent to a service business.

However, a very large number of not-for-profits simply exist as a means provide philanthropic funding, or outside of the realms of our Trusteeship, to manage membership funds i.e. clubs.

Fitting these entities into a Performance Report is difficult, and provides little, if any, useful information. The term 'service performance' in itself is a poor fit for many organisations. A perpetual testamentary charitable trust, for example, does not 'perform' and does not provide a 'service'. It is an administrative funding vehicle only.

Finally, we also wish to question how Charities Services and other stakeholders use the information contained in a performance report. If information is not used for monitoring or evaluation activities then the need for such information to be included in a performance report should be questioned.

For example, is the Statement of Cash Flows used as part of ongoing monitoring and compliance activities? If not, does a cash flow statement provide much utility to users of the financial statements?



APPROVAL NZASB 188

Approval to Issue *Covid-19-Related Rent Concessions beyond 30 June 2021*

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 *Covid-19-Related Rent Concessions beyond 30 June 2021*; 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 *Covid-19-Related Rent Concessions beyond 30 June 2021* pursuant to sections 12(a) and 27(2) of the Financial Reporting Act 2013.

Dated this 22nd day of April 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