Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Board Meeting Agenda

Virtual Meeting — Thursday, 12 August 2021

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
PUBLIC SESSION					
11.05 am	Morning tea break				
11.20 am	**5**	**IPSASB Measurement**	(JS/GS/JP/TC)		
	5.1	Cover memo	Consider	Paper	Xx
	5.2	Draft comment letter	Consider	Paper	Xx
	5.3	IPSASB EDs 76–79	Consider	Link to XRB website	–
12.35 pm	Lunch break				
NON-PUBLIC SESSION					
PUBLIC SESSION					
1.25 pm	**7**	**IASB Third Agenda Consultation**	(TC/JP)		
	7.1	Cover memo	Consider	Paper	xx
	7.1.1	Survey results	Note	Paper	xx
	7.2	Draft comment letter	Approve	Paper	xx
	7.3	RFI *Third Agenda Consultation*	Note	Link to XRB website	–
2.10 pm	**8**	**Disclosure Initiative – Targeted Standards-level Review of Disclosures**	(JS)		
	8.1	Cover memo	Consider	Paper	xx
	8.2	Draft comment letter	Consider	Paper	xx
	8.3	IASB ED *Disclosure Requirements in IFRS Standards – A Pilot Approach*	Consider	Link to XRB website	xx
	8.4	IASB Basis for Conclusions	Consider	Link to XRB website	xx
	8.5	IASB snapshot summary	Note	Link to XRB website	xx
2.55 pm	Afternoon tea break				
3.10 pm	**9**	**Tier 3 and Tier 4 PIR**	(JC/NH)		
	9.1	Cover memo	Consider	Paper	xx
	9.2	Draft feedback statement	Approve	Paper	xx
	9.3	Issues paper	Consider	Paper	xx

Est Time	Item	Topic	Objective		Page
4.10 pm	**10**	**Standards Approved**	(VSF)		
	10.1	Approval 134 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	Note	Paper	xx
NON-PUBLIC SESSION					
4.21 pm	*Finish*				

Next NZASB meeting: Tuesday 19 October 2021 (In-person, Auckland)

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EXTERNAL REPORTING BOARD

Agenda Item 5.1

Memorandum

Date:	30 July 2021
To:	NZASB Members
From:	Joanne Scott
Subject:	**IPSASB Measurement**

Purpose and introduction

1. The purpose of this item is to progress the draft comment letter on the IPSASB measurement-related EDs.

Recommendation[1]

2. The Board is asked to PROVIDE FEEDBACK on the draft comment letter, as per Table 2.

Background

3. The Board has agreed to comment on the following four 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*.

4. Comments are due to the IPSASB by 25 October 2021.

5. Previous agenda papers have looked at how the proposals differ from current practice and possible implications – see Table 1 for an overview of previous agenda papers.

Table 1 Previous NZASB meeting agenda papers

April	Education session Cover memo looked at: • why we should comment on the EDs • previous IPSASB projects that have flowed into the EDs • previous NZASB or NZ constituent comments and what, if anything, the IPSASB has done about those issues in the EDs –appendices listed the detailed heritage and infrastructure issues that had been raised • summary of each ED, including amendments to other standards • issues to consider when commenting on the EDs
May	Cover memo looked at: • which Specific Matters for Comment (SMCs) to comment on • differences between proposals and PBE Standards by type of asset • what to ask valuers and auditors

[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).

	• Australian NFP measurement requirements and recent AASB discussions Draft comment letter contents • Bullet points for those SMCs we recommended commenting on
June	Cover memo looked at: • differences between depreciated replacement cost (DRC) in PBE Standards and using a cost approach to estimate current operational value (COV) • TRG feedback and additional Board member feedback Draft comment letter • ED 76 Draft responses for most SMCs • ED 77 Draft responses for SMCs 5, 6, 8,9 • ED 78 Draft responses for SMCs 2, 4, 7 • ED 79 Draft response on SMC 1 and other matters

Structure of this memo

6. The remaining sections in this memo are:

   (a) Draft comment letter;

   (b) Outreach update; and

   (c) Next steps.

Draft comment letter

7. Since the June meeting we have continued to flesh out the draft comment letter. Table 2 shows which responses are new or revised. We have used blue shading in the comment letter to highlight the sections on which we are seeking feedback.

8. The new responses are mainly on current operational value, deletion of measurement bases from the Conceptual Framework, disclosures and heritage items. ED 77 SMC 6 has been one of the hardest questions to respond to. We have included background information for that question to help with the discussion. If we could get general agreement on most of the SMCs, other than those dealing with current operational value, that would be very helpful as it would mean we could focus on current operational value at the October meeting. For those SMCs dealing with current operational value, we are seeking direction.

	Table 2 SMCs	Feedback sought?
ED 76 Conceptual Framework Update		
SMC 1	Measurement hierarchy	No
SMC 2	Fair value as a measurement base	No
SMC 3	Current operational value as a measurement base	Yes – NEW
SMC 4	Description of value-in-use	No
SMC 5	Delete measurement bases – market value and replacement cost	Yes – NEW
SMC 6	Delete measurement bases – net selling price, cost of release, assumption price	Yes – NEW
SMC 7	Other issues	No

	Table 2 SMCs	Feedback sought?
ED 77 Measurement		
SMC 1	Initial measurement	Not commenting
SMC 2	Subsequent measurement – historical cost or current value	Not commenting
SMC 3	Historical cost guidance	Not commenting
SMC 4	Historical cost – no measurement technique needed	Not commenting
SMC 5	Current operational value – principle	See SMC 6
SMC 6	Current operational value – definition and guidance	Yes – revised (one new para)
SMC 7	Current operational value – location assumption	Yes – NEW
SMC 8	Current operational value – use of income approach	Yes – revised (one new para)
SMC 9	Fair value	No
SMC 10	Cost of fulfillment	Yes – NEW
SMC 11	Disclosure – Located in individual IPSASs	Yes – NEW
SMC 12	Disclosure – Any that should be located in ED 77?	Yes – NEW
SMC 13	Disclosure – Consistency across standards	Yes – NEW
SMC 14	Disclosure – Level of detail for recurring versus non-recurring	Yes – NEW
SMC 15	Disclosure – Inputs to fair value hierarchy	Yes – NEW
ED 78 Property, Plant and Equipment		
SMC 1	Relocation and restructuring	No (not commenting at this stage)
SMC 2	Current value model – accounting policy choice	Yes – NEW
SMC 3	Characteristics of heritage assets	Not commenting
SMC 4	Characteristics of infrastructure assets	Not commenting
SMC 5	Disclosure of unrecognised heritage items	Yes – NEW
SMC 6	IG for heritage assets	Yes – NEW
SMC 7	IG for infrastructure assets	No
ED 79 Non-current Assets Held for Sale and Discontinued Operations		
SMC 1	Additional disclosure	No
Other	Other comments	Yes – revised (one new para)

Outreach update

9. We held a webinar on 1 July to raise awareness of the proposals and help constituents decide which parts of the EDs they should look at, and why. We will continue to contact relevant organisations and groups.

Next steps

10. We will revise the draft comment letter for feedback received from the Board and constituents. We will seek approval of the comment letter at the October meeting.

Attachments

Agenda item 5.2: Draft comment letter

Accessing the EDs

Agenda item 5.3: The At A Glance documents and EDs were distributed to Board members in April. They are available on the XRB website.

- ED 76 *Conceptual Framework Update: Chapter 7,* Measurement of Assets and Liabilities in Financial Statements
- ED 77 *Measurement*
- ED 78 *Property, Plant and Equipment*
- ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

[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

Note to the Board

Blue shading indicates new responses and any substantive changes to responses.

Each SMC includes a *brief explanation*, in italics, as to whether the response is new, revised or unchanged since the last meeting.

The proposed responses have paragraph numbers.

Background information, if any, precedes the draft responses and does not have paragraph numbers.

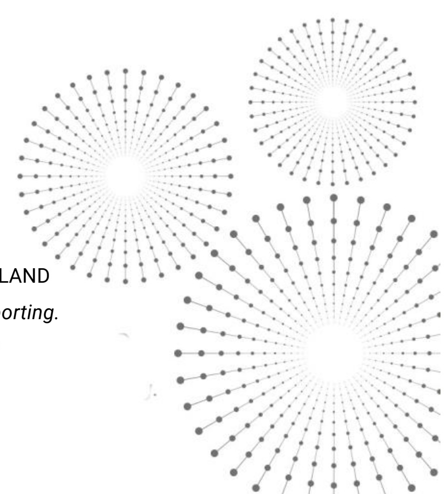
Dear Ross

IPSASB Measurement-related Exposure Drafts

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

Key points will be added here

- *General support for the proposal to bring IFRS 13 fair value requirements into IPSAS*
- *Our views on the extent to which fair value as per IFRS 13 is or is not appropriate for public sector assets*
- *Concern/disagreements with current operational value*
- *The limitations of the proposed additional guidance on heritage and infrastructure assets*



Public benefit entities in New Zealand

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

General comments on ED 76 and ED 77

Considered in June. The Board did not request any changes. Staff have made minor editorial changes.

1. The IPSASB is proposing to include descriptions of measurement bases in ED 76 *and* ED 77, along with more detailed guidance in ED 77. We acknowledge that including descriptions of measurement bases in the Conceptual Framework is consistent with the original contents of Chapter 7 of the Conceptual Framework. The proposals could also be seen as being consistent with the fact that the IASB discusses fair value in its Conceptual Framework as well as in IFRS 13 *Fair Value Measurement*.

2. However, IFRS 13 provides more guidance on only one of the measurement bases in the IASB's Conceptual Framework. ED 77 would provide guidance on four measurement bases.

3. The overlap between ED 76 and ED 77 introduces the risk of inadvertent inconsistencies between the descriptions in ED 76 and ED 77. One way to reduce this risk would be to repeat the ED 76 descriptions as identical text in ED 77, possibly as boxed text. Another way would be to keep the descriptions in ED 76 as brief as possible.

ED 76 SMC 1: Measurement hierarchy

Considered in June. The Board did not request any changes. We have added an introductory sentence to make it clear that we disagree with aspects of the proposed hierarchy.

SMC 1: ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?

4. We do not object to the IPSASB developing a measurement hierarchy, but disagree with aspects of that hierarchy. Our main concern is that the hierarchy does not show some of the fundamental components of subsequent measurement.

5. We would modify the proposed measurement hierarchy to show that depreciation/amortisation and impairment are fundamental components of subsequent measurement under historical cost. Both depreciation/amortisation and impairment include valuation concepts (such as value in use and net realisable value). We are not suggesting that the Conceptual Framework should get into any detail about these concepts – this detail is appropriately addressed at standards level. However, the Conceptual Framework should acknowledge that different techniques are used within standards.

6. The risk of omitting depreciation/amortisation and impairment from the hierarchy is that it could imply that the IPSASB is talking about subsequent measurement in gross terms. The fact that the choice between depreciation/amortisation and impairment is determined at standards level does not affect the fact that they are part of applying historical cost. We accept that it is possible to debate whether depreciation and impairment are 'techniques'

but they contain measurement concepts and should be shown in any diagram depicting subsequent measurement.

7. The ED refers to 'the historical cost model'. There is not a single historical cost model. The use of depreciation/amortisation or impairment in subsequent measurement has different implications for the financial statements.

8. If revaluations are not conducted every year, then depreciation/amortisation and impairment are also part of the subsequent measurement of revalued assets. It is not possible to discuss current operational value (COV) without reference to whether that value incorporates depreciation or not.

ED 76 SMC 2: Fair value as a measurement base

Considered in June. Staff have made minor editorial changes.

SMC 2: 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?

9. We agree with the IPSASB's proposal to include fair value as a measurement basis in the Conceptual Framework and to adopt the same definition of fair value as in IFRS 13. We consider that closer alignment with the fair value requirements in IFRS Standards will assist public sector entities that consolidate entities applying IFRS Standards. We also generally agree with most of the proposals to align IPSAS with IFRS 13, to the extent that fair value is used in IPSAS.

10. We have some concerns about the proposed changes to IPSAS 41 *Financial Instruments* and the implications of those changes for unlisted shares and equity contributions to public sector entities. See our response to ED 77 SMC 9.

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

NEW response. The Board discussed this SMC in June, but we had not drafted any text at that stage. Because this is the first question on COV we have commented first on whether it should be a measurement basis, and then on the proposed definition. See also ED 77 SMC 6, which seeks more feedback on COV.

SMC 3: 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?

> *Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.*

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

11. Overall, we do not agree with the proposed inclusion of COV as a measurement basis for assets.

12. We acknowledge that if the IPSASB decides to adopt fair value as a measurement basis, there will be some assets where fair value (as per IFRS 13) would not be the most appropriate information for decision-making and accountability. We consider in more detail what those assets might be in our responses to ED 77.

13. Up until now the requirement or option to fair value certain assets in IPSAS has not given rise to many problems. This is for a number of reasons.

    (a) The definition of fair value in extant IPSAS differs from that in IFRS 13. IPSAS currently use the pre-IFRS 13 definition of fair value which refers to an exchange of assets and which does not explicitly require a market participant or exit price focus. That is, the definition of fair value currently used in most IPSAS is broader than that in IFRS 13.

    (b) The definition of an asset in IPSAS includes the asset's service potential.

    (c) IPSAS 17 explains that for many assets such as land, non-specialised buildings, motor vehicles and some plant and equipment, fair value is readily obtainable in an active and liquid market. It acknowledges that this may not be the case for some public sector assets because of the absence of market transactions for those assets. It then explains the fair value of some assets (such as specialised buildings and other man-made structures) may need to be estimated and refers to depreciated replacement cost as one possible approach.[1]

    (d) Although there has been limited guidance in IPSAS on how to estimate fair value in the absence of market-based evidence, depreciated replacement cost has clearly been an acceptable way of estimating fair value. It has not been regarded as an alternative measurement basis.

14. Collectively these factors mean that there has not been a demand for an alternative measurement basis to fair value (as currently defined) for revalued assets.

15. The introduction of a tighter definition of fair value raises the possibility that there might be more public sector assets where fair value is not readily obtainable or appropriate. Leaving aside the question of which assets would fall into this category, if we needed to identify an alternative measurement basis, we have first considered replacement cost. The IPSASB has had replacement cost as a measurement basis in its Conceptual Framework since December 2014. It has not been applied throughout IPSAS, but we could conceive of a revised IPSAS 17 which permits the use of replacement cost when fair value is not available or not appropriate.

16. The IPSASB has chosen to propose COV rather than replacement cost as that alternative measurement basis. ED 76 paragraphs BC7.26 and BC7.27 (set out below) explain why the IPSASB is proposing COV as a measurement basis for assets primarily held for operational capacity.

[1] In some jurisdictions, such as New Zealand, depreciated replacement cost has been widely applied to specialised buildings and other man-made structures where it is difficult to estimate fair value.

Extract from ED 76

Current Operational Value

BC7.26 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.25 the IPSASB has adopted an exit-based definition of fair value. The cost approach, a measurement technique for fair value, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.27 The IASB's 2018 Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.68 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context for both specialized assets and non-specialized held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost the IPSASB formed a view such a measurement basis should reflect an asset's existing use in delivering services. The IPSASB decided to use the term 'current operational value' for this measurement basis. Current operational value is a versatile measurement basis. For non-specialized assets, it can be supported by directly market-based measurement techniques with similarities to market value. For specialized assets, measurement techniques to determine the value of the asset may be applied. The updated Conceptual Framework therefore includes current operational value as a measurement basis for assets primarily held for operational capacity.

17. We have found it difficult to follow this rationale and difficult to understand exactly what COV stands for. Our reading of the cost approach to COV (in ED 77) is that it is similar in many respects to depreciated replacement cost. However, the market approach to current operational cost would be very similar to fair value. We find this confusing and think that it runs the risk of bringing in a concept that would be applied in different ways by different entities.

18. We acknowledge that IFRS 13 permits the use of the market approach, the income approach and the cost approach. In that sense IFRS 13 could be regarded as a hybrid approach. However, IFRS 13 clearly states that all of these approaches must be applied in conjunction with the *objective of a fair value measurement* in IFRS 13 paragraph 2; the requirements in IFRS 13 paragraph 2 have been incorporated in ED 77 in paragraphs C1 and C8.

19. The proposed definition of COV and the objective of a COV measurement is not as clear. For example, ED 77 paragraph BC33 talks about the "current value of the asset in its current use" which is very broad. Part (a) of that paragraph refers to "the amount an entity would incur at the measurement date to replace the capacity to achieve its present service delivery objective using its existing assets" which appears to be consistent with replacement cost. But part (b) refers to "the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured" which could, but would not necessarily be, replacement cost.

20. We are concerned about the 'versatility' offered by COV. This versatility may have been seen by the IPSASB as necessary to deal with all the operational assets that COV would be applied to. Another option would have been to focus more narrowly on those assets where the fair value measurement objective is inappropriate. We are not convinced that the fair value measurement objective is inappropriate for all operational assets and are therefore not convinced that such versatility is required.

21. Looking more closely at the proposed definition, we share the concerns outlined in the Alternative View on ED 76. We concur with the comments in the Alternative View that the definition is unclear. It is not clear from the proposed definition whether the objective is to measure the cost of acquiring an asset that could contribute to an entity's service delivery, the potential of an asset to deliver services, or what it would cost to buy the services that the asset contributes to.

22. In keeping with our comments above, we also concur with the comments in the Alternative View that the lack of clarity in the definition risks not achieving the qualitative characteristics of financial reporting. The possibility for variation in practice under the proposals is much greater than under existing requirements.

23. On the third point in the Alternative View (that it would be preferable to focus on the cost of replacing an asset used for its service potential) we agree (as discussed above) that replacement cost would be a clearer concept. However, we are not suggesting that replacement cost should be the required measurement basis for all revalued operational assets. We have reflected more on when an alternative measurement basis for revalued assets might be appropriate in our comments on ED 77 and ED 78.

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

Considered in June. The Board did not request any changes.

SMC 4: 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?

24. We acknowledge that VIU is used in limited circumstances in IPSAS, but the fact that it is used infrequently does not change whether it is a measurement basis. In our view, VIU is a measurement basis.

25. The discussion of VIU in ED 76 could be quite short, but it should refer to it as a measurement basis.

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

NEW response. Seeking feedback on this draft response.

SMC 5: 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?

26. We agree with the removal of market value as a measurement basis if the IPSASB brings in fair value as a measurement basis. However, this support should be considered together with our concerns about the broader implications of the IPSASB's proposals.

27. As noted in our response to ED 76 SMC 3, we consider that replacement cost is a clearer concept than COV.

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

NEW response. Seeking feedback on this draft response.

SMC 6: 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?

Background information

- **Net selling price** is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale (IPSASB Conceptual Framework paragraph 7.49). It is an entity-specific, exit value. There is no equivalent measurement basis in the IASB Conceptual Framework. The term was previously used in in IAS 36 but was replaced by 'fair value less costs to sell'.
- **Cost of release** is the term used in the context of liabilities to refer to the same concept as 'net selling price' in the context of assets. It refers to the amount of an immediate exit from the obligation (IPSASB Conceptual Framework paragraph 7.82). It is an entity-specific, exit value. There is no equivalent measurement basis in the IASB Conceptual Framework. Fair value is an exit value, but fair value is not entity specific and does not take into account transaction costs associated with obtaining release.
- **Assumption price** is used in the context of liabilities to refer to the same concept as replacement cost for assets. Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability (IPSASB Conceptual Framework paragraph 7.87). It is an entity-specific, entry value. The equivalent concept in the IASB Conceptual Framework is the current cost of a liability (paragraph 6.21 of

that framework states that "The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date.").

28. We generally disagree with the proposed deletion of these measurement bases from the Conceptual Framework as part of a limited scope review. We acknowledge that these measurement bases may not have been used in standards to date, but a conceptual framework has a broader role than explaining the concepts in current standards. A conceptual framework should also help standard setters as they develop new standards and help preparers that are faced with situations not specifically addressed in standards.

29. Of the three bases, our main concern is about the proposed deletion of assumption price. We think that it can be a useful concept for public sector entities which can take on large and unusual liabilities during financial crises.

ED 76 SMC 7: Other issues?

The Board agreed not to comment at this stage.

SMC 7: 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?

30. We have not commented on ED 76 SMC 7.

APPENDIX B: Responses on ED 77 *Measurement*

31. We have not commented on SMCs 1–4. *The Board has agreed not to comment on SMCs 1–4. They are shown here for information.*

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

SMC 1: 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.

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

SMC 2: 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.

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

SMC 3: 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.

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

SMC 4: 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.

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

SMC 5: 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.

32. We have commented on ED 77 SMC 5 and SMC 6 together.

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

The Board considered a combined draft response to SMC 5 and SMC 6 in June but did not form a firm view on this response. We have thought more about why we disagree with the proposals about restrictions. Please read the background information below. One option for the Board to consider is whether it wishes to challenge the use of a pure cost approach to land.

SMC 6: 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.

Background information (more staff thoughts/reflections here than in the June version)

In June we noted the widespread use of DRC in New Zealand as a method of estimating the fair value of infrastructure and other specialised assets. We noted that most such assets held by PBEs would be measured at COV under the IPSASB's proposals and contrasted the cost approach to COV with the DRC requirements in PBE IPSAS 17. There were a number of similarities between the two, but also some areas such as restrictions and surplus capacity where the differences were hard to identify.

PBE Standards do not say much about dealing with restrictions. This is most likely because practice has developed over time and the detail has been agreed outside the standards. We've received some comments about current practice for dealing with restrictions.

- Some entities start with a rural lifestyle block value and then add a location factor, size and type of land and adjust for the restriction to determine the increase in value. They then moderate/check this increase against the average increase in value of residential land value in the specific location.
- When measuring council reserve land, a discount is currently applied to take into account restrictions on the land.
- There may be no market value for some restricted land – even in the absence of legal restrictions, a local authority may not be able to sell parks and reserves.

We have been trying to form a view on the IPSASB's proposals for restricted operational assets and why we might agree or disagree. In particular we have been struggling with why an entity should ignore the effect of restrictions merely because there are no comparable restricted assets. See the Table below for the IPSASB's proposals on restrictions when using COV.

Table: ED 77 proposals re restrictions

B14	The current operational value of restricted assets shall be measured as follows: (a) If an equivalent restricted asset is obtainable in the orderly market at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the equivalent restricted asset, without any further reduction for the restrictions; or (b) If an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions.
B17	The current operational value of a restricted asset measured under paragraph B14 by reference to observable market evidence for an equivalent asset is not reduced to reflect the restrictions. In respect of assets measured under paragraph B14(a), the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. In respect of assets measured under paragraph B14(b), the restrictions would not reduce the current entry price of the service potential embodied in the asset (the cost that the entity currently would need to incur) if the entity needs to purchase an unrestricted replacement asset to continue delivering services of the same nature and volume.
BC44	Extract from ED 77 Basis for Conclusions However, if an equivalent restricted asset were not obtainable in an orderly market to replace the service potential of the restricted asset being measured, the public sector entity would have no choice but to purchase an equivalent unrestricted asset (the price of which reflects its superior cash-generating ability to other bidders for the asset) to replace the service potential embodied in the asset. In this latter circumstance, the service potential of the asset held for its operational capacity would be no greater to the public sector entity, but the current entry price of that service potential would be greater (compared with the current entry price if an equivalent restricted asset were obtainable in an orderly market).

Taken as a whole, it is hard to say whether the IPSASB's proposals would lead to higher or lower values for certain assets than DRC as applied by New Zealand's public sector entities. That is because of the (unclear) interaction between the proposed requirements on surplus capacity and external obsolescence. It is also because unrestricted land prices might be similar to highest and best use.

The IPSASB's rationale, in paragraph BC44, reflects a pure cost approach. This rationale makes sense if an entity has to replace the restricted asset with an unrestricted asset, but in the case of restricted land, *the entity may never seek to replace the land*.

Although we refer to DRC as a cost approach for estimating fair value, PBE IPSAS 17 requires the use of market-based evidence for land whenever possible. An entity using market-based evidence to estimate the value of land is likely to look at what it could get if it sold the land – which would be an exit price. This is acceptable because PBE Standards do not currently describe fair value as an entry price or an exit price. *DRC as applied to land and buildings by PBEs in New Zealand is not a pure cost approach*. It is a cost approach for buildings/improvements, along with some additional guidance about estimating the fair value of the associated land. DRC in New Zealand relies on market-based evidence to the extent possible.

We have therefore queried the use of a pure cost approach for land (see new paragraph below).

Draft response starts here

33. We disagree with the definition of COV. As mentioned in our response to SMC 3 of ED 76, we think the definition is unclear.

34. We also have the following comments in relation to the proposed guidance on COV.

35. We do not consider the income approach to be an appropriate technique for measuring COV. We agree with the Alternative View on this matter. Please see SMC 8 below.

36. We also agree with the Alternative View that there is a lack of clarity in relation to the proposed treatment of surplus capacity.

    - Paragraph B36(c) of ED 77 says that COV should be reduced for 'external obsolescence', which can arise when there is a reduction in demand for the services that the asset can provide. However, such reduction in demand might also be a potential source of surplus capacity – which the ED says should be *included* (rather than deducted) when determining the asset's COV (subject to impairment). We think additional guidance should be provided to help entities determine when a reduction in demand is classified as obsolescence and when it is classified as surplus capacity.
    - In New Zealand, if a revalued asset has surplus capacity but there is an *alternative use* to that surplus capacity, then the value of the surplus capacity is included in the value of the asset. We agree with the Alternative View that it would be important to clarify the unit of account for situations where the asset has surplus capacity with an alternative use.

37. ED 77 requires COV to be measured based on the asset's current use, rather than its highest and best use. In our response to SMC 7 we have expressed the view that the value of land should be assessed with reference to the current location, but, in the case of underutilised land, it should be determined having regard to the highest and best use of that land.

38. We have received feedback that in some cases, the COV proposals could have a significant impact on the valuation of entities' assets – particularly if an entity currently applies a discount when measuring the fair value of restricted land held for its operational capacity. If the restriction is not legally enforceable (and even if the entity would always adhere to those restrictions), it seems that under the proposed requirements the land would need to be valued as if it were unrestricted.

39. We acknowledge that the IPSASB's COV proposals about restrictions can be seen as a logical application of a pure cost approach to land. If an entity would have to acquire land in a market where there are no equivalent restricted assets available then it would have to pay the market price. However, most public sector entities have no ability or intention to dispose of restricted land and purchase more land. We therefore query the usefulness of a cost approach for land. We think that an entity-specific cost approach to remeasuring assets is useful and appropriate in some circumstances, but we are not convinced that it is useful and appropriate for land.

40. We think additional guidance is needed for determining the COV of assets that are held both for the operational capacity and their financial capacity (as well as additional guidance on determining whether such assets should be measured at COV or fair value – please see our responses to ED 78 below).

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

New response. We are seeking feedback on this response.

SMC 7: 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.

Background information

PBE IPSAS 17 (Appendix A, paragraph AG7)

AG7. In instances where land is underutilised, the fair value of the land shall be determined by reference to the highest and best use of such land. For example, in a case where specialised facilities are located in a prime central business district site but the operation would be able to be run from a smaller sized and/or less valuable alternative site offering the same service potential, the fair value of the land would be the market value of the entire central business district-located site.

Proposals in ED 77

B4. Measuring the current use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, a building operated as a school is currently used as a school. Alternative uses, such as the operation of the building as an office block held for rental at market rates, are not considered. The current use may be, but is not necessarily, the highest and best use.

…

B6. The asset's current operational value assumes that the entity will continue to meet its service delivery objectives from the same location in which the asset is currently situated or used.

B7. The current operational value of a building reflects the value of the building in its current location. For example, a hospital operating in a city center that could now be situated in the suburbs, because of the migration of the population, is measured based on the value of the hospital in its current location (e.g., if the cost approach is applied, construction costs, permits, regulations, etc. are based on costs incurred at the current location).

B10–B11 of ED 77 require an asset's surplus capacity to be included in determining the COV of the asset. Paragraph B12 says that the COV of land "shall reflect the value of the land actually held, in terms both of size and location. If the services could be provided from a site measuring three hectares, but the actual site measures five hectares, the land is measured based on its actual size.

41. We agree that the value of land should be assessed with reference to the current location, but we think that, in the case of underutilised land, it should be determined having regard to the highest and best use of that land. We acknowledge that our views are influenced by the existing and well-established practice of New Zealand public sector entities. However, we have reflected on why this is current practice. The use of market-based evidence to the extent possible for land, coupled with the requirement to consider highest and best use for

underutilised land, has limited the use of depreciated replacement cost and entity-specific measures to those assets where market-based evidence is not available, or it would be clearly inappropriate. This has enhanced the reliability and comparability of information about revalued assets in the public sector.

42. The IPSASB's proposals may be consistent with a pure cost-based approach. What we are saying is that we have not taken an entity-specific cost approach to land in the past, and we are not convinced that it is appropriate.

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

Considered in June. We have added a paragraph at the end of the response.

SMC 8: 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.

43. We do not consider the income approach to be an appropriate technique for measuring COV. We agree with the Alternative View on this matter.

44. While the definition of COV as currently proposed does not refer to the cost of replacing an asset, paragraph B9 of ED 77 says that COV is an entry value, which implies that it is the cost of purchasing an equivalent asset. Furthermore, the Alternative View in ED 77 notes that referring to the *cost of replacing the service potential embodied in the asset* would make the definition of COV clearer. We think that the income approach is inconsistent with the notion of an entry value and/or the cost of replacing the service potential embodied in an asset.

45. Under the income approach to COV, similar assets could be valued very differently, depending on the entity's decision of how much to charge for its services. For example, for a building used for social housing, determining COV using the income approach could result in a range of different values, depending on how much of a 'discount' is provided to tenants as compared to market rent – and this decision could change every time there is a change in government (or a change in government policies).

46. Additionally, when an entity charges a nominal price for its services or provides services at no charge, an asset measured at COV under the income approach would have a very different carrying amount to an asset measured at COV under the market or cost approach. This could have a negative impact on the comparability and understandability of public sector entities' financial statements.

47. When an entity charges low or nominal prices for the services it provides using a specific asset, the income approach would result in very low COV amounts, which would not faithfully reflect the remaining service potential embedded in the asset. For example, this could be the case for social housing and infrastructure assets. It may also make it more difficult to know how much it would cost to replace the asset.

48. We have considered whether there would be any situations in which the income approach would be appropriate. It might be appropriate if property that is not currently being used by an entity, but which is still being held for long-term operational purposes, is rented at market rates. However, we consider that such situations would be the exception rather than the norm, hence our opening comment on this SMC. If the IPSASB does proceed with its proposals to permit the use of the income approach, we think that its use should be limited.

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

Considered in June. The Board did not request any changes.

SMC 9: 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.

49. We generally agree with aligning the measurement of fair value when required by IPSAS with the requirements in IFRS 13. We have some concerns about the impact of the proposed changes on financial instruments that are unquoted equity instruments.

50. Some public sector entities currently measure the fair value of unquoted equity instruments such as equity contributions to other public sector entities based on the net asset value of the entity concerned. In the absence of observable transactions this is a pragmatic approach which gives reasonable information. We are concerned that the changes from fair value as per IPSAS 41 to fair value as per IFRS 13/ED 77 will lead to the impairment of such investments.

51. We recommend that the IPSASB include explicit guidance on measuring the fair value of unquoted equity instruments. This could involve reviewing the existing Illustrative Examples 24–29 in IPSAS 41, to check that they are consistent with the updated fair value requirements in ED 77.

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

New response – seeking feedback on the proposed response.

SMC 10: 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.

52. We are pleased that the IPSASB has considered feedback on the CP. When we responded to the CP, we encouraged the IPSASB to consider whether it wants to adopt a measurement basis that includes a risk premium and why a risk premium is (or is not) appropriate. We noted that the appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand.

53. ED 77 paragraph D9, states that the inclusion of a risk premium in the calculation [of cost of fulfilment] will depend on guidance in the relevant IPSAS. This means that the issue will be considered on a standard-by-standard basis. Although this does not totally resolve the issue, it removes the presumption that a risk premium should always be applied.

ED 77 SMC 11: Disclosure – Located in individual IPSASs

New response – seeking feedback on the proposed response.

SMC 11: 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.

54. SMCs 14 to 15 deal with disclosure. We have responded to these questions without reiterating our concerns about COV. Despite this, our responses to these SMCs should be read in the light of our comments about COV.

55. We agree with the proposal to include disclosure requirements in the individual IPSAS to which the asset or liability pertains. Under this approach, preparers of financial statements will be able to see all the disclosure requirements relating to a specific type of asset or liability in one place. For example, under the proposed approach, the fair value disclosure requirements for financial instruments would be included in IPSAS 30 *Financial Instruments: Disclosures*, together with other disclosure requirements for financial instruments (e.g. disclosures about impairment, hedge accounting, different types of risk, etc.).

56. We acknowledge that IFRS 13 *Fair Value Measurement* includes the fair value measurement disclosures for all assets and liabilities. However, we note that ED 77 covers not only fair value but three other measurement bases, including historical cost.

57. We agree with the IPSASB's proposal to include disclosure requirements in each relevant standard because the alternative approach of including all disclosure requirements, including historical cost disclosures, in one standard would be challenging and would run the risk of inadvertently changing existing historical cost disclosures. If the IPSASB were to include historical cost disclosures in ED 77 it would have to develop a set of disclosure requirements that would be applicable to all assets measured at historical cost. Currently, there are different disclosure requirements for assets that are measured at historical cost. For example, IPSAS 16 requires the disclosure of a reconciliation for investment property measured at historical cost, whereas such a reconciliation is not required under IPSAS 12 *Inventories* for inventory measured at historical cost. Furthermore, the disclosure requirements for financial assets and financial liabilities measured at amortised cost are quite different to those that apply to non-financial assets measured at historical cost. As noted above, it would be challenging to develop a single set of historical cost disclosure requirements for inclusion in ED 77, without changing the existing disclosure requirements for assets measured at historical cost.

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

The Board has agreed not to comment on this SMC.

SMC 12: 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.

58. We have not commented on this SMC.

ED 77 SMC 13: Disclosure – Consistency across standards

New response – seeking feedback on the proposed response.

SMC 13: 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.

59. We note that, consistent with IFRS 13, there is a minor difference between the proposed fair value disclosures for financial instruments as compared to non-financial instruments. That is, for financial instruments measured at fair value using Level 3 inputs, the proposed consequential amendments to ED 77 include a proposed requirement to disclose the quantitative impact of a reasonably possible change in one or more of the unobservable inputs that were used to determine fair value.[2] No such requirement is proposed for non-financial assets measured at fair value using Level 3 inputs.

60. Notwithstanding this difference, we agree that in general, the current value model disclosure requirements should be the same across IPSAS. When an asset is measured using current value bases such as fair value and COV, it is likely that users of financial statements would be interested in how that current value was arrived at and the uncertainty around significant unobservable inputs used, regardless of the type of asset (subject to materiality).

61. However, we note that including the proposed fair value disclosure requirements in IPSAS 12 *Inventories* could possibly cause some confusion for preparers of financial statements. We understand that measurement of inventory at fair value after initial recognition is limited. It is applicable only to entities that are 'commodity broker-traders' (i.e. those who buy commodities with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin). Otherwise, inventories must be measured at the lower of cost or net realisable value. We do not expect there to be many 'commodity broker-trader' entities in the public sector. Therefore, we would expect the number of public sector entities that measure inventory at fair value to be very limited. We are concerned that the proposed detailed fair value disclosure requirements in IPSAS 12 may lead some entities to incorrectly assume that they are required to provide these disclosures – for example, for inventory measured at net realisable value. To avoid such potential confusion, the IPSASB

[2] See Appendix E of ED 77 – consequential amendment to IPSAS 30, paragraph 30C(h)(ii).

may wish to consider clarifying in IPSAS 12 that the proposed fair value disclosures apply only to commodity broker-traders.

62. While we generally agree with requiring similar current value disclosures across all assets and liabilities measured under a current value model, we note that it is important to consider materiality when applying these disclosure requirements. The proposed current value disclosure requirements are relatively extensive and detailed, yet there could be cases where these disclosures may not be material for a specific type of asset or liability held by an entity. We note that the IASB has recently issued the Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*. This Exposure Draft includes proposals to amend the disclosure requirements in IFRS 13, to enhance focus on material disclosures. The proposals attempt to address concerns that some entities use the current fair value disclosure requirements (and other disclosure requirements) as a 'checklist', without considering materiality – which sometimes leads to entities spending cost and effort on providing detailed information that is ultimately not material to users of financial statements. Similar concerns can arise in the public sector. We realise that the IPSASB has yet to consider the IASB's 2018 amendments to the materiality requirements in IAS 1 (and the discussion of materiality in the Conceptual Framework), and that it would be some time before the IPSASB considers the recent IASB ED. Nevertheless, the IPSASB may wish to consider mentioning – either in educational material or in the Basis for Conclusions – the importance of materiality when applying the proposed current value disclosure requirements.

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

New response – seeking feedback on the proposed response.

SMC 14: 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.

63. We generally agree that the disclosure requirements for items measured under the current value model after initial recognition should be more detailed compared to disclosure requirements for items measured using a current value basis at acquisition (i.e. as deemed cost). Some aspects of fair value and COV disclosures, such as changes in fair value or COV during the year, would not be relevant for items that were recognised at fair value or COV at initial recognition, but are subsequently measured under the historical cost model. However, we recommend considering whether certain disclosures should be required when fair value or COV are used as 'deemed cost' on initial recognition of an asset or liabilities, in the year when the asset or liability is initially recognised (see the end of the response to this SMC).

64. ED 77 does not appear to propose disclosures in relation to the use of fair value or COV at initial recognition, except under IPSAS 31 *Intangible Assets* and IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*. The next few paragraphs in this response look more closely at the proposals in the ED and indicate where

the IPSASB could have required disclosures on initial recognition. We conclude our response to this SMC with a recommendation to clarify what is intended, either by adding additional disclosure requirements for the use of fair value or COV at initial recognition, or clarifying that such disclosures are required in the relevant parts of the ED.

65. We note that this SMC refers to “items measured using the current value model at acquisition”, and also to “non-recurrent items measured using the current value model”. In our understanding, the proposed disclosure requirements in Appendix E of ED 77 for “non-recurring items” and the equivalent disclosure requirements in ED 78 relate to non-recurring measurement at fair value or COV *after* initial recognition. That is, these proposals do not seem to relate to instances where fair value or COV is used as ‘deemed cost’ on initial recognition. Rather, they seem to relate to ‘one-off’ measurement at fair value or COV that occur *after* initial recognition – for example, when an entity has been applying the historical cost model to a PP&E item but has had to impair it to fair value less costs to sell in the current period.

66. As an example, we have reproduced below an extract from the proposed amendments to IPSAS 16 *Investment Property* (Appendix E of ED 77). Paragraph 89A refers to disclosures about recurring and non-recurring fair value measurement *after* initial recognition – and the proposed specific disclosure requirements in paragraph 89C refer back to paragraph 89A and to measurement after initial recognition.

> 89A. An entity shall disclose information that helps users of its financial statements assess both of the following:
>
> (a) For investment properties that are measured at fair value on a recurring or non-recurring basis in the statement of financial position *after initial recognition*, the measurement techniques and inputs used to develop those measurements; and
>
> (b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.
>
> […]
>
> 89C. To meet the objectives in paragraph 89A, an entity shall disclose, at a minimum, the following information for each class of investment property […] measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), Measurement) in the statement of financial position after initial recognition:
>
> [*Specific fair value disclosure requirements follow.*]

67. Similar disclosure requirements are included in the proposed amendments to IPSAS 12 *Inventories*, IPSAS 27 *Agriculture*, IPSAS 30 *Financial Instruments: Disclosures*, IPSAS 31 *Intangible Assets*, IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, IPSAS 34 *Separate Financial Statements* and IPSAS 38 *Disclosure of Interests in Other Entities*. These proposed disclosures are also included in ED 78, in relation to property, plant and equipment. We understand that those requirements would *not* apply to items measured at fair value or COV *at initial recognition*.

68. The proposed amendments to the abovementioned standards also include fair value disclosure requirements for assets that are *not measured at fair value in the statement of financial position, but for which fair value is disclosed*. For such items, the proposals would

require entities to disclose a description of the measurement techniques and inputs used to determine fair value, whether the inputs used are observable or not, whether these inputs are in Level 1, 2 or 3 of the fair value hierarchy, quantification of Level 3 inputs, and sensitivity disclosures for items measured using Level 3 inputs. There are similar requirements in ED 78 with respect to items not measured at COV in the statement of financial performance, but for which COV is disclosed. These disclosure requirements would apply to items measured at fair value or current value on initial recognition *only if* there is a requirement to disclose that item's fair value or COV on initial recognition.

69. We note that IPSAS 31 currently requires entities to disclose the fair value on initial recognition for intangible assets that were acquired in a 'non-exchange transaction'. Therefore, the disclosures on fair value measurement outlined in the previous paragraphs would apply to such intangible assets. We also note that IPSAS 33 requires disclosure of the fair value that was used to determine an asset's or liability's 'deemed cost' when an entity applies IPSAS for the first time. Therefore, the disclosures on fair value measurement outlined in the previous paragraphs would apply to such assets and liabilities in the entity's first set of financial statements prepared under IPSAS. However, we are not aware of other standards where the disclosures on fair value in the previous paragraph would apply.

70. If our understanding is correct, there do not seem to be any proposed specific disclosure requirements for measurement at fair value or COV at initial recognition – except for intangible assets under IPSAS 31 and assets and liabilities recognised at deemed cost when IPSAS is applied for the first time under IPSAS 33. In this case, we would recommend considering whether certain disclosures should be required when fair value or COV are used as 'deemed cost' on initial recognition, in the year when the asset or liability is initially recognised. In considering the extent of such disclosures and level of detail that should be, it would be important to ensure that the benefits of the disclosures do not outweigh the costs of providing the disclosures. Please refer to our response to SMC 15.

71. If our understanding is not correct, and the reference to 'non-recurring measurement' was intended to refer to measurement at initial recognition, we would recommend clarifying the wording of these proposed requirements.

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

New response – seeking feedback on the proposed response.

SMC 15: 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.

Background information on ED 77 SMC 15

The IPSASB has located the disclosure requirements for revalued assets within the relevant asset standards. In responding to this SMC we focused on the proposed disclosure requirements for PP&E in ED 78.

See ED 78 paragraphs 82–88 for the proposed fair value and COV disclosures. The proposed disclosures in ED 78 are based on IFRS 13 paragraphs 91–99. They are considerably more extensive than the disclosures presently required by IPSAS 17 (shown below).

Current PP&E fair value disclosure requirements in IPSAS 17

92. If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:

(a) The effective date of the revaluation;

(b) Whether an independent valuer was involved;

(c) The methods and significant assumptions applied in estimating the assets' fair values;

(d) The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques; and

(e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

(g) The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and

(h) The sum of all revaluation deficits for individual items of property, plant and equipment within that class.

72. We understand the rationale for proposing the disclosures on inputs used to determine fair value (and COV). However, we are concerned that in the public sector context, the costs of providing these disclosures may outweigh the benefits. Further explanation is included in the paragraphs below.

73. The proposed disclosure requirements on inputs used in fair value measurement are based on the disclosure requirements in IFRS 13. We acknowledge the reason why IFRS 13 requires these disclosures. When an asset is measured at fair value, it is expected that users of financial statements would be interested to know how the value of these asset was determined – including information about the inputs used. Furthermore, assets and liabilities measured using unobservable inputs are more likely to be subject to measurement uncertainty – therefore, it is expected that users would want information about these inputs, the uncertainty around those inputs and the impact of this uncertainty on the financial statements. We acknowledge that these considerations are also relevant in the public sector. We also understand that in proposing to introduce IFRS 13-based disclosure requirements on inputs used to determine fair value, the IPSASB is aligning fair value-related disclosure requirements in IPSAS with those in IFRS Standards – which is consistent with the proposal to align fair value measurement requirements with those in IFRS Standards.

74. However, we note that for *non-financial assets*, the proposed disclosure requirements on inputs used to determine fair value represent a significant change from the existing fair value disclosure requirements in IPSAS. For example, IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* include a general requirement to disclose "the method and significant assumptions applied" in determining the fair value of the investment property or item of property plant and equipment respectively. There are also requirements to disclose whether an independent valuer was involved in determining the fair value, and to what

extent the valuation is based on market evidence/observable prices in an active market. However, the IFRS 13-based disclosure requirements proposed by the IPSASB in relation to inputs used in determining fair value, particularly unobservable inputs in Level 3 of the fair value hierarchy, are significantly more detailed and extensive. For example, they include specific requirements to quantify Level 3 inputs and to provide disclosures about the sensitivity of these inputs.

75. Furthermore, while the question in SMC 15 focuses only on disclosures about inputs used in determining *fair value*, we note that ED 78 also proposes similar disclosures for unobservable inputs used in the determination of *COV* for property, plant and equipment. Therefore, the abovementioned increase in the extent and detail of disclosure requirements would apply to assets held for their operational capacity, as well as those held for their financial capacity.

76. We note that property, plant and equipment (PP&E) is the most commonly held type of non-financial asset among public sector entity. We also note that specialised PP&E assets, as well as PP&E assets that are not often traded, are prevalent in the public sector. Such assets are likely to be measured using unobservable inputs. Therefore, the more extensive and more detailed proposed disclosure requirements about unobservable inputs is likely to have a significant impact on many public sector entities.

77. We think it is important to consider the costs and benefits of the proposed disclosures on inputs used in fair value and COV. While the IPSASB already considered the costs and benefits of introducing fair value and COV measurement requirements into IPSAS, we think that the costs and benefits of the related disclosure requirements in the public sector context, merit separate consideration. We are concerned that in the public sector, the costs of providing these disclosures may not outweigh the benefits.

78. We also recommend including some information in the Basis for Conclusions on ED 77 and ED 78 on the key considerations that the IPSASB took into account in deciding what disclosures should be provided for assets measured at fair value and COV. Currently, this information does not seem to be included in the Basis for Conclusions of these respective EDs.

79. If the costs of the proposed disclosures are likely to outweigh the benefits, we would recommend that the IPSASB consider reducing the proposed detailed disclosures on inputs.

80. We note that the IASB recently issued the ED *Disclosure Requirements in IFRS Standards – A Pilot Approach*. The ED proposes that disclosure requirements in IFRS Standards should focus on *disclosure objectives*, which would be aligned with users' information needs and which would need to be complied with in order to comply with the relevant standard. The proposed overall disclosure objective for IFRS 13 is to provide information that "enables users of financial statements to evaluate the entity's *exposure to uncertainties associated with fair value measurements*". In relation to IFRS 13, the Basis for Conclusions of that ED notes the IASB's conclusion that "detailed information about some Level 2 fair value measurements would be relevant to users of financial statements", and "detailed information about Level 3 fair value measurements is only relevant to users if those measurements are material".

81. We mention the IASB ED because we think it highlights the importance of relevance and materiality when applying the proposed disclosures on inputs to fair value and COV measurement. That is, there could be cases when detailed disclosures about unobservable 'Level 3' inputs would not be material, and conversely, there could be cases where information about Level 2 inputs could be relevant and material for users. We recommend that the IPSASB consider developing such guidance. This guidance could be within IPSAS, or outside of them in the form of educational material.

82. We also note a difference in terminology between the fair value disclosure requirements in ED 77 and those in ED 78. The proposals in Appendix E of ED 77 refer to disclosures on "*measurement techniques* and inputs" used in determining fair value (for example, see paragraph 89A(a) of the proposed amendments to IPSAS 16). However, the equivalent requirements in ED 78 (paragraph 82(a)) refer to "*valuation techniques* and inputs". We recommend that the IPSASB clarify whether 'valuation techniques' have the same meaning as 'measurement techniques'. If the terms have the same meaning, we recommend considering using consistent terminology. If the terms have different meaning, we recommend explaining the difference.

Other comments on ED 77

New comment on proposed amendment to IPSAS 23

IPSAS 23 – Assets acquired through non-exchange transactions

83. We note that the IPSASB is proposing to amend paragraph 42 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The amendment, as per ED 77, is shown below.

> **Extract from ED 77**
>
> 42. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. Appendix A of [draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on measuring assets at fair value.**

84. In the case of donated property that an entity chooses to measure using the current value model, it would be measured at fair value on initial recognition and at fair value or COV on subsequent recognition. This could lead to some increases or decreases on subsequent measurement. A Basis for Conclusions paragraph outlining the IPSASB's deliberations leading to the decision to rule out measurement at COV on initial recognition and on the impact of this on subsequent measurement would be helpful.

APPENDIX C: Responses on ED 78 *Property, Plant and Equipment*

ED 78 SMC 1: Relocation and restructuring

Not seeking feedback at this meeting. 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.

> SMC 1: [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?

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

New response, incorporating TRG feedback from May 2021. We are seeking feedback on this response.

> SMC 2: 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.

85. We have concerns about this proposal. These concerns are in addition to our comments on COV in ED 76 and ED 77. In those comments we touched on the difficulties of having two current value measurement bases which appear almost identical (apart from their objectives), the lack of clarity regarding the objective of COV and the fact that in New Zealand the use of the cost approach has been limited to circumstances when market-based evidence is not available or would not meet user needs. This has also limited the extent to which entity-specific measures are used. Wider application of entity specific measures could lead to increased judgement and audit costs. Given these concerns, our overall response to this SMC is that we disagree with the proposal.

86. We are not convinced that it is appropriate to have two current value measurement bases (i.e. fair value and COV) for 'standard' items such as non-specialised buildings. For assets held for their operational capacity, fair value measurement could still be useful, because fair value would reflect the opportunity cost of not using the asset for its 'highest and best use'.

87. We have had difficulty working out what this proposal means for the valuation of land and buildings. IPSAS 17 (as well as ED 78) states that land and buildings are separable assets and are accounted for separately. Despite this, valuations usually look at land and improvements together. The value of the improvements is often identified by looking at the value of the land and improvements taken together and the value of the land on its own. In some circumstances (for example, where there is no alternative use for the improvements) this

could lead to inappropriately low amounts for the improvements. It is in such circumstances that depreciated replacement cost has been used to measure the improvements. However, this overall measurement has still been regarded as fair value (as per extant IPSAS).

88. Considering the application of the proposals to land and buildings we think it is possible for an entity to argue that it is holding land for financial capacity but improvements for operational capacity. ED 78 refers to making the accounting policy choice by class of assets, and land and buildings could be separate asset classes. If land were measured at fair value and buildings were measured at COV, we do not know what the overall measure would be described as.

89. We also have concerns about the application of this proposal. In some cases, determining whether an asset is held for its financial or operational capacity would not be a clear-cut decision and would require judgement. Some assets may be held for both. Although ED 78 refers to the decision being guided by the primary objective for which an entity holds an asset, we do not think that the ED is sufficiently detailed to guide entities in making consistent decisions. It would be useful if the proposals clarified the 'unit of account' when assessing whether an asset is held for its financial or operational capacity – i.e. whether that assessment is to be made for the entire asset or for portions of the asset.

90. Some aspects of the proposed guidance appear similar to existing requirements in IPSAS 21 *Impairment of Non-Cash-Generating Assets* and IPSAS 26 *Impairment of Cash-Generating Assets* (which the ED does not change) – but they are not quite the same, which could lead to confusion. For example, the proposed distinction between assets held for their financial capacity and those held for their operational capacity is similar to, but not the same as, the existing distinction between 'cash generating assets' and 'non-cash generating assets'. Furthermore, it is unclear whether the term 'financial return' in the proposed guidance means the same as 'commercial return' in IPSAS 21 and IPSAS 26.

91. ED 78 (paragraph 30) states that "A change in the current value measurement basis, for example, from COV to fair value, or vice versa, is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment." Given that the objectives of the two measurement bases differ, we are not sure what criteria an entity would use to decide whether one value is more representative than another.

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

The Board has agreed not to comment on SMC 3.

SMC 3: 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.

92. We have not commented on SMC 3.

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

The Board has agreed not to comment on SMC 4.

SMC 4: 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.

93. We have not commented on SMC 4.

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

New response. We are seeking feedback on the draft response.

SMC 5: 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.

Extract from PBE IPSAS 17 (background information for the Board)

94.1 An entity shall disclose:

(a) 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

(b) Where current information is available, an estimate of the value of those unrecognised assets, such as a recent insurance value.

Disclosure of unrecognised heritage property, plant and equipment
(paragraph 80, page 21 of ED 78 and paragraphs AG44-45, page 33 of ED 78)

94. We agree with SMC 5 that disclosures for assets that cannot be measured reliably be limited to heritage items.

95. With heritage items, the value is often ascribed to the significance of an asset as opposed to its financial value. For example, an ink pen is of limited value, but the ink pen that was used in the signing of the Treaty of Waitangi has great historical significance.

96. Therefore, instead of describing the difficulties in measurement it would be more useful to the user to have a description of the significance of the item. The significance of a heritage item to an ethnic group is not readily converted to financial value but is nonetheless an important indicator of heritage in the museum community. We therefore support the proposed disclosure in ED 78 paragraph 80(b).

97. Current values are also useful information for users, and these could be disclosed in the notes. For example, an insurance valuation, or a government’s rateable value for a property could be disclosed, noting they are not intended to be a COV but nevertheless still provide relevant information for a user as compared to no value at all. We appreciate that these

types of values will only exist for some assets, but this should not preclude disclosure of information that is useful to the users.

98. We therefore propose the following wording for ED 78 paragraph 80(a). Our suggestion is underlined.

> **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:
>
> (a) Where current information is available, an estimate of the value of those unrecognised assets, such as recent insurance value or a government valuation for rating purposes ~~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.

Subsequent expenditures on unrecognised heritage items
(paragraph 81, page 21 of ED 78)

99. We disagree with paragraph 81 (shown below).

> 81. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 72–79 will apply.

100. It is problematic to recognise subsequent expenditures on an item if the initial item has not been recognised. Paragraphs 72–73 explicitly state that the assets must be recognised, so it is inconsistent to apply paragraphs 72 and 73 to the unrecognised heritage assets covered by paragraph 80 which covers disclosure only. It is also illogical to depreciate or revalue an unrecognised item, as there is no basis for these calculations when it is not initially recognised as an asset. Furthermore, some heritage items such as paintings can be appreciating assets. We recommend that paragraph 81 be deleted as it serves no good purpose without prior recognition of the heritage asset.

ED 78 SMC 6: IG for heritage assets

New response. We are seeking feedback on the draft response.

> SMC 6: 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.

IG for heritage assets (paragraphs IG6 and IG7)

101. We disagree with the implementation guidance in paragraphs IG6 and IG7.

102. The proposed implementation guidance (IG) for heritage assets is non-authoritative. Given the importance of heritage assets we request that the heritage guidance be included as application guidance which is authoritative, and thus mandatory.

Determination of control of assets (paragraphs IG6 and IG7)

103. Determination of control is based on indicators, including the timing specified in the agreement.

    (a) Under paragraph IG6 a right to hold heritage items for a **defined period** under an agreement is assessed as **not** giving rise to control.

    (b) Under paragraph IG7 a right to hold heritage items for an **indefinite period** with no legal ownership is assessed as giving rise to control.

104. This implementation guidance could lead to museums tailoring their agreements depending upon whether or not they wish to recognise heritage assets. Consequently, these examples would not improve comparability across the museum sector.

105. We agree with the use of "individuals or group of individuals" in paragraph IG6 to appropriately acknowledge all those who are loaning items to museums.

106. We also support the use of the terminology "parties" in paragraph IG7 as this includes indigenous groups such as Māori iwi and individuals.

Effect of storage on control status (paragraph IG8)

107. We agree with the inclusion of paragraph IG8 (shown below) but recommend that it be amended to focus on the effect of control of storage, rather than focussing only on the control scenario. We propose the following changes to paragraph IG8.

~~**Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?**~~
Does the current control status of items in a heritage collection change if it holds them in storage instead of displaying them to the public?

IG8. No. ~~Yes.~~ The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. Items in a heritage collection which are not controlled but are held in storage, continue to be not controlled. ~~The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items.~~ In applying the application guidance in [draft] IPSAS [X] (ED 78) and professional judgment to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

ED 78 SMC 7: IG for infrastructure assets

Considered in June. The Board did not request any changes.

> SMC 7: 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.

Costs relating to road infrastructure

108. For road infrastructure (e.g. state highways) there is no guidance in IPSAS as to how certain costs (e.g. formation costs, brownfield costs etc) should be treated for subsequent valuation purposes. We discuss these two examples below.

109. Formation is effectively measuring the cost of the earthworks and what has been removed to allow the roading construction to take place. These costs are usually not incurred again and usually treated as a separate component within the roading valuation. There is currently no guidance as to how formation costs should be estimated across an entire network as it is not practicable to determine this component for each metre of the road and there can be knowledge issues about the pre-existing condition of land prior to construction.

110. Significant costs can be incurred in constructing a road due to the location of the road being in an already developed area. For example, if a new road is being built in an urban area, this may require the roading authority to purchase and demolish/relocate houses, require compensation payments, and incur significant traffic management/security costs. These are often referred to as brownfield costs. Some of these could be one-off costs that would not be incurred again when the road is replaced, whereas others would be incurred again. As with formation costs there can be challenges in reflecting these costs in the valuation, particularly for historical costs. We think it would be useful if the IPSASB developed application guidance regarding these costs.

Land beside and under roads

111. Some entities in the public sector value land that is under or beside infrastructure assets, such as road and railway corridor land. There is no consensus as to the approach to the valuation of such land. Our understanding is that valuers generally establish a proxy for corridor land based on “across the fence” values. However, there are differing views as to how the across the fence values should then be adjusted for the purposes of establishing the value of the corridor. We begin by noting discussions about this issue under current standards, and then consider the proposals in the EDs.

112. Arguments for a discount are primarily based on the fact that across the fence values would be unlikely to be realised if the land were to be sold because there would be limited buyers (likely only neighbouring owners). The purchaser's assessment of the added value of securing the strip would also often be lower than the across the fence values. Accordingly, based on an 'exit' price, the infrastructure asset land owner would likely realise less than the across the fence value. This exit price notion would generally suggest some form of discount to the

across the fence value. There is also the question of whether the cost of removing assets on the land (e.g. the physical road or rail tracks) and remediating the land should be factored into the valuation as a cost of conversion to the adjacent use.

113. An alternative approach would be to consider the value of the corridor in terms of 'entry' price. The across the fence value would often represent the starting value, and there could be other development costs and enhanced value to reflect the corridor land “construction” (such as formation costs). Under this entry price approach, the corridor value would likely be greater than the across the fence value.

114. Current practice in New Zealand varies across different types of corridor land, with some corridor land having a small discount applied and other corridor land being measured with no discount to across the fence values.

115. We have considered what the proposals in the EDs would mean for such corridor land. If corridor land is subsequently measured using COV, a discount would be permitted only if there is a legal restriction on the land and there is an equivalent restricted asset available as a comparison.

Additional guidance on directly attributable costs

116. We note that certain directly attributable costs are set out in ED 78 paragraphs 16(a)–(f). However, we think the application guidance could have a fuller description of other directly attributable costs. For example, the previous New Zealand accounting standard FRS 3 *Accounting for Property, Plant and Equipment* contained useful guidance about other types of directly attributable costs in paragraph 5.6 as follows.

> *“… Examples of directly attributable costs are borrowing costs, survey costs, the cost of obtaining resource consents, site preparation costs including land formation costs, installation costs including architectural and engineering fees, freight, and charges for installation, commissioning and testing…”.*

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

ED 79 SMC: Additional disclosure

The Board considered this response in June. No changes made since then.

> SMC: 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?

New Zealand context

117. We support the IPSASB developing an IPSAS based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. When the IASB decided to develop IFRS 5, it concluded that introducing a classification of assets that are held for sale would substantially improve the information available to users of financial statements about assets to be sold. We have had equivalent requirements for PBEs in New Zealand since 2004 (with the current standard being PBE IFRS 5). Although there can be some implementation challenges, on the whole we consider that it leads to appropriate measurement and disclosure of non-current assets held for sale and discontinued operations.

Disclosure proposal in paragraph 52

118. We do not support the proposed disclosure in paragraph 52.

119. We acknowledge the intention behind the proposed disclosure, as outlined in paragraph BC12. We agree that users would find information about expected inflows useful, particularly if there is a large gap between fair value and carrying amount. We also acknowledge that it would be good practice for an entity proposing to sell assets to obtain information about how much it expects to realise from the sale.

120. However, we think that the costs of (i) obtaining a fair value and (ii) including that information in an audited set of financial statements would outweigh the benefits to users. We make these comments as a jurisdiction where many public sector entities revalue land and buildings and where depreciated replacement cost is often used to estimate the fair value of infrastructure and specialised assets.

121. An entity deciding not to make the proposed disclosure on the grounds that it does not think the fair value is materially different to the carrying amount would need to gather sufficient evidence to support its view. Revaluations are generally performed on a rolling three-year basis, so an entity will not necessarily have current information available at the end of each year. Specialised items of property, plant and equipment are often revalued using depreciated replacement cost (i.e. a cost approach) and there may be no other means of

obtaining a fair value. If, in the future, assets are measured at COV this would not be the same as fair value. In all of these cases additional valuations would be required either for an entity to demonstrate that it did not have to make the proposed disclosure, or to make the disclosure.

122. The proposed disclosure assumes that there will be cases where fair value is materially more than carrying amount. We note that the gap between fair value and carrying value should be constrained by the measurement requirements for property, plant and equipment. IPSAS 17 requires an entity to review the useful life and residual value of an asset at each annual reporting date. If fair value is higher than the carrying amount, it is likely that the residual value should be revised upwards. An upwards revision of the residual value would lead to lower depreciation.

123. We have also thought about the costs and benefits of the proposed disclosure for jurisdictions where the cost model is more commonly used for land and buildings. Under IPSAS 17 (and ED 79.79(d)) entities applying the cost model are encouraged, but not required, to disclose current values when this is materially different from the carrying amount. The proposal in ED 79 would make this disclosure mandatory in respect of assets held for sale. These entities may have larger gaps between the fair value and carrying amounts of assets. The requirements to regularly review the residual value of an asset might reduce the amount of depreciation recognised, but they will not lift the carrying value above the original cost. These entities are less likely to have fair value information available than entities that regularly revalue assets. If they have specialised assets the costs of obtaining valuations could be significant.

Other comments on ED 79

The Board considered most of this response in June. Since then we have done two things.

- ***Impairment**: considered a difference between the impairment references in PBE IFRS 5 and ED 79. We propose not to comment on this difference. Our explanation is set out below.*
- ***Investment property**: added a recommendation that the IPSASB change an example about surplus housing stock in IPSAS 16* Investment Property. *The new comment is on the final page of the comment letter. The background is set out below.*

Notes for the Board on the impairment issue

ED 79, paragraph 30(b) refers to both IPSAS 21 and IPSAS 26 as follows:

30. An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(a) To the extent that it has not been recognized in accordance with paragraph 27; but

(b) Not in excess of the cumulative impairment loss that has been recognized, either in accordance with this [draft] Standard or previously in accordance with IPSAS 21 and IPSAS 26, on the non-current assets that are within the scope of the measurement requirements of this [draft] Standard

The equivalent paragraph in PBE IFRS 5 (paragraph 22) refers only to PBE IPSAS 26. We are not sure why PBE IFRS 5 did not refer to PBE IPSAS 21. We propose not to mention this in the comment

letter but will note internally as something that needs to be aligned when the new IPSAS is incorporated into PBE Standards.

Notes for the Board on the investment property issue

The following extracts from ED 79, PBE IPSAS 16, and IAS 40, show the differences between the examples in paragraph explaining which properties are excluded from the scope of ED 79, PBE IFRS 5 and IFRS 5. Shading has been added for emphasis.

Extract from ED 79 – proposed amendments to IPSAS 16 *Investment Property*

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

    (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

    …

    (f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with ~~IPSAS 17~~ [draft] IPSAS [X] (ED 78).

Extract from PBE IPSAS 16 *Investment Property*

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

    (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see PBE IPSAS 12 *Inventories*). For example, a local government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. In contrast, an entity managing a housing portfolio to deliver housing services may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as non-current assets held for sale.

    …

    (f) Property held to provide a social service and which also generates cash inflows. For example, an entity may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with PBE IPSAS 17.

Extract from IAS 40 *Investment Property* (for comparison)

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

    (a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see NZ IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale. …

…

Draft comment letter begins again here (the new section is on the final page of the letter)

Presentation of revenue and expenses on the face of the financial statements

124. The ED allows entities to disclose the net profit for the discontinued operation, with information on revenue and expenses in the notes. In the public sector the net surplus/deficit for a discontinued operation can be close to zero, despite there being significant gross revenue and expenses. In order to be transparent and ensure that important information is not lost in the notes, some entities in New Zealand have disclosed the revenues and expenses relating to discontinued operations on the face of the statement of financial performance.

125. We suggest that the illustrative examples be expanded to show how a discontinued operation could be presented on the face of the statement of financial performance.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

Actual 2013 $000		Notes	Continuing Activities Actual 2014 $000	Discontinued Activities Actual (refer Note 26) 2014 $000	Total Actual 2014 $000	Main Estimates 2014 $000	Supplementary Estimates 2014 $000	Unaudited Forecast ^ 2015 $000
	INCOME							
310,938	Crown		275,915	31,537	307,452	338,223	307,452	269,510
3,826	Department		2,709	–	2,709	3,876	4,185	3,001
262,684	Other revenue	2	296,511	1,220	297,731	265,022	270,808	296,144
61	Finance income		89	–	89	335	–	–
577,509	**Total Income**		**575,224**	**32,757**	**607,981**	**607,456**	**582,445**	**568,655**
	EXPENDITURE							
304,345	Personnel costs	3	288,760	17,349	306,109	284,558	307,109	301,550
27,802	Depreciation and amortisation	10 11	29,104	785	29,889	39,094	26,098	30,612
11,595	Capital charge	4	11,787	234	12,021	15,887	12,600	14,248
201	Finance costs	5	356	–	356	–	–	–
7,381	Restructuring costs		65	71	136	–	–	–
(302)	(Gains)/losses	6	1,907	–	1,907	–	–	–
208,118	Other operating expenses	7	216,116	12,942	229,058	266,755	241,702	219,180
559,140	**Total expenditure**		**548,095**	**31,381**	**579,476**	**606,294**	**587,509**	**565,590**
18,369	**Net surplus/ (deficit)**		**27,129**	**1,376**	**28,505**	**1,162**	**(5,064)**	**3,065**
–	**Other comprehensive income**		**–**	**–**	**–**	**–**	**–**	**–**
18,369	**Total comprehensive income**		**27,129**	**1,376**	**28,505**	**1,162**	**(5,064)**	**3,065**

For information on discontinued activities refer to Note 26

Transfers of infrastructure assets

126. ED 79 could have a significant impact on the measurement of infrastructure assets to be transferred between entities within the public sector. Infrastructure assets could go from being measured using COV to 'fair value less costs to sell', and then back to COV once transferred. The fair value less costs to sell of infrastructure assets is likely to be less than their COV because fair value is an exit, market-based measurement that reflects the perspective of market participants.

127. Although public sector entities in New Zealand have been using a standard based on IFRS 5 for many years, this standard included the pre-IFRS 13 definition of fair value. We anticipate that the fair value less costs to sell of infrastructure assets under ED 79 would be less than the fair value less costs to sell under PBE IFRS 5.

Amendments to IPSAS 1

128. The proposed amendment to IPSAS 1 *Presentation of Financial Statements* paragraph 88 will align the disclosures required by IPSAS 1 with those required by IAS 1 paragraph 54 (j) and (k) but it would result in the new asset and liability disclosures being located at the end of the paragraph. We think that it would be easier for constituents if the IPSASB located the new asset disclosure immediately following the other asset disclosures and the new liability disclosure immediately following the other liability disclosures.

Amendments to IPSAS 14

129. We recommend that the IPSASB amend IPSAS 14 *Events after the Reporting Date* paragraph 16 to align with IAS 10 *Events after the Reporting Period* paragraph 13. IAS 10.13 was amended by IFRIC 17 *Distributions of Non-cash Assets to Owners* (2008). The proposed amendment is shown below. We note that the IPSASB is proposing to pick up the other changes to standards made by IFRIC 17 so it would be consistent to pick up this amendment as well.

Dividends or Similar Distributions

...

16. If dividends or similar distributions to owners are declared ~~(i.e., the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity)~~ after the reporting date but before the financial statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the reporting date because no obligation exists at that time. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1 *Presentation of Financial Statements.* Dividends and similar distributions do not include a return of capital.

130. We think some of the text in IPSAS 14 paragraph 31(d) could be deleted on the grounds that it is now covered by the proposed new wording in 31(e). The extra examples in IPSAS 14 paragraph 31(d) compared to IAS 10 paragraph 22 would have been useful for constituents in the absence of the IFRS 5 wording. We think the proposed changes to paragraph 31(e) would lead to some duplication (see shaded text).

31 The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

…

(d) Announcing a plan to discontinue an operation or major program, disposing of assets, or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities;

(e) Major purchases ~~and disposals~~ of assets, classification of assets as held for sale in accordance with [draft] IPSAS X (ED 79), *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by other public sector entities;

Amendments to IPSAS 16 (Scope exclusions – surplus housing stock example)

131. Some properties are excluded from the scope of IPSAS 16 *Investment Property*. The last sentence in IPSAS 16 paragraph 13(a) says that surplus housing stock held for sale by a housing department is inventory. ED 79 does not propose to change this statement. In New Zealand, the equivalent paragraph in PBE IPSAS 16 *Investment Property* says that such property is classified as non-current assets held for sale. We think that the IPSASB should change this to non-current assets held for sale. The rationale is that if the housing stock is classified as a non-current asset before being held for sale then it should be classified as a non-current asset when it is held for sale.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.1

Memorandum

Date:	30 July 2021
To:	NZASB Members
From:	Tracey Crookston and Judith Pinny
Subject:	**IASB – Third Agenda Consultation**

Recommendations[1]

1. The Board is asked to CONSIDER and APPROVE the draft comment letter on the IASB's Third Agenda Consultation at agenda item 7.2.

Background

2. At the June Board meeting, the NZASB reviewed and provided feedback on a draft comment letter. At that meeting the Board also received feedback on the survey results to date.

3. During July some Board members reviewed a revised draft comment letter and provided feedback at a voluntary 'drop in' meeting. The purpose of this meeting was to ensure the feedback from the June meeting was appropriately reflected in the draft comment letter and to update the Board on the survey responses.

4. At the 'drop in' meeting, the Board agreed that, overall, the draft comment letter was heading in the right direction and reflected the feedback from the June Board meeting. The main comments received at the 'drop in' meeting are included in Appendix A.

5. The draft comment letter has also been reviewed by the XRB's Climate Team to ensure our comments about the future development of climate-related disclosures are consistent on an organisation-wide basis. They supported the positioning of our comments on climate-related risks in the draft comment letter.

Survey results

6. The survey has now closed and 35 responses were received from constituents. The complete survey schedule of all comments received are set out in Appendix B. The PowerPoint presentation of survey results presented at the 'drop in' meeting is included at agenda item 7.1.1.

7. We have not received any formal submissions from constituents as the preference has been to complete the survey when providing feedback to the NZASB.

Draft comment letter

8. We have included a clean version of the draft comment letter at agenda item 7.2. We have used blue shading to reflect any substantive changes made since the 'drop in' meeting.

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

9. If there are significant changes suggested at this meeting then we will ask the Board to approve the draft comment letter, subject to finalisation with the Chair (or the Chair and a sub-committee).

Question for the Board

Q1. Does the Board approve the draft comment letter?

Next steps

10. The draft comment letter at agenda item 7.2 has been included in the papers for the XRB Board's August meeting.

11. If there are further changes to the comment letter arising from the XRB Board's review we will finalise these with the NZASB Chair.

12. We will submit our comment letter to the IASB before the due date of 27 September.

Attachments

Agenda item 7.1.1: Survey results (PowerPoint)

Agenda item 7.2: Draft comment letter

Agenda item 7.3: IASB Request for Information: Third Agenda Consultation (in supporting papers)

Appendix A – Comments received on the draft comment letter at the 'drop in' meeting

Section	**Comments**
Developing new IFRS Standards and major amendments to IFRS Standards	• It is difficult for the NZASB to decide if the current percentage splits of the IASB's main activities should change or not, without first knowing the agreed priorities of specific topics across the consultation process. • The IASB may be considering a specific topic through a standard setting topic, but constituents may just want more education on it. • In the current environment it is more critical than ever that the IASB makes a compelling case for a major amendment or developing a new standard. • The DP on goodwill and impairment could be used as an example here. The NZASB has recommended a holistic review but the scope of the DP is very limited with marginal benefits to investors.
Maintenance and consistent application of the IFRS Standards	• The word 'simplifying' needs to be removed here. • We do not want the IASB to re-write the Standards. The IASB should start slowly here. Constituents are not asking for a re-write, just more clarification and this can be achieved through education. • Why does the IASB think a re-write is the only option? Sometimes educational tools can be used to clarify the complex requirements of a Standard. However, if a Standard is fundamentally wrong then that is a different matter.

Stakeholder engagement	• This is difficult for the NZASB to answer because some of the responses might suggest that:
	  ○ more engagement may be necessary; or
	  ○ the same percentage split of overall activities is appropriate but with different types of engagement to that which is currently undertaken.
	• An increase in engagement activities that focus on a large number of new standards and implementation projects will likely exacerbate preparer fatigue. On the other hand, more engagement on improving IFRS tools or educational materials may be welcome by constituents.

Digital financial reporting (IFRS Taxonomy)	• The IASB spends most of its time working on financial reporting standards and information content that focuses on financial statements and disclosures in a single PDF or hard copy report. • Need to encourage the IASB to look at the wider issue of financial reporting and technology in a more holistic and strategic way. • There is a need for some thought leadership from the IASB as to how the IASB's products may change in relation to the significant technological changes we are observing.

Section	**Comments**
Intangible assets	• Need to emphasise that this Standard has not changed since the 1990s and there has been a huge amount of change in intangibles since then. • Need to be clear that IAS 38 is not fit for purpose – could elevate this point into the cover letter. • IAS 38 is not meeting investor needs – the Standard never envisaged the technology that exists today. • Intangible assets are growing significantly all the time – need to reflect in early paragraphs on this section. • Do we need to look at the definition of an asset – might need to be careful how we phrase – the definition is a major stumbling block. • Cover letter – rather than focusing on the negative feedback from the IFRS IC decision – could say a new Standard on intangibles would be a step-change for investors. • Compelling case for change – it could make a difference to investor decisions. This is where climate could come in – where people are managing climate the best.
Going Concern	• No changes were suggested for this section.
Discount rates	• It is the education that is important here. • Consider acknowledging that if there are legitimate differences an education tool might be a better response. • The response could be a helpful guide as to where the differences are and why – some of the differences are very valid.
Other comments – Climate-related risks	• Continue to liaise with the climate team here.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

No.	Survey Responses[2] Key to Increased Focus ranking: 1st 2nd
Question 1(a)	**Should the IASB increase, not change or decrease its focus for each main activity?**
A.	**Developing educational resources to improve understanding and access to the Standards.** 1. In developing these resources and taking the perspective of the preparer and end user the quality of the standards might be enhanced. 2. In many cases the accounting standards are 'fit-for' purpose however application is poor. For example, IAS 36 assessment of indicators of impairment is poorly performed and documented in practice. Illustrative examples or practice aids would assist understanding and consistency of application. 3. More standards fuel more compliance consulting costs for the enterprises across NZ. There should be more resources to enable the enterprise to be as informed as possible to mitigate the expense to external experts. 4. Recent standards have been very complex and having educational resources available from the standard setter would improve consistency of understanding and application. It would also save time and cost for others having to develop their own resources to train staff. 5. Standards are becoming too complex for SME and small business. 6. Standards are getting too complicated for average users and preparers and so are losing their relevance. 7. There are too many grey areas in the accounting standards and different interpretations resulting in rooms for managers to interpret to suit their purpose. Rather than introducing more accounting standards, spend more time on educating preparers of FS on the application. IASB will also learn more about the difficulties of applying if they spend more time educating. It will help IASB develop better new accounting standards in the future. 8. This helps with practical application to business and consistency in the commercial environment. This is also important to ensure consistency over a period of time. 9. Too much change - need a period of consistency and stability.

[2] Small edits made to improve grammar and clarity.

	10. We agree with the examples of what the Board could do in improving understandability of IFRS. In addition, the role of digital reporting could play a key part in improving understandability as well as expanding the current focus of digital reporting beyond developing and maintaining the IFRS taxonomy. 11. Use of standards in the Third Sector[3] needs greater education.
	12. Again, the pace of change is too fast. Limited user acceptance (e.g. IFRS 16) makes it difficult for corporates to properly explain new presentation to the market and other users. 13. Essential in light of adverse reactions to recent standards e.g. IFRS 16. 14. Often very technical and difficult to understand so the more education the better. 15. Some of the standards are very complex and are not stand-a-lone and need to be read in conjunction with others. Sometimes I think I should have completed a law degree at the same time as completing a commerce degree. 16. Standards are too long and too complicated. Additional resources to aid understanding and application are essential. 17. The leasing standard had some strange results during COVID. The pragmatic exemption for lessees was good but the exclusion of lessors made for some strange and counter-intuitive results. Standards such as PP&E and Intangibles are vague and applied with a lot of room for interpretation. 18. The standards are way too complex for the average user. 19. This will support consistency in application.
B.	**Developing minor amendments to IFRS Standards to promote consistent application** 1. Consistency in existing standards is important and it's also important for a period of stability with new standard. 2. Fitness for purpose is a key issue across financial reporting and the broader ecosystem. 3. Pace of change of IFRS is excessive. Some time needs to be spent on consolidation and refinement and understanding the impact on all users. 4. Standards such as PP&E and Intangibles are vague and applied with a lot of room for interpretation. 5. There are some standards that are causing issues with both accounting and auditing - goodwill, going concern etc that need to be resolved to be simpler, clearer and less likely to cause issues with both accounting auditing and the results of entities. 6. To ensure consistency across standards which will promote consistent application.

[3] Not-for-profit sector.

	7. We have seen a lot of change in the development of new standards, and I would like to see a period of rest and implementation of existing standards. The one proviso is the need to develop a practical set of standards for reporting on a business' effects on the environment and what steps are being taken to minimise those effects.
	8. As above. If it needs fixing, then fix it. 9. Standards are becoming too complex for SME and small business. 10. We need more clarity on the accounting standards. The words used in the accounting standards are so wordy and cumbersome that even accounting professionals need to spend time to read over and over again to have a clear understanding of the aim/application of the paragraphs.
C.	**Developing new IFRS Standards and major amendments to IFRS Standards** 1. After significant changes in a number of standards we need to have some stability in the development in standards. This will allow for time to assess the impact of standards and if they have the desired impact. 2. IFRS 16 is an appalling bad accounting standard and needs to be replaced/repealed as soon as practically possible. It leaves investors with inferior financial information compared to before its introduction. 3. While the feeling may be that after IFRS 9, 15, and 16 everyone "needs a break", that is just incorrect. If there are known issues where IFRS is inconsistent, silent, and/or out of date, these need to be remedied.
	4. Refer above where there are shortcomings/inconsistencies/wide discretion on interpreting standards. 5. There will always be new issues arising.
D.	**Increasing stakeholder engagement through webinars, roundtables etc.** 1. Many users of corporate reporting, focused on assessing the degree to which earnings are non-recurring or not, need to hear open dialogue on the limitations of accounts, KAMs, notes, commentary to meet this aim. 2. New standards create confusion and often the reason for the introduction seem driven by "academia" in the accounting world; not actual stakeholders' requirements. 3. The adoption of IFRS 16 has had the complete opposite impact of what it set out to achieve i.e. improve transparency and consistency of financial reporting. It is inconsistent with cash flow modelling which is obviously key to the DCF methodology which is the primary valuation used by financial markets, along with EBIT and EBITDA multiple approaches. Engagement with stakeholders would have highlighted this problem - not a single person I have spoken to in my industry supports IFRS 16 adoption.

	4. IFRS needs further engagement with preparers and users of financial statements, not only from large corporations but also for smaller listed entities that may have different challenges with implementation of standards. From a users' perspective more consultation should be performed if the standards are delivering to the expectations of users. 5. Need to increase interface between standard setters and users/ preparers to improve usability of standards. 6. Provide fundamental inception reasoning behind every standard to ensure base/core understanding. There needs to be more mahi around engaging the impacted stakeholder. 7. This is valuable for businesses to have input and to stay up to date and engaged with the current reporting standards and developments. 8. To involve stakeholders and academics would provide more opportunities for direct feedback, including the priorities going forward so maximising relevance. For example, the requirement to respond the climate-related disclosures will require a much faster cadence from standard setters than historically.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Question 1 (b)	Should the IASB undertake any other activities within the current scope of its work? Please note that this agenda consultation focuses on the current scope of the IASB's work, being financial statements as used by Tier 1 and Tier 2 for-profit entities in New Zealand. This may include climate-related risks as they are reported in financial statements.
	1. Digital financial reporting should be given more focus. 2. No - that is a lot of mahi within the scope, no addition but more consultation. 3. Segment reporting, non-GAAP ads, commentary, notes, KAMs and the wide variation in info/detail is a large focus for us due to above. 4. No - not given the recent announcement that a new board is being set up to develop sustainability standards. 5. No. 6. Practical help and a consistent framework for measuring and dealing with the effects of climate change is important and the focus of the current decade. 7. Possibly climate risks 8. Climate risk guidance might be good. There are a lot of competing standard setting bodies out there. 9. Increase research-based evidence to assess impacts of changes. 10. There is enough to do at the moment. 11. Yes. 12. More interaction with universities through both formal seminars/talks and informal events 13. Climate-related risks, particularly as they also impact financial statement items, so that users can assess the performance of the entity as a whole. 14. Yes, more guidance on how climate-related risks should be reported in financial statements. 15. climate and other diversity, sustainability matters will need to be addressed. 16. May engage in social impact accounting.
Question 2(a)	**What priority would you give each of the potential projects listed below, considering the Board's capacity to add projects to its work plan?** (See graphs in separate Agenda paper 7.1.1 containing PowerPoint slides)

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
Question 2(b)	**List your top 4 projects (with the most important being No 1) and explain why you chose these four projects (see key above)**
Borrowing Costs	1. The recent decision by the Government for the residential interest deduction now non-allowable deduction.
	2. Remove the ability to capitalise interest. Interest is a period cost not a product cost so should not be reflected in period not capitalise to be allocated to products. Interest is a distribution of profit not part of the operating activities. Interest capitalisation is not comparable (if some firms are all equity financed) and distorts financial rates such as interest cover.
	3. We borrow a lot of money and there are some very odd rules sometimes!
Climate-related risks	1. Also pollutant pricing - need for comparability by investors and their stakeholders given requirements of stakeholders and plethora of ESG-related frameworks. These risks will be increasing priced into assets and will result in significant impairments through stranded assets - so a material balance sheet matter. 2. Because its coming at us quickly and needs to be addressed. 3. Becoming more a requirement from stakeholders such as customers, suppliers and government agencies. 4. Becoming more and more important and impacts of climate change could be devastating on business going forward. 5. Climate related risks are a matter of significant and increasing interest to stakeholders in financial reporting. Further guidance to ensure clarity of understanding about the reporting obligations from existing standards is important to ensure all entities meet reporting obligations of climate related risks and to allow comparability between entities. 6. High levels of interest and user expectation. Emerging area with little or no current guidance. 7. Relevant in the current environment and will become more so. 8. The number one issue of the current decade and the need of the current generation to make sure we leave the world a better place for our children and their children. 9. This is a new regime and the success of the regime largely depends on the quality of the requirements set by the XRB. 10. This is now an urgent issue that needs a coherent, globally accepted international standard. The proliferation of voluntary climate and sustainability-related frameworks results in inconsistent reporting by entities and users will not be able to rely on, or compare, information produced by different entities. 11. This topic has huge environmental, social and economic impact and there is currently insufficient focus in financial reporting. 12. This will be a large and complex area that is critical to get right, particularly given the timeframes that are proposed by the government.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
	13. Topical in the public interest (and will help NZ). 14. Threat to society needs more information from For-profit entities. But uncertain that it is economic for Third Sector entities.
	15. Climate related risks are a hot topic. There are a lot of competing standard setters out there. I don't know if we need yet more standards. But maybe some consolidation of ideas without over-disclosure and while maintaining a focus on materiality. 16. Due to need from the users of the financial statements. 17. This is a topic that has gained momentum and is of severe relevance, we need to ensure we are across the treatment and standards of this new *kaupapa*. 18. Topical for trading environment. 19. Similar to intangible assets, the IASB Agenda Consultation acknowledges the importance of considering reporting requirements that adequately address the accounting for climate-related risks. The need for improved corporate disclosure surrounding climate-related risks has been increasing significantly in recent years, as many stakeholders become more aware of the impact of climate change on our society. Whilst the IFRS framework includes the ability to report the financial impacts of many risks including climate-related risks, specific detailed requirements and guidance on how to apply the current requirements to climate-related risks is warranted. This would also be an important project for the IASB, given the current focus of the IFRS Foundation to establish as International Sustainability Standards Board that is likely to lead with standard-setting on climate-related matters.
	20. Impact of pandemic and disasters. 21. Need to address this with the greater awareness in this area.
	22. Because climate change is a major risk. 23. Emerging issue.
Commodity Transactions	1. Newer area.
Cryptocurrencies and related transactions	1. This is getting very prevalent and many businesses are beginning to accept bitcoin payments. Accountants should not ignore this and carry on life as if it does not affect us.
	2. Cryptocurrencies will be the medium of exchange in the future and currently there's insufficient regulations for such transactions. 3. Real life issue that is not going to go away and IFRS as it is does not specifically address this.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
	4. Relevant and has potential to become significant and it is difficult to see where it fits in the current framework. 5. This is a rapidly evolving area. 6. Varying practices (e.g. whether asset) and fast developing area.
	7. Crypto-currencies and the impact of artificial intelligence are areas that need to be addressed to ensure that standards do not fall behind developments in business. 8. Emerging area which will likely become more commonplace. 9. Nobody knows how to account for these. 10. The emerging area of crypto-related economic activity needs further exploration by the IASB to establish whether the level of economic activity and the accounting impact on IFRS reporters warrants a standard-setting project by the IASB.
Discount Rates	1. Inconsistent across IFRS. 2. So much of the balance sheet is comprised of estimates (fair value of intangibles, impairment tests), which are themselves often a function of DCF methodologies. The discount rate applied has a huge impact on the resultant values.
	3. These are a nightmare at present - way too much diversity in practice. 4. Very low interest rates at present have lifted the valuation of interest-sensitive stocks especially Saas/other "unicorns" predicated on positive cash flows in the longer term (Tesla etc). But this could change if reflation emerges - so a significant valuation issue - ties into the intangible assets issue as 80% of the sharemarket value of listed companies relates to intangibles - reflecting valuations placed on the FAANGS - Facebook, Amazon, Apple, Netflix, Google, etc.
	5. Current variable practice. Differing approaches to different areas currently. 6. Greater consistency definitely needed in this area. 7. Sort out the inconsistencies of discount rates across standards.
	8. Further guidance on how to assess discount rates for very long term liabilities (i.e. how to extrapolate the yield curve as per IAS 19.86). Also need guidance on how to assess appropriate discount rates for provisions including risks specific to the liability in the absence of market data, when future cash flows are not adjusted for risks (IAS 37.47). 9. Largest provision and impact for business.
Employee Benefits	1. Changes in employment conditions is changing particularly with the COVID-19 impact so needs updating.
	2. Retention and recruiting implications.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses — Key to Project choice ranking: 1st / 2nd / 3rd / 4th
Expenses – Inventory & Cost of Sales	1. Most crucial item for a trading business. 2. Supply chain accounting.
	3. Key for determining recurring earnings for distribution companies in high inflation environments.
Foreign Currencies	1. FCTR reclassification requirements allow for many policy choice / options. This is especially true in relation to loans that form part of the net investment in a foreign operation. E.g. whether partial repayment is a partial disposal, and how FCTR should be reclassified in a situation where an intermediate holding company has a different functional currency to the foreign operation and ultimate parent.
Going Concern	1. When the financial statements are not prepared on a going concern basis the guidance in IAS 1 Presentation of Financial Statements for financial statements is quite limited. What is the basis of preparation if the entity is not a going concern. Common practice is disestablishment basis and realisation basis but the standard does not contain guidance for this. This is certainly a gap in the IFRS Standards.
	2. Inconsistencies between accounting and auditing standards, with the structure in auditing standards (e.g. look forward for 12 months from approval date as opposed to balance date) being a better approach. 3. The current standard is such that the onus is on the auditor which is wrong it should be on the entity with clear guidance. 4. The standards could be improved in this area to close the expectation gap between what is required to be disclosed in the financial statements and the audit work required. Although the XRB has improved this already I believe there is room for further improvement.
	5. Entities are pathetic at assessing and disclosing GC issues. 6. Number 1 and 2 above have an impact on going concern, looking forward. Going concern may need to reflect governance's view of not only the next 12 to 18 months but also in 5 and 10 years' time. 7. Significant information already available on this and the need for standard-setting (as demonstrated by NZASB). 8. Although current IFRS sets out requirements for the going concern assessment, there is scope for improving and clarifying these requirements. It is noted that auditors often encounter challenges in applying the requirements in auditing standards to the going concern assessment and disclosures made in accordance with IFRS. We note the NZASB has sought to address through a limited-scope standard-setting project that enhanced the current IFRS-based disclosure requirements. The AASB has also undertaken research to explore the adequacy of current requirements around going concern and we understand it is likely to recommend this topic as one of the projects to be commenced in the upcoming work cycle of the IASB.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
	9. Current post covid era how do preparers of financials disclose going concern assumptions and issues.
Government Grants	1. Due to COVID-19, many governments are providing substantial subsidies and grants. Proper recognition and treatment are important. Overall, I find that responses to new areas are rather slow. 2. Some Third Sector entities have significant receipts from Government grants.
	3. The standard is old and out of touch. Needs to eliminate matching and have ONE presentation approach (as income, and then disclosure of what it relates to).
	4. The standard is not aligned to the framework. 5. The treatment of these - due to Covid and the Government's commitment to provide funding, what measurements and impacts need to be disclosed, etc ... The environment has changed and we need to ensure we are in step with massive amounts of funding now available to Tier 1 and Tier 2s.
Income Taxes	1. Deferred tax is a nonsense. A major project would indicate that the existing standard is broke. 2. The deferred tax balance sheet approach does not always produce useful information. Especially in the NZ context when the Govt removes depreciation on building structure and then reinstates it years later. The deferred tax has become yet even more complicated and counter-intuitive. Deferred tax on revaluation reserve also yields strange results. Especially if companies elect to clear out accumulated depreciation upon revaluation per the PP&E standard.
	3. Standard is poorly understood.
	4. A lot of interest in this area by all stakeholders particularly governments so more clarity required.
Intangible Assets	1. Goodwill becoming difficult to test for impairment. 2. Scope of review should be expanded to include the recent IFRIC agenda decision. IS landscape has evolved and standard is no longer 'fit for purpose'. Cloud computing / SaaS need to be appropriately considered. 3. Stakeholder feedback we have received indicates there is a significant need to address the accounting for intangible assets under IFRS. In particular, it is noted that the current requirements do not adequately capture a wide range of intangible assets and value created and held by many companies in many sectors. We note the importance of the need to consider improvements in intangibles accounting is noted in the IASB Agenda Consultation.
	4. Same reason as above - too many "artificial" intangibles on the balance sheet (witness IFRS 16).

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
	5. Accounting for intangible assets needs to be reviewed to ensure standards allow entities that do not rely on physical assets to report their "value". It is also important to ensure entities are not deterred from conducting research or investing in "green" technology. 6. Entities are regularly looking for guidance on how to account for their major information technology projects. The intangible assets standard is dated and provides very little content specifically for IT projects and entities struggle to identify accounting guidance for IT projects, including which cost types are capex or opex. Also there is very little relevant guidance and inconsistent practice when major custom IT projects are structured as software as a service and infrastructure as a service. US GAAP has more useful guidance on IT projects. 7. Intangible assets are a great source of debate with non-accountant business stakeholders. The standard isn't always helpful in ruling things in or out. 8. intangibles goodwill needs to be clarified as the current accounting allows both to be carried well past their point of value and results in massive cyclical write downs. 9. This is still an area where disclosures could be improved to ensure that readers get a better understanding of the asset and how it has been valued and assessed for impairment. 10. Need clarity as to whether Third sector entities need to consider this.
	11. Intangibles are closely linked to digital and given the growth in digital it makes sense to get this right (IMO).
Interim Financial Reporting	1. Requirements for continuous disclosure.
	2. No strong view on this, but has growing significance. 3. We often see that interim financial reporting may not be delivering all areas of the financial statements especially when it comes to impairment assessments and other areas that are generally only covered by the year end assessment.
Negative Interest rates	1. Covid impacts and the impacts it has to interest rates, the ability to measure and disclose the "agreed" impacts.
	2. Simply a real risk of this happening (unless we get a bit more inflation to boost interest rates).
Operating Segments	1. Enhanced disclosure requirements around operating segments would provide more information for investors. Many companies amalgamate segments/divisions to effectively hide performance of individual units.
	2. Increasing number of businesses are diversifying geographically and otherwise - need reporting to provide appropriate disclosure.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

Topic	Survey Responses Key to Project choice ranking: 1st 2nd 3rd 4th
	3. The standard is OK but the aggregation criteria linked to information provided to the key decision maker can give unusual results. Especially if management reporting could change depending on reporting lines rather than relationships between key revenue / expense streams.
Other Comprehensive Income	1. OCI is poorly understood, so if improvements are needed they should be made.
Pollutant Pricing Mechanisms	1. ETS disclosures very weak in NZ it seems. 2. Follows on climate-related risks surely? 3. Guidance on accounting for emissions trading schemes and carbon units is needed as there is currently inconsistent practice. This includes inconsistency in how carbon units and emissions obligations are measured. This becoming more important as carbon prices continue to increase. 4. This is necessary as a consequence of the need to disclose climate-related information.
	5. Long-needed guidance to remove inconsistent application. 6. More could be done to promote this pricing mechanism to businesses.
Statement of Cash Flows	1. Cash is still king! 2. Some of proposed new disclosures would be helpful for recurring/non-rec work as per earlier point. 3. Current presentation creates confusion for many readers of Third Sector financial statements.
Variable & Contingent Consideration	1. This is another area that is subject to massive judgement.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

No.	Issue	Comments	Staff comment
Q2(c)	**Are there any other financial reporting issues that have not been included in the 22 projects above that you would like addressed by the IASB?**		
1. *Top issue*			
1.	Expanded illustrative examples for IFRS 15	With 3-4 reporting seasons completed, many re occurring practical application areas have come to the surface, and the IASB must be aware of these. There are probably many practical examples that could be added, especially in the SaaS and software licencing space, that can be used to show of the 5-step model works and the different changes in a fact pattern that result in different outcomes	IFRS 15
2.	Maaori / Iwi standards alignment	*Tiriti o Waitangi*, partnerships across Governmental departments and associated entities. There needs to be a voice that reflects the *wairua*[4] of this country, we are ignoring value at our core and adopting external international trends rather than our own, climate change views are predominately trying to align to *Maaori* views so *Maaori kaupapa* is relevant and is of value to our standards - arguably centuries ahead of the care of land, environment and people.	Domestic issue
3.	Reconciliation of provision movements from year to year would be helpful	See earlier point on rec/non-rec earnings	
4.	Social investment	Concepts like investment entities and VCOs are difficult to interpret in the context of B Corp type organisations that are investing for a combination of social and financial returns	Emerging issue
5.	Is it significant or Material to have Micro NGOs produce GAAP Accounts?	Is it worth the time and stress for micro-NGOs? Are their resources better spent doing what they need to do for the community?	Domestic issue

[4] Spirit or soul.

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

No.	Issue	Comments	Staff comment
6.	Simplification	Standards becoming too complicated and therefore losing relevance to users	
7.	Equity method	The equity method is near to being broken. Disclosures are non-comparable. Unless a consistent conceptual approach is adopted there will be differences in how equity method is applied and reported.	IAS 28 Investments in Associates & Joint Ventures
8.	PP&E standard is very old	Capex vs Opex is a great source of debate with managers remunerated on EBITDA or short-term profitability. The standard's guidance is lacking and leaves a lot of room for interpretation.	IAS 16 Property, Plant & Equipment too old
9.	Impairment	In our submission to the IASB Discussion Paper: *Business Combinations – Disclosures, Goodwill and Impairment*, we suggested that a fundamental review of IAS 36 *Impairment of Assets* should be undertaken to identify and address the current challenges with impairment identified by stakeholders, including corporate regulators.	
10.	Is the IFRS basis for Tier 1 and 2 Not-for-Profit standards justified? Have other jurisdictions followed the NZ approach?	Excessive costs have been imposed on the Third Sector, but the benefits do not appear to have been appraised.	
2nd issue			
11.	Website costs	Bring SIC 32 into the 21st century. It's old and restrictive	Intangible Assets
12.	Changes to depreciation rates – seems to be a lot of discretion	As per above	
13.	Tier 3 Reporting Standards	Have we got this set right or is there a need for a higher Tier 3 and a lower Tier 3 (reduce disclosures for lower Tier 3 sized entities)?	Domestic issue

Appendix B: Written responses to the third Agenda Consultation Survey (28 July 2021)

No.	Issue	Comments	Staff comment
14.	Supplier contracts	There is no explicit guidance for supplier contracts. IFRIC have just started to refer to the revenue standard to give guidance for SaaS, which is helpful at least. But strangely not IaaS or PaaS, which is now causing heated internal debate.	IFRS 15
3rd issue			
15.	Changes to segments preparation/basis	as per above	

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

IASB Third Agenda Consultation 2021

XRB Agenda Consultation survey responses

NZASB meeting 12 August 2021

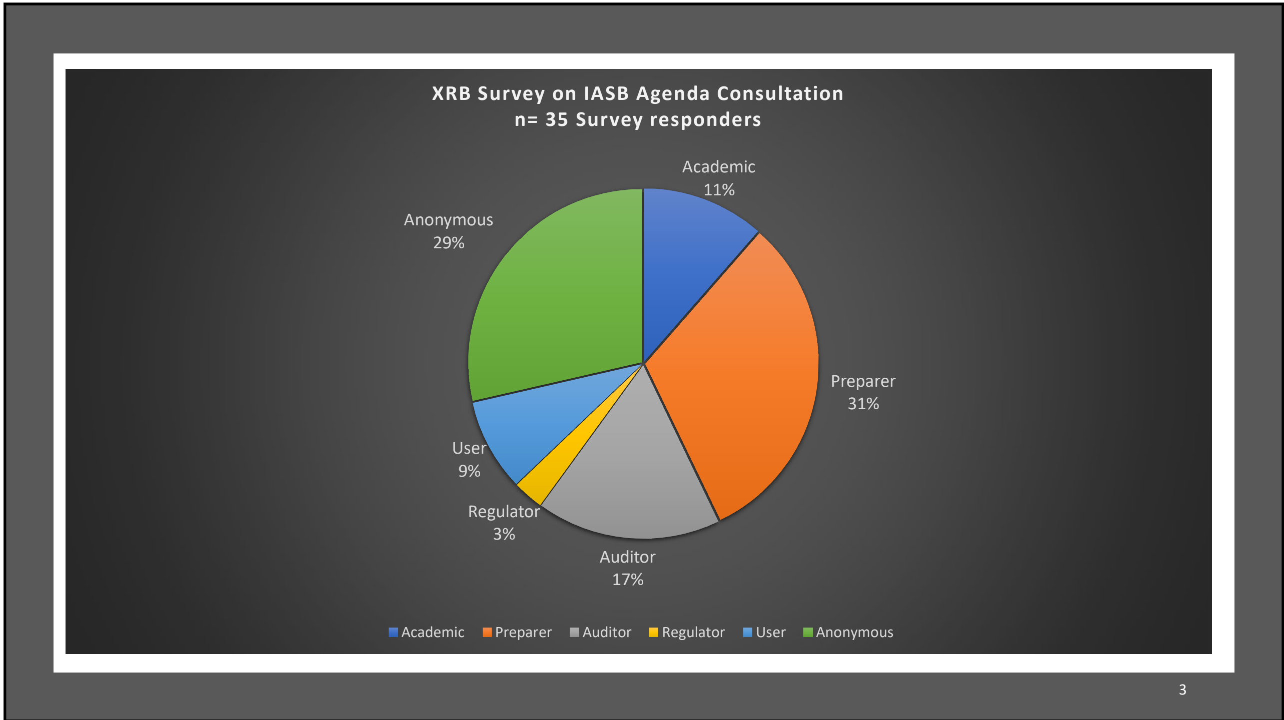
Judith Pinny

1

XRB Agenda Consultation survey

- Open for 50 days
- Closed 14 July 2021 (CA ANZ/CPA Australia)
- Similar to IASB questions
- Focused on IASB list of 22 potential projects
- Difference: we asked about top 4 projects (in order)
- Summary of quantitative survey data
- Some comments on written responses at end

2



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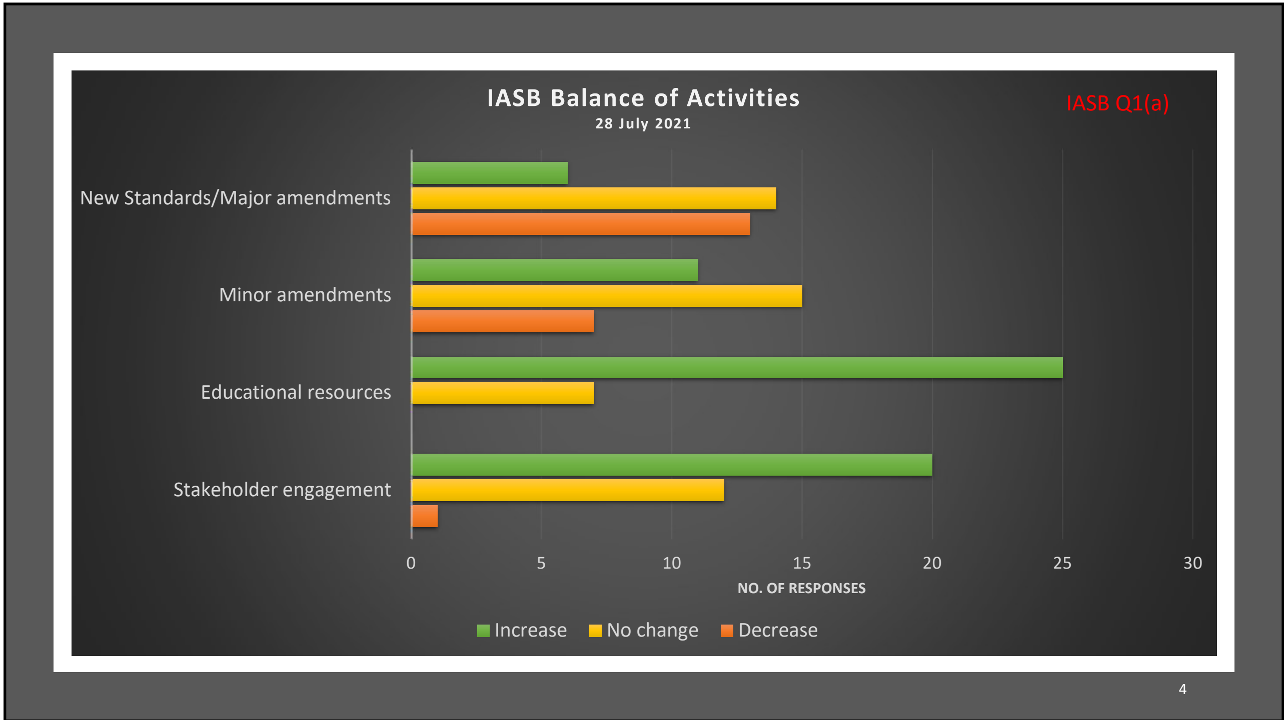

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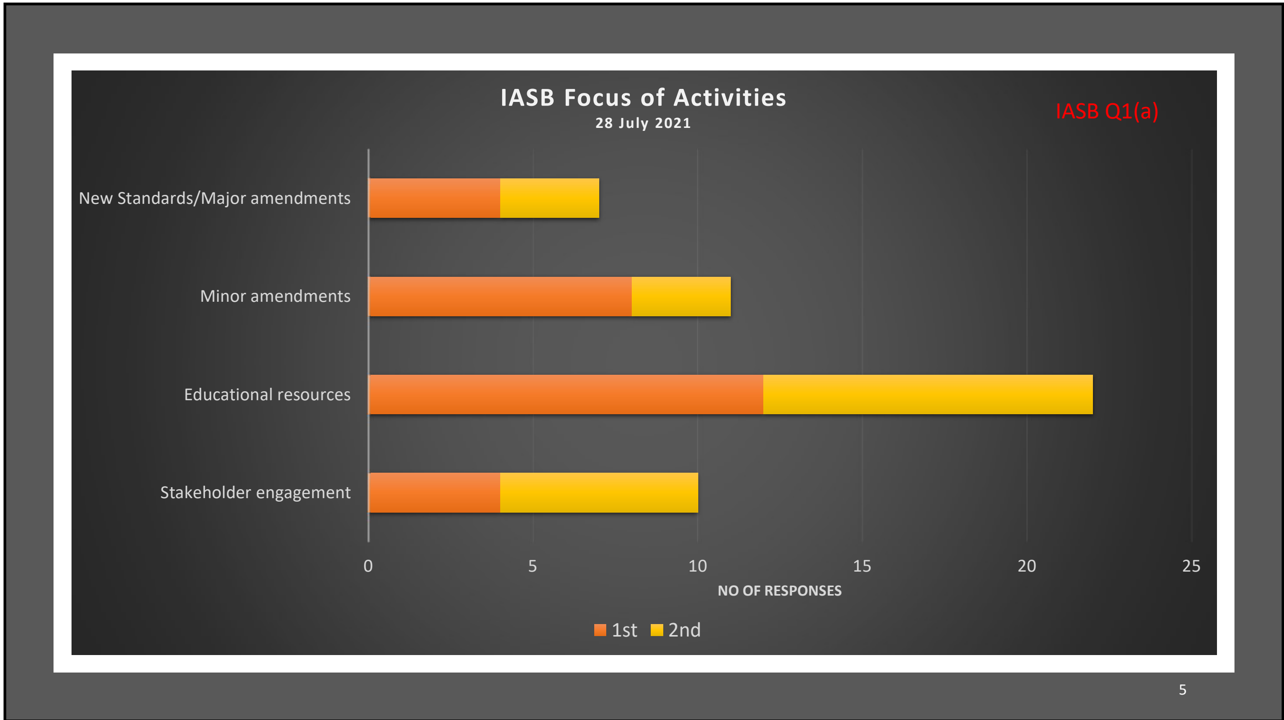

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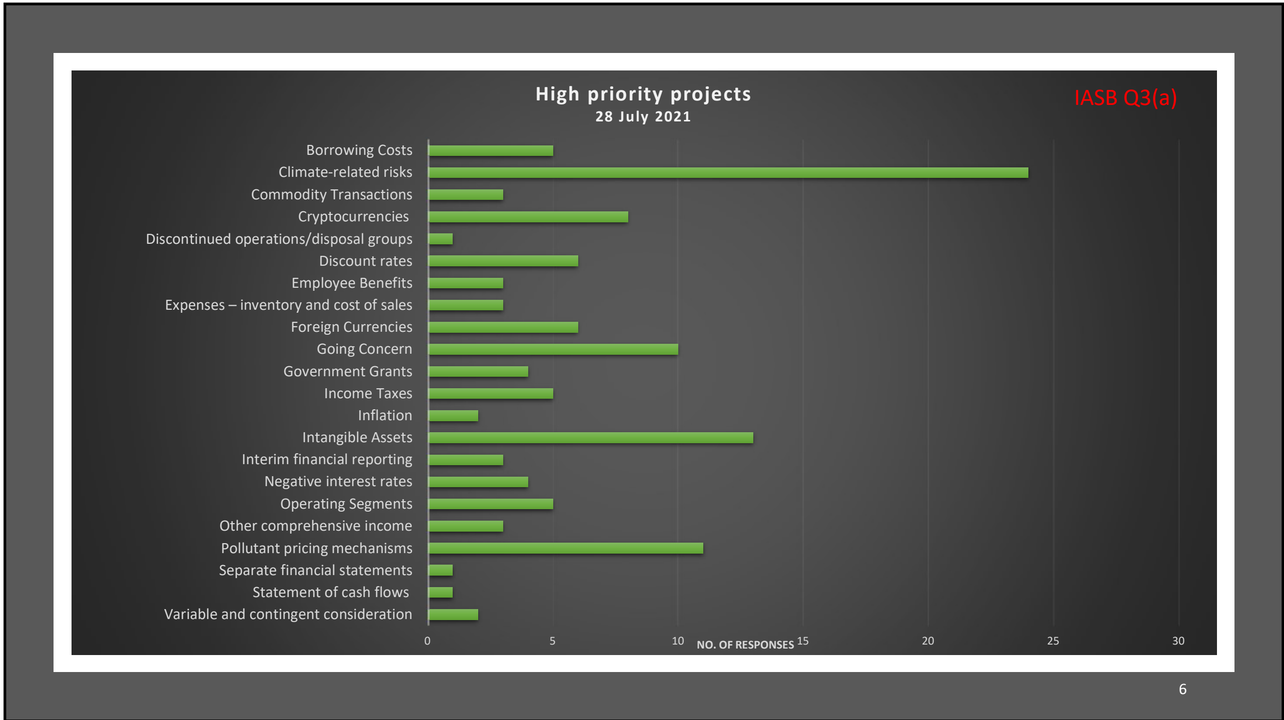

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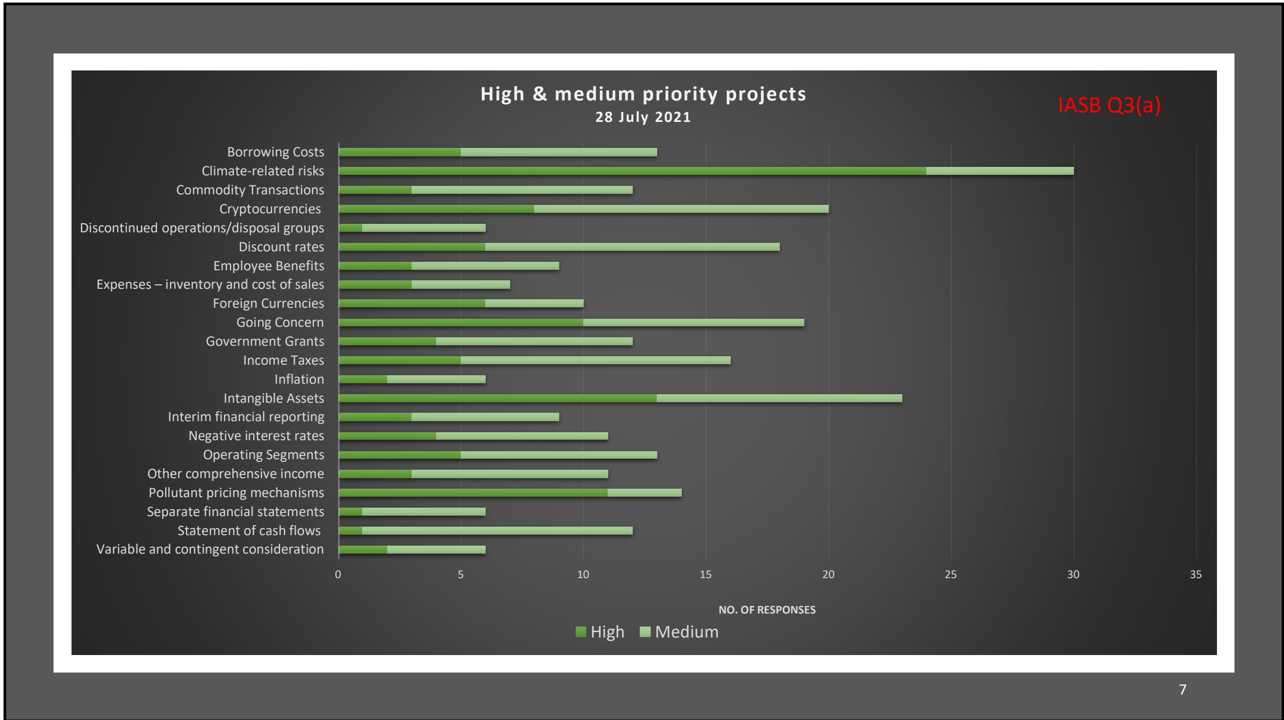

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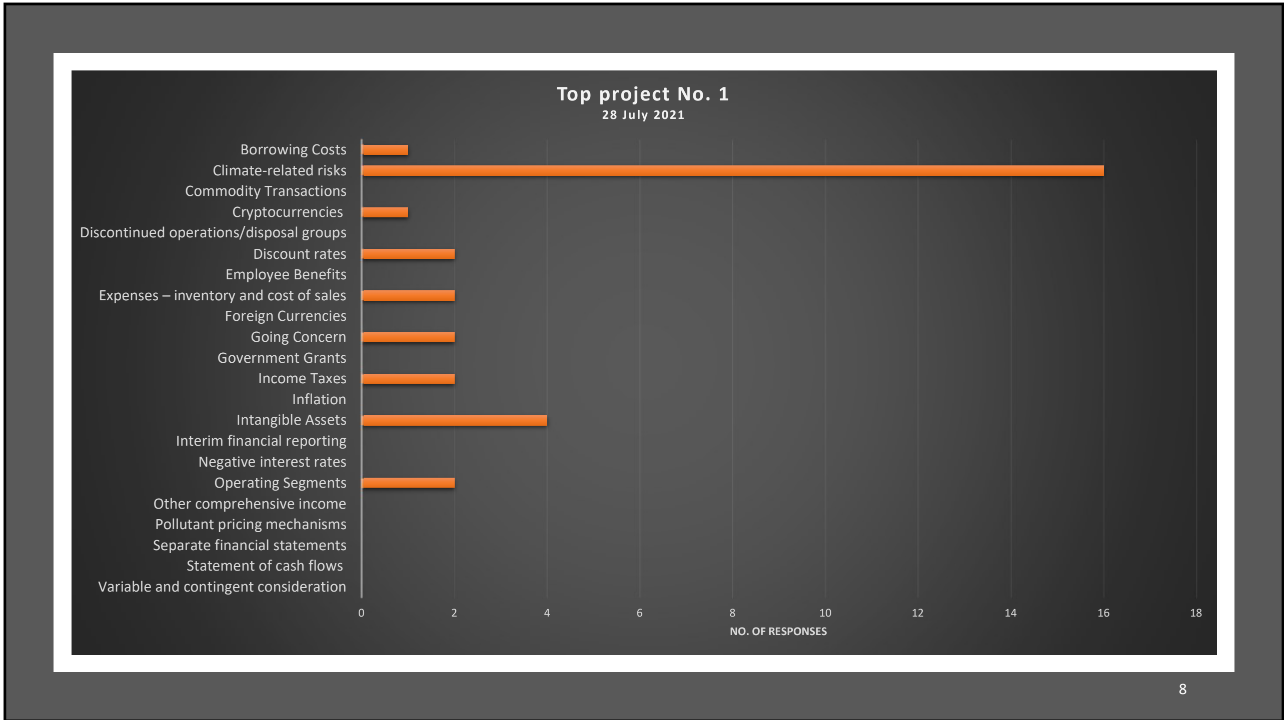

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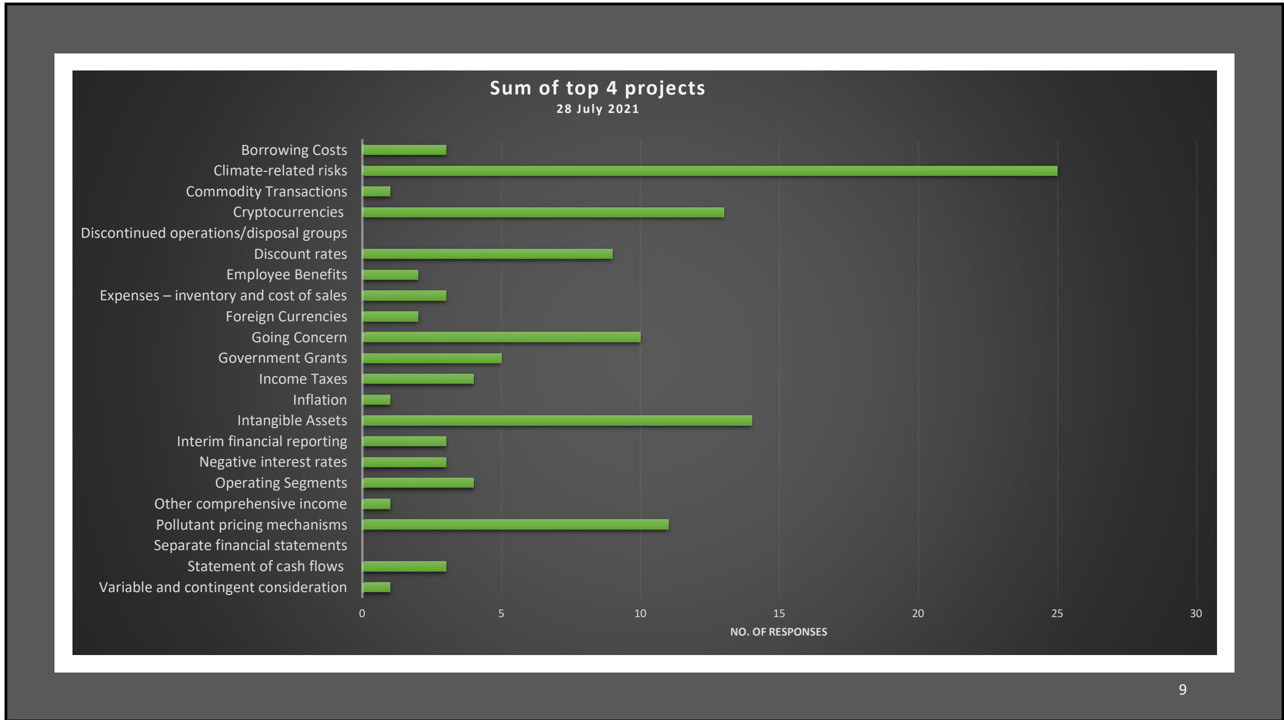

9

XRB Agenda Consultation survey – written
Top 4 projects – written comments

- Ignored the 24 responses on climate-related risks for this summary
- **Cryptocurrencies** – 10: a new area, and people don't know how to account for these transactions
- **Discount rates** – 9: current diversity needs sorting out
- **Going concern** – 9: general support for international adoption of what NZ has done.
- **Government grants** – 5 : inconsistency with the CF, need to eliminate matching and have 1 prescribed presentation; (as a result of Covid handouts from government)
- **Intangible assets** – 11: out of date, needs to cover IT properly.
- **Operating segments** – 3: one vociferous supporter of review.

10

XRB Agenda Consultation survey
Other issues

- IFRS 15 – more examples (especially SaaS)
- Standards are too complicated, losing relevance
- Equity method is near broken; inconsistent application
- Review IAS 17 P,P & E: Capex vs Opex split often unclear
- Review IAS 36 *Impairment of Assets* (with IAS 38)
- Accounting for Social Investment (outside scope)

11

XRB Agenda Consultation survey: Maaori / Iwi standards alignment

- "There needs to be a voice that reflects the *wairua** of this country, we are ignoring value at our core and adopting external international trends rather than our own, climate change views are predominately trying to align to *Maaori* views, so *Maaori kaupapa*^ is relevant and is of value to our standards - arguably centuries ahead of the care of land, environment and people".

*Spirit or soul. ^Collective vision and values

12

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

[date]

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

Submitted to: www.ifrs.org

Dear Andreas

Request for Information: Third Agenda Consultation

Thank you for the opportunity to comment on the Request for Information (RFI): Third Agenda Consultation. We are supportive of the work of the IASB and appreciate the opportunity to comment on the future projects being considered.

The RFI has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. We released a survey for New Zealand constituents and have received 35 responses from a wide range of stakeholders which contributed to the Board's deliberations when developing our submission.

Strategic direction and balance of the IASB's activities

Feedback from our outreach has indicated that many preparers are still navigating the disruption and ongoing uncertainty caused by COVID-19 and there is some preparer fatigue from the implementation of recent major new IFRS® Standards. We therefore encourage the IASB to be mindful of this when developing its workplan for 2022-2026.

We also received consistent feedback that the IFRS Standards have become increasingly complex and difficult to apply. We are supportive of the IASB reducing unnecessary complexity and ensuring the IFRS Standards are more clearly articulated with consistent terminology and structure. However, we do not see this activity as being a re-write of existing IFRS Standards. In our view, the IASB can work on this going forward when it issues new IFRS Standards, amendments, guidance and other educational materials.

Given the significant advances in technology world-wide impacting the dissemination of information generally, we question whether the IASB's current approach to the digitisation of standards is too linear to meet the future information needs of investors. We are concerned that the IASB is missing opportunities to support the advancement of digital reporting initiatives.

We encourage the IASB to step back and look at the wider issue of financial reporting and technology in a more holistic and strategic way than we observe it currently does. We would appreciate some thought leadership from the IASB as to how the IASB's work and products will change in response to the significant technological changes occurring now and in the future.

Financial reporting projects to be added to the IASB's work plan for 2022-2026

In our view, the IASB should add 3 projects to its 2022-2026 workplan — intangible assets, discount rates and going concern. We rank intangible assets as our highest priority for IASB attention followed by going concern and discount rates.

In our view the time has come for the IASB to undertake a comprehensive review of IAS 38 *Intangible Assets* (IAS 38) to ensure that it is fit for purpose and achieves appropriate accounting outcomes that keep pace with future developments. We have therefore positioned this project as our highest priority. We consider the primary users of financial statements would benefit immensely from the IASB determining how the financial statements can provide a more complete view of an entity's intangible resources, as they are an important source of value for many entities.

IAS 38 is a standard that was first issued in the late 1990s and has not had any substantive changes made to it over time. As a result, it has become unfit for purpose as a plethora of intangibles have developed and evolved since that time. These new kinds of intangibles could not have been anticipated when IAS 38 was first issued.

We have observed that IAS 38 has been used as the avenue for addressing new digital-based assets that are difficult to categorise into other IFRS Standards. Because the Standard is not equipped to deal with these new and emerging intangibles this approach is not leading to the best accounting outcomes.

While we recognise that climate-related risks are an important emerging issue that needs to be addressed by standard setters, we have not commented on a potential IASB project in this area. In our view, until the International Sustainability Standards Board (ISSB) is formally established and there is clarity as to how it will operate and integrate with the IASB, it would be premature to comment on a potential IASB project on climate-related risks as it relates to general purpose financial statements.

Our recommendations and responses to the specific questions in the RFI are provided in Appendix 1 to this letter with priority ratings included in Appendix 2. If you have any queries or require clarification of any matters in this letter, please contact Tracey Crookston (tracey.crookston@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix 1: IASB Request for Information (RFI) Third Agenda Consultation responses

RFI Question 1—Strategic direction and balance of the Board's activities
(a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? If you think the Board should increase or decrease its current level of focus on each of its activities, could you please specify the types of work within each activity that the Board should increase or decrease. (b) Should the Board undertake any other activities within the current scope of its work?

Developing new IFRS Standards and major amendments to IFRS Standards – No change

1. It is difficult to decide if the current percentage allocations of the IASB's main activities should change or not, without the benefit of knowing the agreed priorities of specific topics resulting from this consultation process. The IASB may be considering a specific topic through a standard setting project, but the call from constituents may be that all they need is more education on that topic. We encourage the IASB to reconsider the balance between the main activity groups after deliberation on constituents' specific topics and priorities following this consultation.

2. Subject to our comments in paragraph 1, we consider the balance of activities here should be kept unchanged particularly as this activity does not exclusively include the development of new IFRS Standards but also includes the post-implementation reviews (e.g. of IFRS 9, 10, 11 and 12, 15 and 16).

3. Our constituents have advised that many preparers are still navigating the disruption and ongoing uncertainty caused by COVID-19 as well as working on the implementation of the recent major new IFRS Standards in particular, IFRS 9, 15 and 16.

4. We appreciate the work undertaken by preparers and their call not to introduce any new major standards over the next 2-3 years. However, we encourage the IASB to focus on developing new standards and major amendments in the longer term, ensuring that there are appropriate public consultation and implementation periods. We are therefore supportive of the IASB commencing projects in 2022-2026 that will lead to the development of new IFRS Standards, guidance and educational materials.

5. However, in the current environment, we think it is more critical than ever that the IASB make a compelling case for a major amendment or developing a new IFRS Standard. The IASB needs to be confident at the outset that the new project will significantly improve the information provided to investors. This may require even more outreach by the IASB at the outset to obtain agreement about the exact definition of the problem to be solved and the relevant scope before a decision is made to proceed with a major project.

6. For example, the IASB recently issued a Discussion paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* (DP) and one of the objectives of this project is to improve the goodwill and impairment test. Our response to the IASB recommended a holistic review of the accounting for goodwill and other intangible assets, including internally generated intangible items that are not recognised under current requirements in IFRS

Standards. If this project proceeds as the DP suggests, with a narrow focus on goodwill and its impairment, we think this could be an example where there may be only marginal improvements for investors, yet the critical gap in information around intangibles now prominent in many businesses, continues to grow.

Maintenance and consistent application of IFRS Standards – No change

7. As noted above, we received constituent feedback that there is a level of preparer fatigue with frequent major changes made to the requirements of IFRS Standards.

8. IFRS Standards have become increasingly complex, and we consider the IASB needs to focus on investing additional resources to assist with their understandability. In line with this, the 'providing educational materials' and 'simplification of the standards' aspects of this activity should be the IASB priority areas for 2022-2026.

9. We also consider efficiencies could be made through the processing of narrow-scope amendments. This could be achieved by broadening the criteria for annual improvements to allow a broader range of amendments to be incorporated into this project. Alternatively, it may be possible to group narrow-scope amendments together in a single exposure draft. This will also help the IASB to streamline its engagement with preparers and standard setters.

Understandability and accessibility of the Standards – Prioritise across all IASB activities

10. As the activities relating to understandability and accessibility of the standards affect all aspects of the IASB's work we encourage the IASB to prioritise this across all of its activities.

11. We are supportive of the IASB reducing unnecessary complexity and ensuring the IFRS Standards are more clearly articulated with a consistent terminology and structure. However, we do not see this activity as a re-write of existing IFRS Standards. In our view, the IASB can work on this going forward when it issues new IFRS Standards, amendments, guidance and other educational materials.

12. We also strongly encourage the IASB to explore how advances in digitisation are changing the way information is consumed and to assess the extent to which digital improvements are needed to the way the Board writes the standards. We support the IASB improving accessibility by using technology to help stakeholders find materials that are most relevant to them and to understand how those materials relate to each other. We think this may require a more holistic and strategic approach than just focusing on the IFRS Taxonomy (see our comments below).

Stakeholder engagement – More engagement focussed on education

13. The level of activity for stakeholder engagement going forward is also difficult to answer because some of our responses above might suggest that:

    (a) more engagement may be necessary; or

    (b) the level of engagement remains unchanged, however, there is a change in the type of engagement that is undertaken.

14. We consider that an increase in engagement activities that focus on a large number of new IFRS standards and implementation projects might exacerbate the preparer fatigue outlined

above. However, more engagement focussed on improving IFRS tools or educational material may be very welcome by constituents.

15. We agree that stakeholder engagement on formal consultations could be enhanced by the IASB exploring and using digital friendly approaches (e.g. the survey for the RFI Third Agenda Consultation) to supplement the comment letter process.

16. We encourage the IASB to continue to hold virtual events to communicate with stakeholders on consultation papers and exposure drafts. This ensures vital engagement and input at the early stages of IASB projects. We have found these events have been very successful in engaging New Zealand constituents and would like to thank the IASB for their support with these over the last couple of years.

17. We also encourage the IASB to engage with a broader range of stakeholders (e.g. valuers) through consultative groups, informal dialogue and other events. A broader level of input will provide a different perspective and assist decision-making in relation to complex accounting issues. Consideration of a broader range of views as part of the standard setting process will help to clarify the problem definition as well as address any practical application issues at an earlier stage.

The IFRS for SMEs Standard – Not used in our jurisdiction

18. We have no comments on the level of activity related to the *IFRS for SMEs* standard because this is not used in New Zealand.

Digital financial reporting (IFRS Taxonomy) – Support for digitisation more generally

19. The RFI describes the IFRS Taxonomy as the focus of the digital financial reporting activity. We have no comment on the level of activity related to this activity because we have not adopted the IFRS Taxonomy in New Zealand.

20. Although we do not use the IFRS Taxonomy in New Zealand, we understand that it is a useful and efficient way of delivering the content of IFRS Standards in an electronic format. We observe that the IASB spends most of its time working on financial reporting standards and information content that contemplates financial statements in a single PDF or hard copy annual report. It appears to us that conversion to electronic delivery through the IFRS Taxonomy is a secondary process.

21. Given the significant advances in technology world-wide impacting the dissemination of information generally, we question whether the IASB's approach is too linear to meet the future information needs of investors. In adopting this approach, the IASB is missing digital opportunities and not managing the risk that over time hard copy standards will become less relevant.

22. We encourage the IASB to step back and look at the wider issue of financial reporting and technology in a more holistic and strategic way than we observe it currently does. We would also appreciate some thought leadership from the IASB as to how the IASB's work and products will change in response to the significant technological changes occurring now and in the future.

RFI Question 2—Criteria for assessing which projects to add to the work plan
(a) Do you think the Board identified the right criteria to use? Why or why not? (b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

23. We agree that the IASB has identified appropriate criteria when determining the priority of potential projects that could be added to the workplan. We acknowledge that balancing these criteria will always require an element of judgement.

24. However, we consider an additional criterion could be added to reflect the need for the IASB to respond to changes in the broader economic or regulatory environment. We commend the IASB's timely response to the economic impact arising from the COVID-19 pandemic, in adding the *Covid-19-Related Rent Concessions* project to its work plan and undertaking the due process required to finalise this amendment. We also acknowledge the responsiveness of the IASB to changes in the regulatory environment in its standard-setting response to interest rate benchmark reform.

25. We suggest the inclusion of "economic and regulatory environment impacts" as an additional criterion in assessing which projects to add to the work plan. This will assist the IASB in continuing to ensure that the IFRS Standards remain relevant and ensure the allocation of resources is aligned with broader environmental changes.

RFI Question 3—Priority of financial reporting issues
(a) What priority would give each of the potential projects described in the RFI—high, medium or low. In particular, we would like to know if your prioritisation refers to all or only some aspects included in the project description—for example, a project on intangible assets may mean recognition and measurement of currently unrecognised intangible assets or improved disclosure requirements about unrecognised intangible assets. (b) Should the Board add any financial reporting issues not described in the RFI? Please explain: (i) the nature of the issue; and (ii) why you think the issue is important.

26. We have set out below the financial reporting projects we consider the IASB should prioritise when developing its 2022-2026 work plan.

27. We have recommended 3 projects because our preference is for the current level of focus on activities related to new IFRS Standards or major amendments to IFRS Standards to remain unchanged.

28. In Appendix 2, we have rated as high, medium and low, the 22 Appendix B potential projects and the Appendix C list of financial reporting issues.

Intangible assets – high priority, large-sized project

29. In our view, the time has come for the IASB to undertake a comprehensive review of IAS 38 *Intangible Assets* (IAS 38) to ensure that it is fit for purpose and achieves appropriate accounting requirements that keep pace with the developments in intangibles. We consider the primary users of financial statements would benefit immensely from the IASB determining how the financial statements can provide a more complete view of an entity's intangible resources, especially as they are an important source of value for many entities.

30. IAS 38 is a standard that was first issued in the late 1990s and has not had any substantive changes made to it over time. As a result, it has become unfit for purpose as a plethora of intangibles have developed and evolved since that time. These new kinds of intangibles could not have been anticipated when IAS 38 was first issued. For example, developments in digital technologies, emissions trading rights, cryptocurrencies and cloud storage, were not (and could not) have been contemplated in late 1990s.

31. We have observed that IAS 38 has been used as the avenue for addressing new digital-based assets that are difficult to categorise into other IFRS Standards. Because the Standard is not equipped to deal with these new and emerging intangibles this approach is not leading to the best accounting outcomes or meeting investor needs.

32. An example of the use of IAS 38 to establish accounting requirements for these new intangibles is the recent IFRS Interpretation Committee agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)*. The agenda decision provides explanatory material that indicates customisation and configuration costs associated with software as a service (SaaS) arrangement would often not result in the recognition of an intangible asset.

33. The constituent feedback we have received on the agenda decision is that customisation and configuration costs, which are often significant, are considered to provide future economic benefits to the reporting entity beyond the period in which the costs are incurred and therefore should be capitalised and recognised as an intangible asset to faithfully represent the economics of the transaction. The agenda decision is constrained by the underlying principles and requirements of IAS 38 and results in an outcome that does not meet the needs of investors or other users of the financial statements.

34. A comprehensive review of IAS 38 would allow for the accounting for costs associated with other cloud-based computing arrangements[1] to be appropriately considered. In many cases implementation costs associated with cloud-based computing arrangements represent future economic benefits to the entity. However, in line with the recent agenda decision on SaaS arrangements, the restrictive nature of the recognition criteria in IAS 38 often results in these costs being expensed immediately.

[1] For example, Infrastructure as a Service (IaaS), Platform as a Service (Paas), and Desktop as a Service (DaaS) arrangements.

35. In undertaking a comprehensive review of IAS 38 we consider the IASB needs to:
    (a) ensure that it appropriately addresses requirements for the recognition and measurement of internally generated intangible assets (e.g. software and development costs);
    (b) determine the extent to which emerging financial reporting issues (e.g. emission trading rights, cloud-based computing arrangements and crypto-currencies) should be addressed by an IFRS Standard on intangible assets; and
    (c) consider any potential interrelationship between an IFRS Standard on intangible assets and any future sustainability standards[2] issued on intangibles.

36. We understand that the Australian Accounting Standards Board (AASB) is currently undertaking a domestic research project on intangible assets. The findings of this project will be a useful input into a comprehensive review of IAS 38.

Going concern – high priority, medium-sized project

37. The economic effects of COVID-19 are continuing to have a significant impact on the going concern assessments of many entities across the world. Many entities have been required to apply significant judgement and/or consider material uncertainties at the reporting date in assessing their ability to continue operating as a going concern.

38. As the IASB is aware, additional going concern disclosure requirements have recently been introduced into our New Zealand domestic standards. The two professional accountancy membership bodies for Australasia,[3] whilst supporting our proposals, requested that we encourage the IASB to undertake a similar project in the forthcoming Agenda Consultation.

39. The going concern disclosure requirements introduced in New Zealand were developed in response to concerns raised by constituents.
    (a) Diversity in practice over the disclosures provided in circumstances when the financial statements are prepared on a going concern basis, but management are aware of events or conditions that may cast doubt on this judgement.
    (b) Investors, auditors and regulators wanted improved disclosures when management's going concern assessment involved significant judgement and/or material uncertainties.
    (c) Tension in practice between going concern disclosure expected by the auditing standards versus the disclosure requirements in accounting standards.

40. Although the recent focus on improving going concern disclosures has been influenced by the uncertainty and disruption caused by COVID-19, the benefits of an IASB project on going concern disclosures is expected to endure over the long term. The going concern assumption is a fundamental principle that underpins the preparation of the financial statements and therefore it is critical that appropriate disclosures are provided.

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[2] We understand preliminary discussions regarding the work of the International Sustainability Standards Board (ISSB) involve development of a global baseline standard focusing on enterprise value which may require the concept of what should be recognised as an intangible asset to be broadened.

[3] Chartered Accountants Australia and New Zealand (CAANZ), and CPA Australia.

41. In our XRB Survey on the IASB's Agenda Consultation we received strong support for the IASB to add a project on going concern as a high priority to its work plan. In particular, constituents highlighted the need to improve going concern disclosure requirements to close the expectation gap between what is required to be disclosed in the financial statements and disclosures expected by auditors.

42. Consequently, we consider the IASB should add a standard-setting project to its workplan to develop more specific going concern requirements about:

    (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and

    (b) management's plans to mitigate the effect of any material uncertainties around the entity's ability to concern as a going concern.

43. Constituents also raised the following other matters that we recommend the IASB consider under a comprehensive project on going concern:

    (a) no definition and limited guidance on the meaning of "material uncertainty";

    (b) limited guidance on how the going concern assessment should be conducted by management and the extent of analysis required about future operations; and

    (c) whether a mandatory disclosure be introduced, regardless of the entity's going concern position, explaining basis for the applying the going concern assumption for the preparation of the financial statements.

44. This project will be helpful to:

    (a) users, to ensure they receive relevant and transparent information on the entity going concern position;

    (b) preparers, by increasing the specificity of the expected disclosures when the going concern assumption is subject to increased judgement and/or subject to material uncertainties; and

    (c) auditors, as this project will help align the disclosure requirements in the accounting standards with the disclosure expectations in the auditing standards when auditors are assessing the adequacy of the going concern disclosures.

45. We acknowledge that:

    (a) going concern is addressed in Paragraphs 25, 26 and 122 in IAS 1 *Presentation of Financial Statements*;

    (b) the IFRS Interpretations Committee issued agenda decisions on going concern in July 2010 and July 2014; and

    (c) the IASB published an educational article, *Going concern – a focus on disclosure,* in January 2021.

46. Notwithstanding these requirements and guidance, we consider more specific requirements within the standards, in one place, in IAS 1 would substantially improve the provision of relevant information to users on going concern.

47. We therefore propose that the IASB add a going concern project to its work plan as a high priority, medium-sized project as described in paragraph B38 parts (a) and (b) of the RFI.

48. As we have domestic standard-setting experience in this area, we offer our experience and expertise to support the IASB during this proposed project to amend IAS 1.

Discount rates – high priority

49. The current uncertain economic conditions caused by COVID-19 have posed an increased challenge for many entities in developing accounting estimates, in particular in estimating appropriate discount rates. The measurement of certain liabilities and long-term provisions is significantly impacted by the discount rate used for the time-value of money and changes to the discount rate used introduces significant variability to the financial performance of an entity.

50. Constituents in New Zealand have raised several concerns about with the application challenges in determining the appropriate discount rate in different circumstances. These concerns arise from inconsistencies in IFRS Standards specifying:

    (a) which types of inputs to use in a present value measurement technique; and

    (b) how to determine the amount of the inputs.

51. The IASB's recent research project on *Discount Rates in IFRS Standards* identified similar concerns and noted inconsistencies between requirements relating to discount rates in IFRS Standards. Inconsistencies arise because different IFRS Standards adopt different measurement bases. Other inconsistencies, mostly relating to entity-specific current value measurements, arise partly because different IFRS Standards were developed at different times and with different areas of focus.

52. We note that IASB staff have indicated that the project produced a list of matters that staff will consider in the future when developing recommendations for IASB present value measurement requirements. However, it may be that a simple education tool will be an efficient and helpful response that addresses user understandability in relation to the use of discount rates in IFRS Standards.

53. For example, the IASB could publish guidance that sets out the respective standards, the discount rates used and the reason for the use of those rates, as some of the reasons for the different rates used in different standards are valid. The guidance will not address any inconsistencies that need to be remedied over time with standard setting activity. However, it will help users to understand why specific discount rates are used in the IFRS Standards and contribute to the IASB's activity of understandability of the IFRS Standards.

54. We support the IASB including a project on the 2022-2026 work plan on discount rates. However, it may be that the scope can be modified to encompass more educational tools and limit standard setting to those areas where there is a real deficiency in an IFRS Standard with respect to discount rates. This is in line with our comments above about the greater use of educational tools to improve understandability of the IFRS Standards as well the need for the IASB to clearly define the problem before embarking on standard setting activity.

Other comments

Note for the Board
We have had the content below reviewed by the XRB's Climate Team.

Climate-related risks

55. We consider that there is a need for better qualitative and quantitative information about the effect of climate-related risks on the carrying amount of assets and liabilities in the financial statements. We agree that disclosures on climate-related and emerging risks — that are useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity — should be provided in general purpose financial statements. These disclosures are particularly important given that climate-related and emerging risks impact the readers understanding of other information provided in the financial statements (e.g. measurement of assets).

56. Through our outreach activities, many constituents in New Zealand have highlighted the importance of the IASB developing disclosure requirements that encourage improved reporting on an entity's climate-related and emerging risks as they relate to information disclosed in the financial statements. Investors who use general purpose financial statements prepared in accordance with IFRS Standards have emphasised the increased influence of information about climate-related risks on their decision-making.

57. We acknowledge the recent IASB guidance[4] which explains how existing principles and requirements within IFRS Standards address the disclosure of climate-related risks and other emerging risks in the financial statements. We understand that climate-related and emerging risks are not addressed explicitly by IFRS Standards but are however addressed by existing principles.

58. The IASB guidance material is proving very useful but given the importance investors (and other stakeholders) are placing on climate-related risks we can see the need for standard-setting activity in the future. However, now is not the right time to commence any such activity as discussed further below.

59. We note that the Trustees of the IFRS Foundation are currently working through the formation of a new International Sustainability Board (ISSB) and that this Board will likely have an initial focus on developing climate-related disclosures. Before any work should be considered by the IASB on climate-related disclosures as it relates to general purpose financial statements, the relationship between the focus of activities of the IASB and the ISSB will need to be clearly articulated.

60. Inevitably, there will need to be some level of integration between IFRS standards issued by the IASB and sustainability standards issued by the ISSB. However, we recommend that the establishment of the ISSB and the development of sustainability standards be given time to mature first before considering any amendments to the IFRS Standards.

[4] *In Brief: Climate-related and other emerging risks disclosures: Assessing financial statement materiality* published November 2019; and *Effects of climate-related matters on financial statements* published November 2020.

61. In line with our comments above, we have not specifically commented in this submission on the climate-related risks project proposed in the RFI. Until the ISSB is formally established and there is clarity as to how it will operate and integrate with the IASB it would be premature for the IASB to commence a project on climate-related risks.

Appendix 2: Potential IASB projects and priority rating

Described projects	Proposed NZASB priority rating
Potential IASB projects	
Borrowing costs	Low
Climate-related risks	Medium
Commodity transactions	Low
Cryptocurrencies and related transactions	Medium
Discount rates	High
Employee benefits	Low
Expenses — inventory and cost of sales	Low
Foreign currencies	Low
Going concern	High
Government grants	Medium
Income taxes	Medium
Intangible assets	High
Interim financial reporting	Low
Negative interest rates	Medium
Operating segments	Medium
Other comprehensive income	Medium
Separate financial statements	Low
Statement of cash flows and related matters	Medium
Research pipeline projects	
Discontinued operations and disposal groups	Low
Inflation	Low
Pollutant pricing mechanisms	Medium
Variable and contingent consideration	Low
Other financial reporting issues suggested to the Board	
Align the definition of cost in IFRS Standards	Low
Clarify the accounting for transactions with owners (including government owners) acting in their capacity as owners	Low
Converge IFRS 13 *Fair Value Measurement* with International Valuation Standards	Medium
Develop accounting requirements for assets acquired at no cost (from related and third parties)	Medium

Described projects	Proposed NZASB priority rating
Develop enhanced disclosures about the process used in determining materiality, including quantitative thresholds applied	Medium
Develop standardised disclosure of financial ratios with numerators and denominators based on line items presented in the primary financial statements	Low
Review the accounting for shares bought back to replace shares granted in share-based payment transactions	Low
Review the requirements of IAS 33 *Earnings per Share* in the light of changes to the business environment and the Conceptual Framework for Financial Reporting	Low
Review the requirements of IAS 36 *Impairment of Assets*	Medium
Review the requirements of IAS 41 *Agriculture*, focusing on immature biological assets that cannot be sold in their current condition	Low

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 8.1

Memorandum

Date:	30 July 2021
To:	NZASB Members
From:	Joanne Scott
Subject:	**IASB Disclosure Initiative – Targeted Standards-level Review of Disclosures**

Recommendations[1]

1. We recommend that the Board:
   (a) PROVIDES FEEDBACK on the draft comment letter on IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the ED), including confirming which questions it intends to respond to; and
   (b) NOTES the update on outreach.

Background

2. At the April 2021 Board meeting, the Board agreed to comment on the ED. This is a medium priority project.

3. The IASB is proposing a new approach to developing disclosure requirements in IFRS Standards. This is a further Disclosure Initiative project, all of which have represented various ways of tackling the disclosure problem.

4. The IASB is seeking feedback on the proposed guidance that would be used by the IASB when developing and drafting disclosure requirements and the application of that approach to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*.

5. Comments were originally due to the IASB by 21 October 2021. The IASB recently decided to extend the comment period to 12 January 2022. We have extended the New Zealand comment period to 4 October 2021.

The new approach

6. We have included a few tables to give an overview of the new approach, existing requirements and the type of feedback that the IASB is seeking.

7. Table 1 summarises the proposed approach which includes overall and specific disclosure objectives. Overall disclosure objectives are not a new idea; they are already used in some standards. What is different is that the overall and specific objectives would be set up as mandatory requirements. They would use the word 'shall'. Another feature of the proposals is that most specific items of information would be referred to as being non-mandatory. This doesn't mean that an entity could disclose nothing. Rather, it would have to decide whether

[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).

each item is material in the context of satisfying the disclosure objectives. Table 2 shows that IAS 1 *Presentation of Financial Statements* already requires the application of materiality to disclosure. The proposals could be seen as bringing this requirement into each standard.

Table 1 Proposed new approach

Overall disclosure objectives	➢ describe the overall information needs of investors within an individual IFRS Standard. ➢ **require** companies to assess whether the information provided in the notes meets those overall investor information needs. If that information is insufficient, companies will need to disclose additional information to meet investor needs.
Specific disclosure objectives	➢ describe the detailed information needs of investors within an individual IFRS Standard. ➢ **require** companies to disclose all material information to enable those specific investor information needs to be met. ➢ include an explanation of what investors may do with the information provided (for example, what analysis will investors perform).
Items of information	➢ provide items of information a company **may, or in some cases is required to, disclose** to satisfy each specific disclosure objective. ➢ help companies apply judgement and determine how to satisfy specific disclosure objectives.

Table 2 Existing IAS 1 requirements (paragraph 31)

Apply materiality	➢ ... An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements.
Additional information	➢ An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Table 3 Would the proposals be an effective catalyst for change?

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

RDR in NZ IFRS will be reviewed at some point

8. Most disclosure concessions in NZ IFRS are currently identified using asterisks beside specific disclosure requirements. The proposed new approach would require a rethink of NZ IFRS RDR.

9. However, the Board already plans to reconsider its approach to NZ IFRS RDR. Harmonisation of NZ IFRS RDR with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* is one option. The IASB's proposed new approach to disclosures for subsidiaries that are SMEs is another possible option. The IASB will be seeking feedback on its proposals for subsidiaries that are SMEs this year and will be considering feedback on both disclosure projects together.

Structure of this memo

10. The remaining sections in this memo are:

    (a) Draft comment letter: this section explains what we have done to date; and

    (b) Outreach to date.

Draft comment letter

5. We have drafted initial responses to:

    (a) the general questions about the proposed new approach (questions 1–5); and

    (b) the questions on the proposed amendments to IFRS 13 (questions 6–11).

6. Table 4 shows all the questions in the ED. They are grouped in three sections.

Questions on proposed guidance

7. The draft is based on staff views, informed by what we have heard to date. We have indicated support for the use of disclosure objectives in standards, along with information about how users would use the information. However, we have outlined some concerns about the proposed approach. We are seeking feedback on the draft responses.

Questions on IFRS 13

8. We have drafted short responses to help start the Board's discussion but they need further work. We are seeking feedback from the Board as to whether it agrees with the draft responses and what other matters we should cover.

Questions on IAS 19

9. We have not drafted responses to the questions about IAS 19 (questions 12–18). Although the ED proposes to add an overall disclosure objective to IAS 19, most of the proposed amendments relate to defined benefit plans, which are not common in entities applying NZ IFRS. The ED makes very limited changes to the sections of IAS 19 dealing with short-term employee benefits and defined contribution plans.

Table 4 Questions in the ED

<table>
<tr><th>Questions</th><th>Staff recommend</th></tr>
<tr><td colspan="2">Proposed Guidance for developing disclosure requirements in IFRS Standards in future Questions 1–5</td></tr>
<tr><td>Question 1—Using overall disclosure objectives
Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.
(a) Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not?
(b) Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?</td><td>Respond</td></tr>
<tr><td>Question 2—Using specific disclosure objectives and the disclosure problem
Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future.
(a) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to:
(i) provide relevant information;
(ii) eliminate irrelevant information; and
(iii) communicate information more effectively?
Why or why not? If not, what alternative approach would you suggest and why?
(b) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?</td><td>Respond</td></tr>
<tr><td>Question 3—Increased application of judgement
Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:
(a) use prescriptive language to require an entity to comply with the disclosure objectives.
(b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.
This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity’s own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements.
Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.
(a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?
(b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?</td><td>Respond</td></tr>
</table>

<table>
<tr><th>Questions</th><th>Staff recommend</th></tr>
<tr><td>(c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?
(d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?
(e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.</td><td></td></tr>
<tr><td>Question 4—Describing items of information to promote the use of judgement
The Board proposes to use the following less prescriptive language when identifying items of information: ‘While not mandatory, the following information may enable an entity to meet the disclosure objective’. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board’s reasons for this language and alternative options that the Board considered.
Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?</td><td>Respond</td></tr>
<tr><td>Question 5—Other comments on the proposed Guidance
Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.
Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).</td><td>Respond, subject to having other comments. At this stage no comments.</td></tr>
<tr><td colspan="2">Proposed amendments to IFRS 13 Fair Value Measurement applying the proposed Guidance Questions 6–11</td></tr>
<tr><td>Question 6—Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition
Paragraphs BC62–BC73 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition.
Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?</td><td>Respond</td></tr>
<tr><td>Question 7—Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition
Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss approaches that the Board considered but rejected.
(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?</td><td>Respond</td></tr>
</table>

<table>
<tr><th>Questions</th><th>Staff recommend</th></tr>
<tr><td>(b) Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?
(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.
(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.</td><td></td></tr>
<tr><td>Question 8—Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition
Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board’s reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the Board considered but decided not to include.
(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?
(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?</td><td>Respond</td></tr>
<tr><td>Question 9—Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes
Paragraphs BC98–BC99 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.
(a) Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest?
(b) Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not?
(c) Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs?
(d) Do you have any other comments about the proposed specific disclosure objective?</td><td>Respond</td></tr>
</table>

<table>
<tr><th>Questions</th><th>Staff recommend</th></tr>
<tr><td>Question 10—Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes
Paragraph BC100 of the Basis for Conclusions describes the Board’s reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.
(a) Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?
(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?</td><td>Respond</td></tr>
<tr><td>Question 11—Other comments on the proposed amendments to IFRS 13
Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?</td><td>Respond, subject to having other comments. At this stage no comments.</td></tr>
<tr><td colspan="2">Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance Questions 12–18</td></tr>
<tr><td>Question 12—Overall disclosure objective for defined benefit plans
Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objective for defined benefit plans.
Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?</td><td>Do not respond</td></tr>
<tr><td>Question 13—Specific disclosure objectives for defined benefit plans
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the Board considered but rejected.
(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest?
(b) Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not?
(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.
(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.</td><td>Do not respond</td></tr>
</table>

Questions	Staff recommend
Question 14—Information to meet the specific disclosure objectives for defined benefit plans Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board considered but decided not to include. (a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives? (b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?	Do not respond
Question 15—Overall disclosure objective for defined contribution plans Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined contribution plans. Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?	Do not respond
Question 16—Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board's reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control. Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?	Do not respond
Question 17—Disclosures for other types of employee benefit plans Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objectives for other types of employee benefit plans. Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?	Do not respond
Question 18—Other comments on the proposed amendments to IAS 19 Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?	Do not respond

Question for the Board

Q1. Does the Board AGREE to comment on the general approach (questions 1–5) and amendments to IFRS 13 (questions 6–11), but NOT to comment on the amendments to IAS 19 (questions 12–18)?

Outreach update

6. Table 5 summarises outreach so far. Please note the Table indicates the tenor of comments – the comments are not necessarily the views of all present.

Table 5 Outreach update

XRAP	20 May ➢ Proposed approach a positive development, but not easy ➢ There are some underlying drivers to provide more information and the proposals might not have the desired effect. For example, o reluctance to remove information because it might be needed the next year and might be inadvertently omitted; and o having to form views about what users want and how they will use information is challenging – people will be inclined to provide more.
NZAuASB	2 June ➢ Support for intent of proposals and an understanding of why the IASB is trying this approach. Aspects that were seen as encouraging or exciting included a more principles-based approach, use of overarching objectives, and encouraging better application of materiality. However, this was tempered by concerns about removing some black letter requirements. ➢ Noted existing requirements about relevance and materiality. ➢ Acknowledge disclosure concerns go both ways: some entities might provide too much but others want to minimise disclosures. ➢ Will the proposals change behaviour? Noted challenges for auditors and regulators and possible continued checklist approach. ➢ Documentation: Entities will need to document why they didn't include certain information. Noted that it can be difficult for entities to decide whether they have to document the omission of information that they regard as immaterial. ➢ Re focus on user needs: need to acknowledge that financial statements will only ever meet a subset of investor needs, because investors need forward-looking information.
NZX	29 June ➢ Informal discussion to raise awareness of proposals.
IRD	16 July ➢ Informal discussion to raise awareness of proposals.
FMA	22 July ➢ Informal discussion as part of a more general meeting. ➢ Some concerns about the proposal to refer to items of information that could meet user needs as 'non-mandatory'.
TRG	27 July ➢ Acknowledged there are currently issues at both ends of the disclosure spectrum: both too much and too little information. ➢ Indicated concerns that the proposals will not necessarily change behaviour at either end of the spectrum. ➢ The proposals will place more onus on auditors to challenge disclosures. This could take more time and cost more.

	➢ What is the way forward? Possibly a continuing focus on education and awareness. Some improvement in disclosure was observed following the IASB's 2014 Disclosure Initiative project.[2] ➢ As this meeting was held on 27 July we have not had time to reflect all the feedback received in the draft comment letter, but the comments received are not inconsistent with the draft comment letter.
Various users	Various dates ➢ Informal discussions and emails to raise awareness of proposals. ➢ We are still planning to reach out to some individuals.
Panel	5 August ➢ Three panellists with differing perspective (preparer, auditor and regulator) will comment on the proposals.

Next steps

7. Staff will analyse feedback received. We will revise the comment letter to reflect feedback from this meeting and from constituents, and bring a revised draft to a future meeting for approval.

Attachments

Agenda item 8.2: Draft comment letter

<u>In supporting papers</u>

Agenda item 8.3: IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*

Agenda item 8.4: IASB ED/2021/3 Basis for Conclusions

Agenda item 8.5: Snapshot IASB ED/2021/3

[2] The December 2014 amendments clarified that (a) materiality applies to the whole of the financial statements and that the presence of immaterial information can reduce the usefulness of financial disclosures and (b) an entity should use professional judgement to determine where and in what order information is presented in the notes.

[date 2021]

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

Submitted to: www.ifrs.org

Dear Andreas

ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*

Thank you for the opportunity to comment on ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

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

Note to the Board

This initial draft reflects staff views, taking account of what we have heard and read in New Zealand and internationally. We have noted relevant feedback from outreach under each question. However, much of our outreach to date has involved raising awareness of the proposals and the comments that we have received are likely to have been initial reactions rather than final views. We expect to have more feedback to share at the Board's October meeting.

Background information is set out first, followed by the draft response.

Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact staff [Joanne.Scott@xrb.govt.nz] or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

General questions (Questions 1–5)

Question 1—Using overall disclosure objectives
Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future. (a) Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not? (b) Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?

Background information for Question 1

The following table shows paragraphs DG5–DG7, the proposed overall objectives for IFRS 13 and IAS 19 and a couple of disclosure objectives in current standards (IFRS 7 and IFRS 17).

Extract from ED – proposed guidance
DG5 The Board will use overall disclosure objectives within individual IFRS Standards to provide a narrower, more Standard-specific focus than the objectives of general purpose financial reporting and financial statements in the *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*. DG6 Within the context of an individual IFRS Standard, overall disclosure objectives will describe the overall information needs of users of financial statements and require an entity to disclose information that meets those needs. To comply with this requirement, entities will need to consider whether the information provided by complying with the specific disclosure objectives (paragraphs DG8–DG10) meets those overall user information needs. For example, to comply with the overall disclosure objectives in a Standard, an entity might need to provide additional, entity-specific information that is not directly required by the specific disclosure objectives in that Standard. DG7 Overall disclosure objectives will also provide helpful context, and incorporate other broad considerations, that entities are required to consider when applying the specific disclosure objectives in an IFRS Standard. For example, overall disclosure objectives might incorporate considerations about aggregation and disaggregation specific to the disclosure section of a particular Standard.
Extract from ED – proposed overall objective for IFRS 13
100 An entity shall disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition. This information shall enable users of financial statements to understand: **(a) the significance of those classes of assets and liabilities (see paragraphs B48–B50) for the entity's financial position and performance;** **(b) how their fair value measurements have been determined; and** **(c) how changes in those measurements could have affected the entity's financial statements at the end of the reporting period.**

Extract from ED – proposed overall objectives for IAS 19

Overall disclosure objective [short-term employee benefits]

25A An entity shall disclose information that enables users of financial statements to understand the effect of short-term employee benefits on the entity's financial performance and cash flows.

Overall disclosure objective [defined contribution plans]

54A An entity shall disclose information that enables users of financial statements to understand the effect of defined contribution plans on the entity's financial performance and cash flows.

Overall disclosure objective [defined benefit plans]

147A An entity shall disclose information that enables users of financial statements to:

(a) assess the effect of defined benefit plans on the entity's financial position, financial performance and cash flows; and

(b) evaluate the risks and uncertainties associated with the entity's defined benefit plans.

Extract from IFRS 7 *Financial Instruments: Disclosures*

As an example of an existing disclosure objective

1 The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

Extract from IFRS 17 *Insurance Contracts*

As an example of an existing disclosure objective. Although this paragraph uses the word 'shall', the requirement is linked to the specific disclosure requirements elsewhere in the Standard.

93 The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, statement(s) of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements for contracts within the scope of IFRS 17 (see paragraphs 97–116);

(b) the significant judgements, and changes in those judgements, made when applying IFRS 17 (see paragraphs 117–120); and

(c) the nature and extent of the risks from contracts within the scope of IFRS 17 (see paragraphs 121–132).

Draft response to Question 1

Should the Board use overall disclosure objectives

We support a number of aspects of the proposals, including the use of overall disclosure objectives in individual standards. Overall disclosure objectives encourage preparers to think about disclosures in their entirety and to consider the need to disclose additional information. They can also encourage preparers to think about whether information is presented in a way which best supports user needs, and to ensure that important information is not obscured by too much detail. We support the proposed changes to the process of developing disclosure requirements (in terms of seeking early engagement from users and explaining how users would use information) as we consider that this will support thoughtful application of disclosure requirements.

However, we have concerns that the proposed wording of the overall disclosure objectives, and in particular the use of the word 'shall', could place an unreasonably heavy burden or expectation on preparers and the risk that preparers, auditors and regulators could hold differing views about the information required to satisfy those overall objectives.

We understand that the intention of the proposed overall disclosure objectives is to bring the existing requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* (to consider whether to provide additional disclosures) into each standard, and to stress the importance of that requirement. We support that intention.

However, we read the proposals as going further than this and creating an absolute requirement for an entity to consider whether it has satisfied user needs. The IASB serves an important role by seeking feedback on the information that users want and then deciding which of those information needs should be satisfied by way of financial statement disclosures in general purpose financial reports (GPFR). There are many different types of users, some of whom have differing information needs and possibly some with extensive wish lists. We understand that, as at present, the IASB intends to consider user needs and form a view about what is appropriate in GPFR. Under the proposed approach the IASB would also discuss these user needs in the standards. However, as worded, we think the proposed overall disclosure objectives would create a requirement for an entity to meet all user needs, rather than those user needs that are collectively regarded as appropriate and necessary in GPFR.

User needs can change over time. Periodic review of standards helps to ensure that disclosure requirements remain appropriate and meet collective user needs. As worded, we think that the proposed overall disclosure objectives could open preparers up to demands for information that has not been considered by the standard setter. Entities may choose to provide information that is not required by standards, but this is not the same as creating an open-ended requirement.

We think that the existing disclosure objective in IFRS 7 *Financial Instruments: Disclosures* plays a useful role without the use of such prescriptive language.

To conclude our response to Question 1(a), we would support the use of overall disclosure objectives but not using the prescriptive language proposed in the ED.

Would overall disclosure objectives help entities etc?

We have partially addressed Question 1(b) in our response to 1(a). Although we support the use of overall disclosure objectives we do not think that they will help entities, auditors and regulators to determine whether information provided in the notes meets overall user information needs. Our main concern is that overall disclosure objectives are so broad that different groups could have differing views on the adequacy of information provided. There is a risk that the cost of getting agreement between parties with different views could outweigh the benefits.

Question 2—Using specific disclosure objectives and the disclosure problem
Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future. (a) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to: (i) provide relevant information; (ii) eliminate irrelevant information; and (iii) communicate information more effectively? Why or why not? If not, what alternative approach would you suggest and why? (b) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?

Background information for Question 2

The following table shows paragraphs DG8–DG10 and some of the proposed specific disclosure objectives for IFRS 13.

Extract from ED – proposed guidance
DG8 Within the context of an individual IFRS Standard, specific disclosure objectives will describe the detailed information needs of users of financial statements and require an entity to disclose all material information that enables the user understanding described in the objectives to be achieved. Specific disclosure objectives will require entities to apply judgement effectively because, in order to comply with the objectives, entities will need to assess whether the information provided is sufficient to meet detailed user information needs .
DG9 The specific disclosure objectives will be accompanied by a separate paragraph that provides context by explaining what the information provided to meet those objectives is intended to help users of financial statements do. For example, the Board might explain that information to satisfy a particular specific disclosure objective is intended to help a user perform a particular analysis, assessment or evaluation. These explanations are intended to help entities better understand the specific disclosure objectives and facilitate their judgement as to whether information is material to their financial statements.
DG10 When developing specific disclosure objectives, the Board will balance entity-specific information with information that is comparable across entities. Users of financial statements consistently highlight the importance of both entity-specific information and comparable information, while also acknowledging some tension between these two types of information. By focusing the compliance requirement on specific disclosure objectives, the Board will require entities to apply judgement and focus their disclosures on information that is material in their own specific circumstances. By identifying specific items of information in the Standards (see paragraphs DG11–DG13), the Board will help to achieve comparability of information between entities for which similar information is material.
Extracts from ED – examples of specific disclosure objectives for IFRS 13
Assets and liabilities within each level of the fair value hierarchy
103 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand: **(a) the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and** **(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.**
Measurement uncertainties associated with fair value measurements
107 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users

of financial statements to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Reasonably possible alternative fair value measurements

111 For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the alternative fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, using inputs that were reasonably possible at the end of the reporting period.

…

Reasons for changes in fair value measurements

114 For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.

Draft response to Question 2

Detailed disclosure objectives and entities' judgements

We support the proposal to use specific disclosure objectives, in conjunction with items of information and explanations of what the information is intended to help users do. Taken together, we think that they could help entities to make effective materiality judgements.

However, the inclusion of detailed disclosure objectives would not be a magic bullet in terms of shifting behaviour, particularly the use of disclosure requirements as a checklist. There are a number of reasons why entities might continue to use items of information in standards as a checklist. Our response to Question 3 discusses this in more detail.

The IASB has already undertaken a number of projects to highlight the disclosure problem and the need for appropriate application of materiality when preparing financial statement disclosures. These projects have raised awareness and encouraged thoughtful application of materiality and clear presentation of information. We are aware that some entities have devoted considerable time and effort in pursuit of these objectives. However, we acknowledge that the IASB has received feedback saying that more change is needed. Standard setting might be what is required to bring about improvements and we think that the proposals could help, but we cannot give an unreserved 'yes' response to Question 2(a) because of the other factors that drive behaviour. For example, smaller entities may have fewer resources to devote to communicating with investors and other users and reviewing and reshaping disclosures and perceive less benefit from doing so than larger entities.

We are not proposing an alternative approach. However, we think that any amendments to standards should be regarded as part of an ongoing process. We think that education and awareness along with celebrating good practice will continue to play important roles in improving disclosures.

Detailed disclosure objectives and auditors' and regulators' judgements

We consider that specific disclosure objectives, and the explanation of what the information is intended to help users do, could help inform discussions between auditors, regulators and reporting entities. We think that they would be most useful when there is a view that additional information

should be provided. We think that they would be less helpful in deciding whether information is irrelevant or could be communicated more effectively. Please see also our response to Question 3.

Question 3— Increased application of judgement

Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:

(a) use prescriptive language to require an entity to comply with the disclosure objectives.

(b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.

This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements. Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.

(a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?

(b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?

(c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?

(d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?

(e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.

Draft response to Question 3

Views on approach

As indicated in Question 1 we have concerns about the use of prescriptive language in overall disclosure objectives. We are less concerned about the use of prescriptive language in the detailed disclosure objectives as they are more focused, and would need to be read as a package, alongside the items of information and explanations.

Discouraging checklist approach and addressing the disclosure problem

We agree that adding disclosure objectives to standards could discourage a checklist approach but, as indicated in our response to Question 2, we consider that there are a number of factors that drive a checklist approach that would not necessarily be changed by the proposals. IAS 1 paragraph 31 is already quite clear that a specific disclosure is not required if the resulting information is not material. Bringing that message into individual standards may lead to more consideration of that requirement, but we do not think it will 'solve the problem'. We are aware of the argument that an entity would have no incentive to provide immaterial information as it would not help an entity

satisfy disclosure objectives, but we think that entities will still face real or perceived pressures to provide most of the items of information mentioned in a standard.

We have listed some of these factors.

- The need to document reasons for not providing information.
- The need to get agreement about items to be excluded at the beginning of the year.
- The unwillingness to remove items that might be required again in a subsequent year (possibly a concern about costs of changing processes and the risk of not identifying it early enough as a required item in a subsequent period).
- A 'better be safe than be sorry' attitude combined with a perception of limited benefits from reducing disclosure.
- The actual or perceived costs of engaging more closely with users and of getting a consensus view from users about items of information.

Our view is that amending IFRS Standards to place more emphasis on the need for effective materiality judgements could help with the checklist approach and disclosure problem but that it would not address the problem. We would support an increased emphasis on disclosure objectives but, as indicated in our other responses, not exactly as proposed. Any changes to standards need to be regarded as being workable for all parties and, as indicated below, we think the proposals would create difficult tensions.

[Note: this response could be balanced out by commenting on the 'disclose too little' problem. Feedback to date suggests that the proposals would not help address the disclose too little problem either.]

Operational and enforceable

The proposals would place more emphasis on judgement. This, in itself, is likely to create enforcement challenges. In the absence of specific disclosure requirements, it is likely to be difficult for auditors or regulators to conclude that the judgement made by the preparer is not reasonable and that specific information is needed to fulfil a certain objective.

We are aware that the IASB has thought about this in drafting the proposals and hopes that the identification of user needs and explanation of how users will use information will give entities and others the tools they need to say why they think certain information is required or not required. We agree that identification of users' needs and explanation about how information will be used could be useful for entities and others making such judgements, but we do not think that it will necessarily lead to entities and others making the same judgements.

We accept that entities already have to make materiality judgements and that the proposals could be seen as a way of repackaging existing requirements. However we think that the proposed shift in approach could result in more judgement, more documentation of judgement, more discussions with auditors and regulators. While some such discussions could be productive, we think there is a risk that they could consume a lot of time for limited changes in behaviour.

Cost of the approach

The costs of the proposed approach would vary across entities. For those entities that are already critically applying the materiality requirements in IFRS Standards, there might be limited additional costs. However, any change in standards generates additional costs as entities review what, if anything, in their current processes and systems need to change. For others the costs could be considerable.

We have flagged some possible additional costs that entities might incur. An increased emphasis on judgements would require more justification and documentation of judgements. This is likely to require more time and attention from senior staff, senior management and possibly governing bodies. An entity might also need to spend more time with auditors at the beginning of the period confirming whether or not certain items of information will be collected.

Regulators could also find it more expensive to operate within a regime driven by disclosure objectives.

Question 4—Describing items of information to promote the use of judgement

The Board proposes to use the following less prescriptive language when identifying items of information: 'While not mandatory, the following information may enable an entity to meet the disclosure objective'. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board's reasons for this language and alternative options that the Board considered.

Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

Background information for Question 4

Extract from IAS 1

31 Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Extract from ED –showing the proposed 'non-mandatory' wording in the context of IFRS 13

Assets and liabilities within each level of the fair value hierarchy

103 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand:

(a) the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and

(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.

104 The information required by paragraph 103 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position at the end of the reporting period.

105 In meeting the disclosure objective in paragraph 103, an entity shall disclose the fair value measurement for each

class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

106 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 103:

(a) a description of the nature, risks and other characteristics of the classes of assets and liabilities in each level of the fair value hierarchy (or a cross-reference to where that information is disclosed elsewhere in the financial statements).

(b) a description of inseparable third-party credit enhancement for a liability and whether such an enhancement is reflected in the fair value measurement.

Draft response to Question 4

We think that the requirements in IAS 1 paragraph 31 are already quite clear. We are not averse to the existing materiality requirements in IAS 1 being referred to, or repeated, in individual standards. However, we do not consider that the proposed change in language to "while not mandatory" would be an improvement on the current wording in IAS 1.

We note that ED/2019/7 *General Presentation and Disclosure* indicated that IAS 1 paragraph 31 would be carried forward into a new presentation and disclosure standard. However, that ED also proposed to move the definition of material and the associated guidance into IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In our comments on ED/2019/7 we suggested that there are good reasons why a general presentation and disclosure standard should include specific guidance on materiality because of the difficulty of applying materiality judgements to disclosures. We also commented on the proposals about disaggregation. We have mentioned the earlier ED here because it is difficult to comment on the proposals without seeing all the proposals about materiality together. This might indicate a need for further consultation before finalising the proposals in either of these EDs.

Question 5—Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.

Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

We have not responded to this question. [Subject to any further comments being identified.]

IFRS 13 questions (Questions 6–11)

Question 6—Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC62–BC73 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?

Background information for Question 6

See paragraphs 100–101 of the ED.

They state that an entity shall disclose information that enables users to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities subsequently measured at fair value.

This information shall enable users of financial statements to understand:

(a) the significance of those classes of assets and liabilities for the entity's financial position and performance;

(b) how their fair value measurements have been determined; and

(c) how changes in those measurements could have affected the entity's financial statements at the end of the reporting period.

Draft response to Question 6

General comment on IFRS 13 proposals

The ED tests the proposals by applying them to two standards. Given that, at the conclusion of the PIR of IFRS 13, the IASB concluded that IFRS 13 is working as intended, we have found it hard to engage with proposals to change it. At the conclusion of the PIR on IFRS 13 the IASB concluded that:

- the information required by IFRS 13 is useful to users of financial statements.
- some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement. However, evidence suggests that practice is developing to resolve these challenges.
- no unexpected costs have arisen from application of IFRS 13.

We acknowledge that the IASB has received feedback that IFRS 13 can lead to the disclosure of too much detailed information (particularly of Level 3 items) and that more disclosure of some Level 2 items might be appropriate. We are not convinced that there is sufficient concern about IFRS 13 to warrant change at this time, but have nevertheless provided some feedback on the proposals.

Response to Question 6

We agree that the proposed overall objective outlines information that would be useful in respect of items measured at fair value.

Question 7—Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss approaches that the Board considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

Background information for Question 7

Which parts of the ED relate to this question?

- **Levels within FV hierarchy**: Paragraph 103 requires sufficient information to enable users to understand the amount, nature and other characteristics of each class and how those characteristics relate to their level in the hierarchy.
  - Paragraph 104 says this is to help users assess the relative subjectivity of where those items are in the fair value hierarchy and evaluate the effect of those measurements…
- **Measurement uncertainties**: Paragraph 107 requires information about significant techniques and inputs.
  - Paragraph 107 says this is to help users assess the sources of measurement uncertainties.
- **Reasonably possible alternative fair value measurements**: Paragraph 111 requires information about alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.
  - Paragraph 112 says that this is to help users evaluate possible outcomes and how those possible outcomes might affect future cash flows.
  - Paragraph BC86 says that users of financial statements told the Board that "information about the overall possible range of fair value measurements at the end of the reporting period is more useful to their analyses than detailed sensitivity information."

Draft response to Question 7

While not mandatory

Looking at the IFRS 13 proposals prompted us to think about how the words 'While not mandatory', which are used throughout the ED, will be applied in practice. Our understanding of the proposals is that this means an entity has to apply judgement *to determine which items of information are*

relevant in its circumstances. Because items may be material because of their nature or amount we think that entities would need guidance on when non-disclosure of items that are material by amount is appropriate.

Response to Question 7

We would like to reiterate some of our comments on Questions 1–4 here. An increased reliance on judgement could lead to differing views about what information should be provided. Although the proposals have been drafted with the intention of helping entities cut back on unnecessary disclosures and making them consider the possible need for additional information, we are concerned that the increased emphasis on judgement and the change in requirements will be costly, particularly for entities with a high volume of financial instruments. For example, the ED is proposing a shift from the current sensitivity analysis requirements to reasonably possible alternative fair value measurements. We are concerned about potential costs given that this proposal would apply to all levels of the fair value hierarchy and the potential for differing views about what information should be provided.

We see the potential for increased costs and have heard concerns that the benefits of the proposals would not outweigh those costs.

Question 8—Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition
Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the Board considered but decided not to include. (a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective? (b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

Draft response to Question 8

At this stage we have not drafted any comments. We are seeking the Board's views.

Question 9—Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes
Paragraphs BC98–BC99 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes. (a) Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest? (b) Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not? (c) Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs? (d) Do you have any other comments about the proposed specific disclosure objective?

Background information for Questions 9 and 10

We are not sure that we have fully understood the proposals, but it appears that the proposals could require more detail than is currently required for items that are not measured at fair value. We hope that this comparison between current requirements and the proposals will help with the discussion of questions 9 and 10.

IFRS 7 current requirements for financial instruments not measured at FV[1]	Disclose the carrying amounts by class, eg disclose financial assets and financial liabilities measured at amortised cost (paragraph 8(f) and (g)). For each class of financial instruments, *disclose the fair value in a way that permits it to be compared with its carrying amount* (paragraph 25). No need to disclose fair value if the carrying amount is a reasonable approximation of fair value (eg short term receivables and payables) (paragraph 29).
IFRS 13 current requirements for financial instruments not measured at FV	For each class of such items disclose: (IFRS 13 paragraph 93(b), (d) and (i)) • The level of fair value hierarchy • Description of valuation techniques and inputs … • If highest and best use differs from current use Not required to provide the quantitative disclosures about significant unobservable inputs used in Level 3 fair value measurements.
What is typically disclosed now?	For items where the carrying amount is a reasonable approximation of fair value – a statement to that effect. For items where carrying amount is NOT a reasonable approximation of fair value: • the carrying amount and fair value, by class • level • valuation technique
What would the proposals require?	Amount, nature and other characteristics, and how those characteristics relate to their fair value hierarchy categorisation (ED IFRS 13, paragraph 118). Group these disclosures by Level 1, 2 or 3 (ED IFRS 13, paragraph 120). Non-mandatory: a description of the nature risks and other characteristics (ED IFRS 13,

[1] The requirements shown in this table are summarised and paraphrased.

	paragraph 121 – see actual ED text below). 121. While not mandatory, a description of the nature, risks and other characteristics of the classes of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed may enable an entity to meet the disclosure objective in paragraph 118. This information can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements. Would the proposals also require key inputs to valuation techniques and the sensitivity of the valuations to change sin inputs?

Draft response to Questions 9 and10

This is a combined response to questions 9 and 10.

We do not agree with the proposals in relation to items that are not measured at fair value.

Between them, IFRS 7 and IFRS 13 already require some fair value information about items not measured at fair value, but the current requirements are at a fairly high level. We read the proposed IFRS 13 paragraph 121 as requiring more than is currently required and do not understand why. We have concerns about the availability, cost and reliability of the information required by the proposals.

Question 10—Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes
Paragraph BC100 of the Basis for Conclusions describes the Board's reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes. (a) Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective? (b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

Please see our combined response to Questions 9 and 10.

Question 11—Other comments on the proposed amendments to IFRS 13
Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

No comment. [Subject to any further issues being identified.]

EXRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 9.1

Memorandum

Date:	30 July 2021
To:	NZASB Members
From:	Jamie Cattell and Nicola Hankinson
Subject:	**Update on Tier 3 and 4 Standard Post-implementation Review**

Purpose and introduction[1]

1. The purpose of this session is to provide the Board with an update on progress in responding to the feedback obtained in the Tier 3 and 4 Post-implementation Review.

Recommendations

2. The Board is asked to:
   (a) APPROVE FOR ISSUE the draft feedback statement (agenda item 9.2);
   (b) NOTE the status of the issues identified as requiring further action; and
   (c) PROVIDE FEEDBACK on the proposed standard-setting activity in the issues paper on asset valuation (agenda item 9.3).

Background

3. At the June meeting we provided the Board with a detailed analysis on each of the issues we received feedback on as part of the Post-implementation Review and agreed whether each topic required standard-setting activity, education and awareness raising activity, or a combination of both.

Structure of this memo

4. The remaining sections in this memo are:
   (a) Draft feedback statement;.
   (b) Update on issues identified as requiring further action; and
   (c) Next steps.

Draft feedback statement

5. Attached at agenda item 9.2 is the draft feedback statement which provides a comprehensive summary of the feedback received as part of the Post-implementation Review and our responses in terms of next steps.

6. We are positioning the feedback statement as the formal document for communicating the outcomes (and confirming the Board's response to feedback) of the Tier 3 and Tier 4 Post-

[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).

implementation Review. We have therefore drafted it to capture all issues identified from the feedback and to clearly set out the next steps for each of the issue.

7. We appreciate the draft feedback statement is lengthy – 22 pages, but feel it is important to publish this comprehensive document. In addition to this formal feedback statement, we will develop a 2–3-page summary document that will highlight the key messages, outcomes, issues and next steps.

8. In addition to the publishing of formal feedback documents, staff will explore other less formal communication approaches to communicate our key messages and next steps across the public and not-for-profit sector. This approach will include targeted communications via Charities Services, CA ANZ and CPA Australia, incorporating shorter, sharper messaging and other mediums that will appeal to our stakeholders.

Question for the Board

Q1. Does the Board approve for issue the draft feedback statement, subject to addressing any points raised at this meeting?

Update on issues identified as requiring further action

9. At this Board meeting we have focused on the issue of asset valuation – refer to agenda item 9.3.

10. To keep the Board appraised of our progress in responding to other issues identified, Table 1 below summarises those issues on which the Board has agreed to consider standard-setting activity. Following publication of the feedback statement, we will bring issues marked as "in progress" to future Board meetings.

11. We plan is discuss with the Board over the next 2 – 3 meetings the key issues identified from the post-implementation review and seek Board direction on the preferred standard-setting approach in response. After receiving Board feedback on the key issues, staff will develop proposed amendments to the standards, templates, and accompanying guidance material which will be considered by the Board at a future meeting. We will table an indicative timeline for the issuance of proposed amendments to the Tier 3 and Tier 4 Standards at the August 2021 meeting.

Question for the Board

Q2. Does the Board have any preference on the order in which the issues set out in Table 1 are addressed?

Table 1 Update on issues identified as requiring standard-setting activity

Issues	**Comment**	**Progress**
Asset valuation	Consider options to address issues raised concerning the ability to revalue in the Tier 3 Standard, including introduction of a new revaluation option for certain asset classes and/or additional guidance on how to apply the opt-up option.	Discuss at August NZASB meeting, refer agenda item 9.3
Tier 4 Standard simplification (including the requirement to report on resources and commitments)	The Board agreed to undertake a holistic review of the Tier 4 standard to re-express the existing requirements in simpler language.	*In progress* We plan to table draft simplified Tier 4 Standard at the October NZASB meeting for the Board's consideration.
Improvements to help Tier 3 and Tier 4 Standards work better for Māori entities, through an increased Kaupapa Māori focus	Consider options to incorporate te ao Māori concepts and initiatives to support the use Te Reo in Tier 3 and Tier 4 performance reports.	*In progress* Initial discussions held with Charities Services about developing additional guidance to better reflect te ao Māori concepts in Tier 3 and Tier 4 performance reports. Internal discussions have commenced about approaches to support the use of Te Reo in Tier 3 and Tier 4 performance reports. Initial discussions held with CA ANZ to encourage the creation of a te ao Māori award at the Charity Reporting Awards
Difficulty understanding the objectives and requirements related to service performance reporting	Consider options for simplifying the requirements and terminology used. Possibly aligning with the principles-based requirements of PBE FRS 48.	*In progress*
Revenue recognition in the Tier 3 Standard	Consider options for improving revenue recognition requirements in the Tier 3 Standard to address issues raised with the current "use or return condition" requirements.	*In progress*
Illustrative examples for revenue in the Tier 3 Standard	Consider options to update the illustrative examples to reflect any change in the revenue recognition requirements.	*To be commenced* Following consideration of the revenue recognition requirements (as noted above).

Issues	**Comment**	**Progress**
Minimum categories	Consider options for amending the minimum categories in the Tier 3 and 4 Standards to better reflect the terminology used by entities and to ensure the minimum categories address the information needs of users and to respond to application challenges.	*In progress* Initial discussions have been held with Charities Services in relation to amending the minimum categories.
Definition of "cash" in the Tier 3 Standard and "receipts" in the Tier 4 Standard.	Consider options for clarifying the definition of cash and receipts in the Tier 3 and Tier 4 Standard.	*In progress*
Accumulated funds and reserves	Consider options for amending the Tier 3 Standard to improve disclosures and simplify the terminology relating to accumulated funds and other reserves.	*To be commenced* Following discussion with DIA regarding feedback received as part of the Charities Act Review on charities accumulating funds.
Statement of cash flows	Consider options for aligning the format of the statement of cash flows in the Tier 3 Standard with the statement of receipts and payments in the Tier 4 Standard.	*In progress*
Additional guidance on the requirements for opting up	Consider options for clarifying the requirements in the Tier 3 Standard relating to opting up to the Tier 2 PBE Standards for certain transactions. Feedback received suggested that the most common cases in which entities elect to opt up relate to revaluation of assets and investments.	To be commenced following consideration of options for addressing the asset valuation issue.
Determining whether an entity has exceeded the size threshold	Consider options to include simple guidance on determining the tier size thresholds within the Tier 3 and Tier 4 Standards (rather than requiring a small entity to work through the detail of XRB A1).	*In progress*
Entity information	Consider options to refine (and possibly reduce) the disclosures required in relation to entity information.	*In progress* Initial discussions with Charities Services indicated that this information was considered to be useful.

12. Table 2 below summarises those issues which the Board agreed required additional education or awareness raising activity. We will update the Board on these issues as progress is made and bring any draft publications to the Board for review as appropriate.

Table 2 Update on issues identified as requiring guidance and educational activity

Issues	Comment	Progress
Service performance reporting Additional guidance on selecting appropriate performance measures	Staff to develop guidance material to help Tier 3 and 4 PBEs understand the requirements and concepts relating to performance reporting. This would include a range of appropriate examples.	*In progress* The guidance paper for Tier 1 and 2 PBEs (EG A10) has been reviewed as it is intended that this could be used as a starting point (example performance measures already included). Guidance material will be further developed once the outcome of the standard-setting activity is known as this may change the requirements that apply to Tier 3 and 4 PBEs.
Intangible assets	It was acknowledged that this issue may be partly addressed by the inclusion of opting up requirements within the Tier 3 Standard. Staff also agreed to draft an FAQ advising how intangible assets should be accounted for within the Tier 3 Standard.	*In progress* An FAQ is currently being drafted to advise how intangible assets should be accounted for within the Tier 3 Standard.
Minimum categories	Staff to work with CA ANZ to communicate the existing flexibility permitted within the Tier 3 and 4 Standards to qualified auditors. Staff to develop additional guidance in relation to disaggregation of the minimum categories. This will be done following any potential standard-setting change.	*In progress* As noted above, staff are considering amendments to the minimum categories and any additional guidance developed will be issued alongside any changes made to the minimum categories themselves.
Accounting policies	Staff agreed to review the accompanying guidance material and templates and develop example accounting policies for key areas of judgement.	*To be commenced* Following consideration of options for the key areas of judgement, such as revenue recognition and asset valuation as noted above.
Meaning of “significant”	Staff agreed to develop additional guidance explaining the meaning of the term “significant” in the Tier 3 and 4 Standards and the factors an entity should consider when making judgements about significance.	*In progress* An FAQ has been drafted based on the definition of significant included within the Standards. Given the importance of this principle, this will be discussed at a future Board meeting.

Issues	**Comment**	**Progress**
Related party transactions	Staff agreed to develop additional guidance to clarify the requirements to report on related party transactions and to liaise with Charities Services to identify opportunities to promote guidance on this topic.	*In progress* Initial discussions have been held with Charities Services on the best way to provide guidance on related party transactions (including the existing guidance on Charities Services website).
Going concern and events after balance date	Staff agreed to promote the recently developed FAQ on going concern assessments and disclosures and to consider developing additional guidance on events after balance date.	*In progress* The FAQ will be promoted as part of the overall communications plan.
Consolidation requirements	Staff agreed to review the existing guidance provided in relation to consolidation requirements and interests in other entities (EGs 8 and 9) with a view to making these more accessible and understandable.	*In progress* This guidance will be developed and released as part of the overall communications plan.

Next steps

13. Based on and/or subject to feedback from the Board, we intend to:
    (a) publish the formal feedback statement;
    (b) develop additional resources to communicate the outcomes of the Post-implementation Review (include developing a 2–3 page summary document); and
    (c) continue developing issues papers for consideration at future meetings.

Attachments

Agenda item 9.2: Draft Feedback Statement

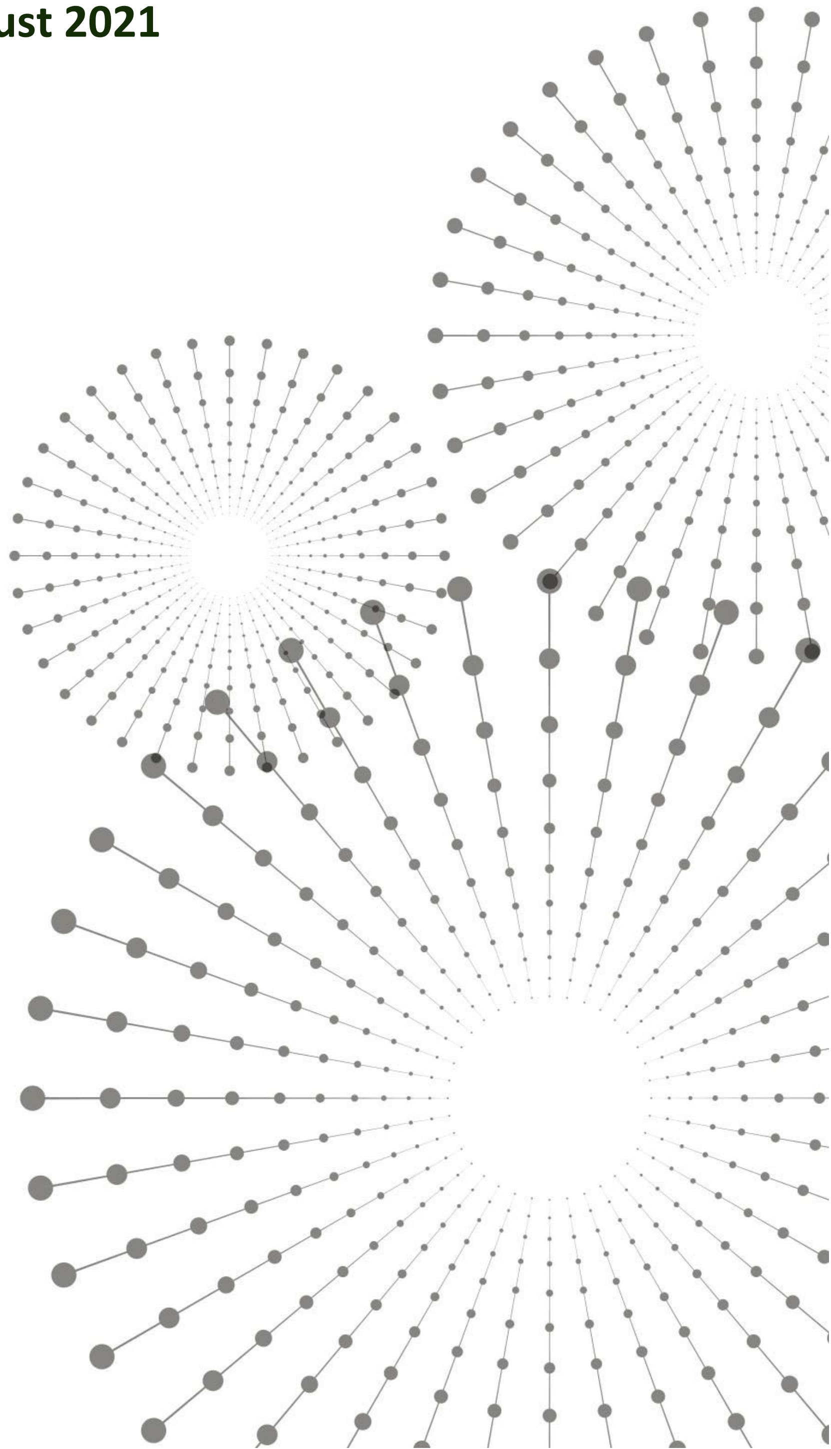
Agenda item 9.3: Issues paper – Measuring assets at revalued amounts in the Tier 3 Standard

Post-implementation Review of Simple Format Reporting Standards

FEEDBACK STATEMENT

August 2021

DRAFT



Introduction

In September 2020, the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) released a discussion document titled: *Request for Information Simple: Format Reporting Standards – Post Implementation Review* (the "RFI").

The purpose of the post-implementation review was to assess whether the Simple Format Reporting Standards (the "Tier 3 and Tier 4 Standards") are working as intended and are achieving their objectives. These reporting standards are applied by Tier 3 and Tier 4 public benefit entities (PBEs), which includes registered charities, and other not-for-profit entities in both the public and not-for-profit (NFP) sectors.

The XRB received over 100 written submissions which will used as the basis for developing proposed improvements to the standards, reporting templates and associated guidance material. This Feedback Statement provides a summary of respondent comments and our response in terms of next steps.

The Tier 3 and Tier 4 Standards

The scope of the review included the Tier 3 and Tier 4 Standards and the accompanying reporting templates and guidance material issued with each standard.

There is a single Simple Format Reporting Standard for each tier, with each standard accompanied by an optional performance report templates and associated guidance material. There is a public sector and NFP version of each standard which are almost identical.

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

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Content of Feedback Statement

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Summary of feedback received	
Purpose and scope of the post-implementation review	2
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Summary of feedback received and our response	4
• General feedback on the Tier 3 and Tier 4 Standards	4
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Key messages and next steps

- Thank you for your feedback. The NZASB greatly appreciates the time and effort constituents have put in to responding to the request for information. All comments received will be used to ensure the standards are simple to apply and the information reported continues to meet user needs.
- While we are heartened by the overall positive impact of the Tier 3 and Tier 4 Standards on the PBE sector, we also acknowledge the feedback highlights several important areas where improvements and refinements are needed. we are committed to addressing the issues raised to ensure the Tier 3 and Tier 4 Standards continue having a positive impact in the future.
- We welcome the increased use of Te Reo Māori in performance reports and we recognise improvements are needed to ensure our standards appropriately reflect the Te Ao Māori perspective when applied by kaupapa Māori entities.
- We are already taking actions based on your feedback.
  - We have created a simpler/shorter 2-page template for Tier 4 entities.
  - We are working on proposed changes to the Tier 3 and Tier 4 Standards (and accompanying templates/guidance material). These proposals will be exposed for comment before any changes are made to the existing Tier 3 and Tier 4 reporting requirements.
  - We plan to develop more guidance materials (such as FAQs) to help Tier 3 and Tier 4 entities comply with the requirements.

Summary of feedback received

General feedback received highlighted:

- The Tier 3 and Tier 4 Standards overall are working well and are achieving their desired objectives.
- There was strong support for reducing the length and complexity of the Tier 4 Standard.
- The XRB as the standard setter has an important role in promoting the use and consistent application of the Tier 3 and Tier 4 Standards.
- Improvements are required to help the Tier 3 and Tier 4 Standards work better for Māori entities, through an increased Kaupapa Māori focus.

In response to specific feedback received, the following key areas have been identified where there is a need to consider improvements in the standards, templates and/or guidance.

- Service performance reporting requirements (Tier 3 and Tier 4).
- Minimum categories for presenting income and expenditure (Tier 3 and Tier 4).
- Opting up to the Tier 2 PBE Standards for specific transactions or balances (Tier 3).
- Revaluation of assets (Tier 3)
- Revenue recognition (Tier 3).
- Requirement to report on resources and commitments (Tier 4).

Purpose and scope of the post-implementation review

The **purpose** of the post-implementation review was to assess whether the Tier 3 and Tier 4 Standards are working as intended and achieving their objectives.

Objectives of the Tier 3 and Tier 4 Standards

- Set out the reporting requirements for Tier 3 and Tier 4 PBEs when preparing reports to meet the accountability and decision-making needs of a wide range of users.
- Improve the quality and consistency of the information reported.
- Facilitate comparability between entities, and between years for the reporting entity. Non-financial information was seen as an important component of these reports.

The NZASB considered it timely and important to seek feedback from stakeholders on how well the Tier 3 and Tier 4 Standards are working and to consider whether any changes are required**.** These Standards were effective for public sector PBEs from 1 July 2014 and NFP PBEs from 1 April 2015.

The **scope** of the review included the Tier 3 and Tier 4 Standards, the additional guidance and the optional reporting templates issued by the XRB.

In the RFI respondents were asked the following questions.

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.
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? 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.

The consultation process

The RFI was issued in September 2020. Respondents had the option of providing a written submission, completing an online survey, an online feedback form or participating in a face-to-face interview.

The RFI was open for comment for seven months. During that time, we conducted various outreach activities including: webinars and in-person presentations, discussions with the XRB's consultative advisory groups, roundtable meetings with key stakeholder groups, publishing articles and posting on social media.

The RFI comment period closed on 31 March 2021. 36 individual submissions were received (10 written, 20 face-to-face interviews and 6 via an online feedback form) and a further 65 submissions were received via an online survey.

Non-confidential submissions can be accessed on the XRB website.

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Summary of feedback received and our response

This section summarises feedback on the questions in the RFI and the NZASB's response. We have classified the feedback into two categories.

(a) **General feedback** – Most of this feedback came from responses to question 1 in the RFI.

(b) **Feedback on specific parts of the standards** – This feedback was drawn primarily from responses to questions 2 and 3 in the RFI and relates to particular requirements in the Tier 3 and Tier 4 Standards or particular parts of the additional guidance and reporting templates. For each issue an indication of which tier it relates to has been included.

In response to feedback received, the NZASB has considered which of the following responses is most appropriate for each key matter identified.

(a) **Further consideration by the NZASB** – these matters would be best addressed by considering possible amendments to the Tier 3 and/or Tier 4 Standard(s). Any proposed changes will be issued for public consultation.

(b) **Additional education and awareness raising activities** – developing additional guidance and/or conducting other activities to promote consistent and improved application of the Tier 3 and Tier 4 Standards. These actions will include the development of guidance material (such as FAQs and illustrative examples) and other engagement activities.

(c) **No further action** – a response is not required to these matters at this time. However, the NZASB will monitor the issue for evidence that action may be required in the future.

General feedback on the Tier 3 and Tier 4 Standards

This section summarises the feedback received from respondents on RFI question 1, and the NZASB's response to this feedback.

What we heard
Most respondents considered that, in general, the Tier 3 and Tier 4 Standards are working well. These respondents generally noted that the standards had improved the quality, consistency and comparability of information reported by smaller PBEs and that Performance Reports produced using the standards provide sufficient information for smaller PBEs to meet their accountabilities and user needs. They also noted that the standards provide: (a) a clear structure for how small PBEs should report; and (b) a helpful framework for reporting non-financial information which makes performance reports more relevant for non-accountants (and provides useful information to funders and donors). However, respondents raised three key issues relating to improving the appropriateness and accessibility of the requirements in the standards. These are discussed further below.

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<table>
<tr><th>What we heard</th><th>Our response</th></tr>
<tr><td>

There is a need to shorten and simplify the Tier 4 Standard, guidance, and templates

Respondents said that many Tier 4 entities were finding it difficult to comply with the Tier 4 Standard. Reasons included the following.

(a) The Tier 4 Standard and guidance is too long and complex for many Tier 4 not-for-profit entities.

(b) The language used in the Tier 4 Standard is too technical for non-accountants.

(c) Small not-for-profit entities are often under-resourced and find it difficult to attract and retain volunteers or staff who understand the reporting requirements.

These respondents emphasised the need to reduce the length and complexity of the Tier 4 Standard and to simplify the language used to improve the application of the standard by smaller PBEs.

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 further simplifying the requirements.

</td><td>

Further consideration by the NZASB

We agree there is scope for reducing the length and complexity of the Tier 4 Standard.

We will complete a review of Tier 4 Standard with the objective of improving ease of use – especially when applied by non-accountants.

This will largely involve a re-expression of existing reporting requirements, rather than the development of a whole new model.

Simplifications of existing requirements will be considered based on specific concerns raised by respondents.

Board considerations will be based on our commitment to ensuring the Tier 4 Standard is simple to apply and this will also need to be balanced against meeting the user needs of the resulting annual performance reports.

This work will include reviewing the Tier 3 and 4 guidance material and reporting templates. It will also include development of other plain language guidance material to further clarify the requirements.

We have already created a simple, two-page reporting template for Tier 4 entities. This short template is available on the XRB website.

</td></tr>
<tr><td>

The XRB should take on a more educative role

Respondents considered that there is an ongoing issue around the lack of awareness of the standards within parts of the NFP the sector.

Some respondents considered that the XRB should take a more active role in promoting consistent use of the Tier 3 and Tier 4 Standards.

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 that an ongoing focus on promoting awareness and understanding was required.

</td><td>

Additional education and awareness raising activities

We agree that it is appropriate for us to take a more active role in promoting the consistent use and application of the Tier 3 and Tier 4 Standards.

In addition to developing more plain language guidance material, we intend to conduct additional education and awareness raising activities

These activities will be conducted on an ongoing basis in collaboration with other stakeholders such as Charities Services and CA ANZ as appropriate.

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<table>
<tr><th>What we heard</th><th>Our response</th></tr>
<tr><td>
Applicability of the standards for Māori entities
Respondents considered that the Tier 3 and Tier 4 Standards are not currently working well for Māori entities.
These respondents noted that the standards and guidance material:
(a) do not currently include any Te Reo Māori or encourage its use in performance reports;
(b) do not provide examples relevant to Māori entities; and
(c) sometimes use terminology and concepts that are not appropriate for entities with a kaupapa Māori focus.
Respondents who raised concerns about terminology and concepts cited the specific examples of 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.
</td><td>
Further consideration by the NZASB
We agree that the Tier 3 and Tier 4 Standards should be amended to better reflect the Te Ao Māori perspective.
This work will include:
(a) exploring the extent to which Te Reo can be incorporated into our Standards, guidance and templates;
(b) amending the Tier 3 and Tier 4 standards to include Te Ao Māori concepts within performance reports;
(c) developing additional guidance material (including examples) on how to reflect Te Ao Māori concepts within performance reports; and
(d) promoting other initiatives to support the use of Te Reo Māori in Performance Reports.
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Feedback on specific parts of the Tier 3 and Tier 4 Standards

This section summarises the feedback received from respondents on RFI question 3 and our response to this feedback. To aid in understanding, icons have been included above the description of each piece of feedback indicating the standard(s) to which it relates.

<table>
<tr><th>What we heard</th><th colspan="3">Our response</th></tr>
<tr><td>Service performance reporting</td><td>Relates to Tier:</td><td>3</td><td>4</td></tr>
<tr><td>Difficulty understanding the objectives and requirements related to the statement of service performance
Many respondents commented that they find the objectives and requirements of the statement of service performance (SSP) difficult to understand.
In particular it was noted that the requirement to report on “outcomes” and “outputs” was causing confusion among PBEs, as the terms were difficult to understand and apply.
Some consider that the service performance reporting requirements in the Tier 3 and 4 Standards are too prescriptive.</td><td colspan="3">Further consideration by the NZASB
We will consider possible options to amend the Standards to address these concerns.
These options may include simplifying the requirements and terminology used (in particular “outputs” and “outcomes”) and aligning more with the principles-based requirements of PBE FRS 48 Service Performance Reporting for Tier 1 and 2 PBEs.</td></tr>
<tr><td>Additional guidance on selecting appropriate performance measures
Respondents also advised that NFP entities have difficulty selecting appropriate performance measures.
These respondents considered that more specific guidance would be useful in determining which performance measures are most meaningful and appropriate.
Many respondents also suggested providing example performance measures for different types of PBEs, illustrative examples of SSPs, and outlining the type of information that may need to be collected to report against different performance measures.</td><td colspan="3">Additional education and awareness raising activities
We will develop guidance material to assist entities in selecting and measuring performance measures.</td></tr>
</table>

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<table>
<tr><th>What we heard</th><th colspan="3">Our response</th></tr>
<tr><td>Assets</td><td>Relates to Tier:</td><td>3</td><td></td></tr>
<tr><td>Asset valuation

In most cases the Tier 3 Standard requires assets to be measured based on cost. If an entity wants to measure its assets at market value it is required to opt up to the relevant Tier 2 PBE Standard.

Many respondents requested that we include an option to revalue certain assets in the Tier 3 Standard rather than requiring entities to opt up. In particular, these respondents considered that this would be appropriate for financial investments and investment property. Some of these respondents also considered that the current requirements for opting up to the Tier 2 PBE Standards for certain transactions are unclear and that it would be clearer to include a revaluation option within the Tier 3 Standard itself.</td><td colspan="3">Further consideration by the NZASB

We will consider possible options for addressing these concerns in the Tier 3 Standard. These options may include the following.

(a) Introducing a new market value option (and associated simplified reporting requirements) for measuring certain types of assets into the Tier 3 Standard.

(b) Including additional guidance on how to apply the opt-up option (i.e. clarify the measurement, disclosure and presentation requirements when applying Tier 2 reporting requirements).</td></tr>
<tr><td>The definition of “cash” in the Tier 3 Standard is inconsistent with the definition of “cash and cash equivalents” in the Tier 1 and 2 PBE Standards

The definition of cash in the Tier 3 Standard does not include short-term deposits, which are included in the definition of cash and cash equivalents in PBE IPSAS 2 Cash Flow Statements.</td><td colspan="3">Further consideration by the NZASB

We will consider options for clarifying the definition of cash and the classification of short-term deposits in the Tier 3 Standard.</td></tr>
<tr><td>Biological assets

One respondent noted that no guidance is provided in the Tier 3 Standard on biological assets.</td><td colspan="3">No further action

Based on feedback received this concern does not appear to be widespread. We consider that including additional guidance on accounting for biological assets within the Tier 3 Standard would result in unnecessary complexity.

For the relatively small number of Tier 3 entities with biological assets, we consider it is appropriate for them to refer to the appropriate Tier 1 and 2 PBE Standard for guidance.

We note that this issue may also be partially addressed through our response related to the opting up requirements within the Tier 3 Standard.</td></tr>
</table>

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What we heard	Our response
Intangible assets One respondent noted that no explicit guidance is provided in the Tier 3 Standard on intangible assets.	**Additional education and awareness raising activities** This issue may be partly addressed by the inclusion of opting up requirements within the Tier 3 Standard. The Tier 3 Standard refers to intangible assets but does not provide specific guidance or disclosure requirements. We intend to prepare an FAQ advising how intangible assets should be accounted for within the Standard.
The minimum categories for presenting income and expenditure	**Relates to Tier:** 3 4
Appropriateness and clarity of the minimum categories Many respondents noted that the required presentation of minimum categories of income and expenditure are difficult to apply in practice. Respondents also considered that aggregation of some items obscures important information. For example, some respondents considered that bequests, public donations, and government grants should be shown separately. Although the standards allow entities to remove or relabel the minimum categories, many respondents commented that they have been required to use the minimum categories in their audited performance reports.	**Further consideration by the NZASB** Based on the feedback received we consider that there is scope to refine the minimum categories. We will consider possible options for amending the minimum categories in the Tier 3 and Tier 4 Standards to: (a) better reflect the terminology used by small PBEs to describe their transactions; (b) clarify which types of income and expenditure should be included in each category; and (c) ensure the minimum categories address the information needs of users. We will liaise with stakeholders, including Charities Services, to identify options which could best meet the needs of users.
Disaggregation of the minimum categories Many considered that the standards are unclear about the degree to which disaggregation (breaking down of balances) 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 income and expense lines based on their trial balance.	**Additional education and awareness raising activities** We will develop additional guidance to illustrate how the minimum categories may be disaggregated in the performance reports without compromising the quality, consistency, or comparability of information presented. We will work with key stakeholder groups (including auditors) to ensure there is a consistent understanding in how the minimum categories and additional disaggregation is intended to be applied.

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What we heard	Our response		
Revenue	**Relates to Tier:**	3	
Revenue recognition and disclosure requirements in the Tier 3 Standard Many respondents would like revenue deferral to be more widely permitted. Some of these respondents raised concerns that the current "use or return" condition requirement in the Tier 3 Standard is too restrictive. It was noted that, as a consequence of this requirement, some funders no longer offer multi-year funding arrangements.	**Further consideration by the NZASB** We will consider options to address the revenue recognition concerns raised. One option may include allowing increased flexibility to defer revenue recognition where specific conditions or funding criteria have been met at the reporting date.		
Illustrative examples for revenue in the Tier 3 Standard Two respondents wanted the illustrative examples in the Tier 3 Standard to be improved or expanded. One respondent considered the examples in the public sector version of the Standard were unclear. One respondent considered that an example of sponsorship revenue was needed in the not-for-profit version of the Tier 3 Standard.	**Further consideration by the NZASB** We will update the illustrative examples to reflect any change in the revenue recognition requirements as discussed above. We will review the illustrative examples in the public sector version of the Tier 3 standard. We will develop an FAQ to illustrate how sponsorship revenue should be accounted for.		

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What we heard	Our response
Statement of cash flows	**Relates to Tier:** 3
Understandability of the requirements for the statement of cash flows in the Tier 3 Standard Three respondents commented that the statement of cash flows was difficult to prepare. The main issue expressed was the difficulty distinguishing between (i) operating cash flows and (ii) investing and financing cash flows. One respondent also questioned the usefulness of the statement of cash flows, in particular whether the statement was used by Charities Services. Charities Services has confirmed that it finds the statement of cash flows useful in assessing complaints made against registered charities and that it considers the statement is working well. Two respondents commented that the complexity of classification and preparation of the statement of cash flows led to complications with the audit process.	**Additional education and awareness raising activities** We do not consider that the feedback indicates there is an underlying issue with the requirement to prepare a statement of cash flows. Rather, we consider it indicates a lack of familiarity with the purpose of the statement and how the statement is prepared. We will develop additional guidance to explain: (a) the purpose of the statement of cash flows; and (b) how to determine the appropriate classification for different cash flows. We will also review the Tier 3 explanatory guidance, which outlines what these three classifications are and what should be included in investing, financing and operating activities. We will liaise with key stakeholders, including Charities Services, to identify other areas of the statement of cash flows requiring further guidance.
Layout of the statement of cash flows One respondent suggested that the Tier 3 requirements should be aligned with the Tier 4 statement of receipts and payments. Another respondent suggested that Tier 3 entities should be required to show a reconciliation between the statement of cash flows and the surplus/deficit in the statement of financial performance.	**Further consideration by the NZASB** We will consider the merits of aligning the format of the statement of cash flows in the Tier 3 Standard with the statement of receipts and payments in the Tier 4 Standard. We do not consider it is appropriate to require a reconciliation between the statement of cash flows and the statement of financial performance. We consider that this would add unnecessary complexity to the Tier 3 Standard. However, we will consider whether this could be included as an optional disclosure.

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What we heard	Our response		
Accumulated Funds	**Relates to Tier:**	3	
Narrative description about the nature and purpose of equity reserves Respondents requested additional guidance on equity reserves, particularly restricted reserves. Other respondents suggested a reserves policy should be included as a disclosure requirement in the Tier 3 Standard, to provide greater transparency over entities' reasons for accumulating resources, the purposes for which this is done and any restrictions on those reserves. This matter has also been raised by the Policy Team Department of Internal Affairs as part of the review of Charities Act 2005.	**Further consideration by the NZASB** We will consider options for amending the Tier 3 Standard to improve disclosures related to accumulated funds and other reserves. In particular, we will consider how disclosures could be improved to provide more information about the purpose for which any equity reserves are held. We will liaise with DIA regarding the feedback it has received on this topic as part of the Charities Act Review to inform the development of options.		
Simplification of terminology related to accumulated funds Respondents considered there was not enough clarity about the difference between reserves for accounting purposes and "operating reserves" and that capital contributions creates confusion for NFPs that do not have members or owners. They recommended removing the requirement to distinguish capital contributions and suggested that references to owners are removed from the Standard.	**Further consideration by the NZASB** We will consider options for amending the Tier 3 Standard to simplify the terminology used in relation to accumulated funds and other reserves.		

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What we heard	Our response		
Opting Up	**Relates to Tier:**	3	
Additional guidance on the requirements related to opting up to the Tier 2 PBE Standards for specific transactions or balances The Tier 3 Standard currently allows an entity to opt-up to a higher tier of reporting requirements for certain balances and transactions – e.g. if an entity chooses to revalue property or investments. Some respondents considered that the requirements for opting up in the Tier 3 Standard are unclear resulting in diversity in practice. These respondents suggested additional guidance should be provided which explains what is required in the common situations in which Tier 3 entities choose to opt up. In particular it was noted that guidance is needed on where to present any asset revaluation gains (or losses) in the Tier 3 Performance Report.	**Further consideration by the NZASB** We will consider options for clarifying the opting up requirements in the Tier 3 Standard, including how any revaluation movements should be accounted for. Feedback received suggests that the most common cases in which entities elect to opt up relate to revaluation of assets. We will also consider whether revaluation requirements could be introduced into the Tier 3 Standard – therefore removing the need to opt up to Tier 2.		

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<table>
<tr><th>What we heard</th><th colspan="3">Our response</th></tr>
<tr><td>Accounting Policies</td><td>Relates to Tier:</td><td>3</td><td></td></tr>
<tr><td>Some respondents consider that more guidance on accounting policies is needed, including plain English examples of common accounting policies.</td><td colspan="3">Further consideration by the NZASB
We will consider the extent to which examples of common accounting policies can be incorporated into the Tier 3 Standard or accompanying guidance material and reporting templates.</td></tr>
<tr><td>Requirement to report on resources and commitments in the Tier 4 Standard</td><td>Relates to Tier:</td><td></td><td>4</td></tr>
<tr><td>Respondents advised that the statement of resources and commitments was difficult to prepare, while other respondents considered that the Tier 4 Standard should require more information about resources and commitments. They considered that the information currently required is insufficient to meet user needs.
Some respondents think that the concept of depreciation of assets is useful for Tier 4 entities and should be incorporated into the disclosures on resources, but not everyone agrees. One respondent considers that it would be inappropriate to force accrual concepts onto preparers that are applying a cash-based standard.</td><td colspan="3">Further consideration by the NZASB
We note that there are mixed views on the statement of resources (assets) and commitments (liabilities) both in regard to its appropriateness and in regard to the extent of what it is required to include.
However, our view is that disclosure of an entity’s significant resources and commitments is useful. As such, we will consider options for how to improve disclosure of this information in the Tier 4 Standard. These options may include:
(a) requiring disclosure of resources and commitments in the notes to the performance report rather than as a separate statement; and
(b) reviewing which resources and commitments are required to be disclosed.</td></tr>
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What we heard	**Our response**		
Meaning of “significant”	**Relates to Tier:**	3	4
Some respondents advised that there is a lack of understanding among small PBEs about what is meant by the term “significant”. The principle of considering “significant” items is used throughout the Tier 3 and Tier 4 Standards. The term significant is defined in paragraph A26 of the Tier 3 Standard as: *Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.*	**Additional education and awareness raising activities** We will develop additional guidance to help explain the meaning of the term “significant” in the Tier 3 and Tier 4 Standards and the factors an entity should consider when making judgements about significance.		
Related party transactions	**Relates to Tier:**	3	4
Some respondents commented that the requirements in the Tier 3 and Tier 4 Standards for reporting related party transactions are not well understood in practice. These respondents considered that more guidance is required about: (a) who is captured by the definition of related parties; and (b) which transactions are required to be disclosed. Two respondents considered that some entities may be concerned that disclosing related party transactions will result in the disclosure of private information.	**Additional education and awareness raising activities** We will develop additional guidance to clarify the requirements to report on related party transactions. We will also liaise with Charities Services to identify opportunities to promote both new and existing guidance on this topic.		

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What we heard	Our response		
Determining whether an entity has exceeded the size threshold for Tier 3 or Tier 4	**Relates to Tier:**	3	4
One respondent considered that more clarity is needed about when and how entities are required to transition between tiers. They recommend including guidance on determining whether an entity has exceeded the size threshold for Tier 3 or Tier 4 within the standards themselves (rather than in XRB A1 *Application of the Accounting Standards Framework*). One respondent considered the definition of a capital payment in the Tier 4 Standard needs to be reviewed.	**Further consideration by the NZASB** We agree that it would be useful to include guidance on determining whether an entity has exceeded the size threshold within the standards themselves, given the majority of preparers would not be familiar with XRB A1. We will seek feedback on this proposal in the Exposure Draft. We will also promote the existing FAQ guidance on this matter. We do not consider the definition of capital payment to be a widespread issue and consider that the cost of removing this definition would outweigh any benefits.		
Inclusion of additional items in the statement of financial performance	**Relates to Tier:**	3	
Two respondents considered that the statement of financial performance should allow for reporting of items outside of net surplus and deficit. One respondent considered the statement should allow for the reporting of "below the line" items similar to other comprehensive revenue and expense in the Tier 1 and 2 PBE Standards. One respondent considered that it should be permitted to present the statement of financial performance in a manner which aligns with the accounting treatment prescribed by trust law.	**No further action** Based on the feedback received we do not consider this is a widespread issue. We consider that including additional mandatory sub-totals in the statement of financial performance would result in unnecessary complexity. However, the structure and requirements of the statement of financial performance may change as a result of our response to other matters raised.		

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What we heard	Our response		
Going concern and events after balance date in the Tier 3 Standard	**Relates to Tier:**	3	
Two respondents considered that disclosure requirements related to going concern and events after balance date should be refined to make them more appropriate for NFPs. One respondent expressed concerns that NFPs may not be appropriately considering the impact of COVID-19 on their going concern assessments.	**Additional education and awareness raising activities** We will promote the recently developed FAQ on going concern assessments and disclosures[1] which provides additional guidance on this topic for NFPs. We will also consider developing additional guidance on the disclosure of events after balance date.		
Requirement to include entity information in the Tier 3 and Tier 4 Standards	**Relates to Tier:**	3	4
Two respondents considered that the requirements for entity information in the performance report was unnecessary and should be removed or simplified.	**Further consideration by the NZASB** We will consider options to refine (and possibly reduce) the disclosures required in the *entity information* section of the Performance Report for both tiers.		
Choice to report on a GST inclusive or exclusive basis in the Tier 4 Standard	**Relates to Tier:**		4
Two respondents raised concerns with this choice permitted in the Tier 4 Standard. One respondent noted that reporting on a GST exclusive basis can create reconciliation issues within the statement of receipts and payments. Another considered it would be unlikely that an entity which is registered for GST would elect to report on a GST inclusive basis.	**No further action** Based on the feedback received we do not consider this is a widespread issue and we consider it is appropriate to retain this option in the Tier 4 Standard. We will consider developing guidance to assist preparers to understand how GST should be accounted for in their performance reports.		

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[1] XRB COVID-19 Alerts » XRB

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What we heard	Our response		
Use of the term "performance" in the Tier 3 Standard	**Relates to Tier:**	3	
One respondent considered that this term could be interpretated in different ways and should be changed to a more neutral term. One respondent considered that the frequent use of this term in different context is confusing for small NFPs.	**No further action** Based on the feedback received we do not consider that this is a widespread issue. Given that PBEs are now familiar with the "Performance Report" terminology, we consider that the costs of changing it would outweigh the benefits.		
Consolidation requirements	**Relates to Tier:**	3	4
Two respondents raised concerns about the requirement to consolidate where there is a control relationship for financial reporting purposes. One respondent considered that the requirements are unclear and too judgemental. The respondent recommended including consolidation requirements in the Tier 3 Standard which explicitly state when an entity is required to consolidate and how. One respondent noted that there is still widespread misunderstanding about control for financial reporting purposes and how it differs from the layman's concept of control.	**Additional education and awareness raising activities** We agree that there is still more that can be done to spread the message regarding the need to consolidate where there is "control" for financial reporting purposes. We will review the existing guidance in EGs 8 and 9[2] to check that they are understandable and that they explain in plain English: (a) the meaning of "control" for financial reporting purposes and how it differs from the layman's definition; (b) the key factors PBEs need to consider to determine whether there is a control relationship; and (c) the rationale for requiring consolidated financial statements. Activities will include promoting awareness of existing guidance material on this topic.		

[2] Not-for-profit standards » XRB

What we heard	Our response		
Use of the term "receipts" in the Tier 4 Standard	**Relates to Tier:**		4
One respondent noted that use of this terminology was confused with physical receipts and may lead to inappropriate inclusion of receipts from members in the revenue section of the statement of receipts and payments. One respondent considered that some items may inappropriately be treated as receipts in the Tier 4 Standard in cases where funds are being held on behalf of others.	**Further consideration by the NZASB** We agree that amending this terminology in the Tier 4 Standard may make it more understandable for small PBEs. We will consider this as part of an overall review to simplify the terminology and language used in the Tier 4 Standard.		
Definition of current and non-current in the Tier 3 Standard.	**Relates to Tier:**	3	
One respondent considered that the current definitions do not appropriately reflect the information that funders are looking for when assessing working capital.	**No further action** Based on the feedback received we do not consider there is a widespread issue. We consider it is appropriate that these definitions remain aligned with the Tier 1 and 2 PBE Standards to the extent appropriate.		
Requirement to sign performance reports	**Relates to Tier:**	3	4
One respondent commented that the requirement to sign the performance report was superfluous given the Charities Register records the date of when the annual return (which includes the performance report) is submitted and who it is submitted by. The respondent also considered that including signatures on a public register creates undue risk for NFPs.	**No further action** We consider that the benefit of signing and dating the performance report outweighs the cost or any risks. This requirement was added in response to feedback received when the Tier 3 and 4 Standards were first introduced. We received feedback that it was important that the performance reports be signed and dated to discharge accountability in relation to financial reporting responsibilities by those charged with governance.		
Title of the Tier 4 Standard	**Relates to Tier:**		4
One respondent considered that use of the word "cash" in the title of the Tier 4 Standard was confusing and that many charities do not think it applies to them because they do not operate using physical cash.	**Further consideration by the NZASB** We will consider the title of the standards as part of the overall review to simplify the terminology and language used in the Tier 4 Standard.		

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Closing comments

The Tier 3 and 4 Standards are a very important part of Aotearoa New Zealand's financial reporting framework. While we are heartened by the overall positive impact of the Tier 3 and Tier 4 Standards on the PBE sector, we are committed to addressing the issues raised to ensure they continue having a positive impact in the future.

The NZASB greatly appreciates the time and effort constituents have put in to responding to the request for information. The feedback received has been very useful, both in confirming that the Tier 3 and Tier 4 Standards are working well overall and in focusing our attention on the parts of the standards where improvement is needed.

As noted above, the next stage of the project will involve developing proposals to amend the Tier 3 and 4 Standards. Any proposed changes will be made available for public consultation before any final decisions are made. You can expect to have a chance to comment on the proposals in early 2022.

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

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	30 July 2021
To:	NZASB Members
From:	Jamie Cattell
Subject:	**Measuring assets at revalued amounts in the Tier 3 Standard**

Recommendations[1]

1. The Board is asked to
   (a) NOTE the feedback given by respondents to the post-implementation review of the simple format reporting standards and their desire for the Tier 3 Standard to allow for assets to be measured at revalued amounts; and
   (b) CONSIDER staff recommendations in response to feedback received.

Background

2. At its June 2021 meeting the Board agreed on its responses to the specific issues raised by respondents to the post-implementation review.

3. One of the issues which the Board agreed to consider further for potential standard setting activity was the requirements in the Tier 3 Standard in relation to measuring certain assets at revalued amounts.

Structure of this memo

4. This memo is structured as follows:
   (a) Current requirements in the Tier 3 Standard;
   (b) Feedback from respondents;
   (c) Analysis of feedback and staff recommendations; and
   (d) Approach to developing possible amendments to the Tier 3 Standard.

Current requirements in the Tier 3 Standard

5. The public sector and not-for-profit versions of the Tier 3 Standard[2] are virtually identical with respect to the measurement of assets, including the requirements in relation to opting up to the PBE Standards to revalue assets.

6. The main types of assets for which entities, who are currently applying the Tier 3 Standard, elect to measure at revalued amounts are property, plant and equipment, investment

[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] Tier 3 Standards: *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)* and *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)*.

property, and investments (such as shares and bonds). In all cases they have to do this by opting up to the requirements in the Tier 1 and 2 PBE Standards.

Property, plant and equipment

7. The Tier 3 Standard requires items of property, plant and equipment to be measured on a cost basis. The revaluation model in the Tier 1 and Tier2 PBE Standards was intentionally not included in the Tier 3 Standard. This was to keep the Tier 3 Standard simple to apply and reduce the amount of professional judgement required.

8. However, the Tier 3 Standard recognises that some entities may wish to revalue a class of property, plant and equipment. In these cases, entities are directed to apply the relevant requirements of PBE IPSAS 17 *Property, Plant and Equipment*, except that the entity may use the current rateable or government valuation (rather than fair value as required by PBE IPSAS 17) when revaluing.

9. When electing to use PBE IPSAS 17 to revalue a class of property, plant and equipment, the entity is required to apply the Tier 2 opt-up provisions in the Tier 3 Standard. The Tier 3 Standard permits entities to elect to use the requirements of a Tier 2 PBE Standard for a specific type of transaction, as long as the entity applies the requirements to all transactions of that type.

10. The Tier 3 Standard notes that entities are more likely to make an election to revalue a class of assets when the value of an asset has increased significantly over that asset's life (such as land or a building). The Standard also notes that once a class of property, plant and equipment is revalued, the requirements of PBE Standards mean that it is likely that the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

11. While the Tier 3 Standard itself does not include independent requirements for revaluing a class of property, plant and equipment where the value has increased, it does include simplified impairment requirements where the value has decreased. These requirements differ depending on the reporting entity's purpose for holding the asset.
    (a) Assets intended *to be used* are impaired if the value to the entity in using the asset falls below the carrying amount.
    (b) Assets intended *for sale* are impaired when the market price of an equivalent asset falls below the carrying amount.

Investment property

12. The Tier 3 Standard includes no specific requirements on the accounting for investment property. In practice Tier 3 entities account for assets that meet the definition of investment property (as defined by the PBE Standards) either as property, plant and equipment or by opting up and applying PBE IPSAS 16 *Investment Property*.

Investments

13. The Tier 3 Standard requires all investments to be recognised at cost except where it appears the carrying amount of the investment will not be recovered, in which case the investment is impaired down to the current market value. No other specific measurement requirements are included in the Tier 3 Standard.

14. The rationale for these simplified requirements is included in the BC of the Tier 3 Standards (see below for paragraphs from the NFP version, the PS version is almost identical).

Extract from Tier 3 Standard (NFP)

BC6. The NZASB decided that PBE SFR-A (NFP) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:

(a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (NFP);

(b) Contains simplified measurement of transactions where, taking the not-for-profit sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;

(c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and

(d) Contains simplified presentation and disclosure requirements.

Omitted Transactions

BC7. The NZASB relied heavily on research funded by the then Charities Commission to assist it in identifying transactions which were undertaken very infrequently by charities and therefore did not need to be addressed in this Standard. These transactions include:

(a) Financial instruments other than payables, receivables and term deposits; and

(b) Complex transactions such as service concession arrangements and insurance contracts.

15. The Tier 2 opt-up provisions in the Tier 3 Standard (paragraph 7) notes that:

> An entity may decide to opt up to the financial instruments standards (PBE IPSAS *28 Financial Instruments: Presentation*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (in limited circumstances), PBE IPSAS 41 *Financial Instruments* and PBE IPSAS 30 *Financial Instruments: Disclosures*) for a class of financial instruments, such as investments in shares, so that it can measure that class of financial instruments at fair value (in which case it must apply the whole standard to that class).

Feedback from respondents

16. 15 of the 36 respondents who provided written submissions commented on the requirements related to asset valuation in the Tier 3 Standard for certain assets. Almost all respondents expressed a preference for introducing revaluation measurement options into the Tier 3 Standard or noted that there are practical challenges with the current opting up requirements when an entity elects to revalue a class of assets.

17. The respondents who encouraged the inclusion of a revaluation measurement option in the Tier 3 Standard itself expressed the following views.

    (a) Many entities wish to carry their property, plant and equipment and investment based on some form of market value. They suggested that this should be permitted in the Tier 3 Standard without requiring entities to opt up to the relevant Tier 2 PBE Standard.

    (b) Some thought that both investments and land and buildings should be *required* to be carried at market value rather than there being a choice between market value and historical cost.

    (c) Respondents also suggested that entities who opt up to the PBE Standards to revalue investment property should be permitted to use rateable value in lieu of fair value – consistent with the Tier 3 concession that allows property, plant and equipment to be measured using rateable or government valuation. The Tier 3 Standard currently includes no specific requirements for the accounting for investment property assets.

18. The respondents who raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets, expressed the following views.

    (a) Under Tier 2 PBE Standards an entity who elects to revalue its assets is required to show a separate reserve for the unrealised revaluation gain. Calculation of this reserve at each balance date can be time consuming and does not provide any real benefit for entities (as the reserve is simply a component of net assets/equity). If Tier 3 entities continue to be required to opt up to Tier 2 PBE Standards to revalue their assets, the respondents considered they should have a dispensation from displaying separate reserves.

    (b) Revaluation of investment properties can be a very costly and a difficult exercise which some entities have to undertake due to the difficulty of obtaining historical records. The cost of revaluing investment property should be alleviated by allowing Tier 3 entities to use a readily attainable current value in lieu of market value.

    (c) The Tier 3 Standard is currently unclear with respect to revaluation of financial investments. If an entity wants to revalue its financial instruments there are several applicable PBE Standards (dealing with recognition and measurement, presentation and disclosure) which they may be required to opt up to. The Tier 3 Standard should be clearer about which of these standards needs to be applied or if entities are required to apply all of the related Tier 2 PBE Standards.

19. One respondent did not consider it is appropriate to allow additional accounting options within the Tier 3 Standard. Their view was that it would be difficult to develop appropriate options that are also simple to understand and apply. They also considered that introducing these options would create a risk of the Tier 3 Standard becoming more complex over time which is contrary to the original intention of the Tier 3 Standard.

Analysis of feedback and recommendations

20. Based on the feedback received, we consider that there is scope to improve the requirements in the Tier 3 Standard when an entity elects to measure property, plant and equipment, investment property assets, and equity investments (and other investments subject to market price fluctuations) at revalued amounts.

21. We also note that it appears that Tier 3 entities are entering into transactions involving financial instruments more frequently than anticipated when the Tier 3 Standard was first developed. As such, the rationale for not including requirements for financial instruments (other than payables, receivables and term deposits) in the Tier 3 Standard may no longer be appropriate.

22. We can see two broad options for addressing the concerns raised by respondents.

    (a) Option A: Include a revaluation option for certain assets in the Tier 3 Standard itself.

    Under this option the Tier 3 Standard will include simple requirements on how to measure the revalued amount, how to account for revaluation movements, how to present revaluation movements and require related note disclosure requirements. This option would remove the need for an entity to opt-up to PBE Standards when electing to revalue certain classes of assets.

    (b) Option B: Include additional guidance in the Tier 3 Standard on opting up to Tier 2 PBE Standards when revaluing a class of assets.

Option A: Include a revaluation option in the Tier 3 Standard

23. This option involves amending the Tier 3 Standard to include simplified requirements which allow property, plant and equipment, investment property and investment assets to be measured at fair value or readily attainable current value.

24. The primary benefit of this option is that it is likely to be the most effective at addressing the issues raised by respondents. It may also be the simplest option in one sense as it will reduce the need for entities to opt up to Tier 2 PBE Standards which are substantially more complex.

25. The disadvantages of this option are that it will make the Tier 3 Standard itself more complex and it may reduce the comparability of performance reports between entities.

Option B: More guidance on how to apply Tier 2 opt-up requirements

26. This option involves amending the Tier 3 Standard to include more specific guidance on opting up to Tier 2 PBE Standards for property, plant and equipment, investment property and investment assets. This would involve developing guidance about how to account for revaluation movements which are required to be reflected in other comprehensive income when applying the Tier 2 PBE Standards.

27. While this option will keep the measurement requirements in the Tier 3 Standard as simple as possible it will not address all the issues raised by respondents. Depending on the extent of the guidance, it may also make applying the Tier 3 Standard more complex overall.

Staff recommendation

28. We recommend developing proposals to amend the Tier 3 Standard to include simple requirements which will provide Tier 3 entities with the option to revalue property, plant and equipment, investment property and investment assets.

29. The next section of the memo looks at how this could be done.

Question for the Board
Q1. Does the Board agree with the staff recommendation?

Approach to developing possible amendments to the Tier 3 Standard

30. Based on the feedback received and the staff recommendation above, we have identified three main classes of asset for which the Tier 3 Standard could be amended to allow for a revaluation option.

    (a) Property, plant and equipment

    (b) Financial instruments

    (c) Investment property

31. As a starting point for drafting possible amendments, we have considered the requirements in IFRS for SMEs and the Charities SORP[3] applicable to charities in the UK and Republic of Ireland.

32. Both IFRS for SMEs and the Charities SORP have separate requirements for the classes of assets specified above. We have therefore discussed possible amendments to the Tier 3 Standard for each class of assets separately.

Property, plant and equipment

33. The requirements which apply when revaluing property, plant and equipment assets in IFRS for SMEs and the Charities SORP are very similar and in principle they are almost identical.

34. Under both sets of requirements an entity may choose to measure property, plant and equipment at fair value, with gains recognised in equity, except to the extent that a gain reverses a revaluation decrease previously recognised through profit and loss. These requirements have been summarised in Appendix A.

35. Given the consistency in these requirements and the relatively low level of complexity we recommend adopting a similar approach in the Tier 3 Standard, plus the following New Zealand specific provisions.

    (a) Keeping the current concession, which allows revaluation of property, plant and equipment assets to be based on current rateable or government valuation (and extending this concession to investment property assets).

[3] *Accounting and Reporting by Charities: Statement of Recommended Practices* applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)

(b) Presenting revaluation movements in the statement of financial performance as a separate line item below net surplus/(deficit) for the year. In the statement of financial position accumulated revaluation gains would be recorded in a separate revaluation reserve within accumulated funds. Guidance material, with examples, would be developed to explain how to account and present revaluation movements for revalued assets.

36. If the Board in principle supports the approach above, staff will develop amendments to the Tier 3 Standard for consideration at a future meeting. There will be additional technical aspects of this approach that will need be ironed out.

Question for the Board

Q2. Does the Board broadly agree with the staff recommendations for developing proposed amendments to the Tier 3 Standard – in relation to revaluation of property, plant and equipment?

The Board will have the opportunity to consider detailed proposals before making a final decision on any amendments.

Financial instruments

37. While the feedback received indicates a desire for an option to measure financial instruments at revalued amounts, it appears that the desired scope of the option was limited. Respondents who wanted an option to revalue financial instruments referred only to shares, bonds, units and other similar investments which are publicly traded (and therefore have a readily available and reliable market value).

38. Both IFRS for SMEs and the Charities SORP include requirements for "basic financial instruments" such as publicly traded shares and other similar financial assets. These requirements have been summarised in Appendix B.

39. While we consider the underlying *principles* for basic financial instruments in IFRS for SMEs and the Charities SORP would be appropriate for Tier 3, we consider that these requirements are too complex and they would need to be substantially simplified to be suitable for the Tier 3 Standard.

40. Based on the above, we recommend proposing amendments to the Tier 3 Standard only for investments in *financial instruments that are publicly traded* (this will need to be simply defined and guidance provided). On balance we consider that taking this approach will most appropriately address respondents' feedback without introducing unnecessary complexity into the Tier 3 Standard.

41. Any investments in debt instruments, shares, units, and bonds which are not publicly traded will continue to be carried at cost (less any impairments), with no option to subsequently measure at revalued amounts.

42. We also recommend allowing revaluation of publicly traded instruments as an accounting policy choice, rather than requiring all publicly traded investments to be carried at market value. There may be entities who wish to continue carrying their investments at cost and we consider it appropriate to allow for this.

43. If the Board in principle supports the approach above, staff will develop amendments to the Tier 3 Standard for consideration at a future meeting. This will include further consideration of where any revaluation gains or losses on investments will be presented in the statement of financial performance.

Question for the Board

Q3. Does the Board broadly agree with the staff recommendations for developing proposed amendments to the Tier 3 Standard – in relation to allowing the option to measure certain financial instruments at revalued amounts?

The Board will have the opportunity to consider detailed proposals before making a final decision on any amendments.

Investment property

44. The Tier 3 Standard does not currently have any specific requirements for investment property. Based on the feedback received, it appears there is a need to include specific requirements for investment property. Some respondents indicated that they would also like to have an option to measure investment property at rateable or government valuation (consistent with the existing concession for property, plant and equipment).

45. Both IFRS for SMEs and the Charities SORP require investment property to be recognised initially at cost and subsequently at fair value with changes in fair value recognised in profit or loss. While there are minor differences between the requirements, they are mostly the same. These requirements have been summarised in Appendix C.

46. The Charities SORP discusses investment properties within a chapter on investments. Appendix C shows only those additional requirements which specifically relate to investment property.

47. We recommend amending the Tier 3 Standard to allow for the accounting policy choice of measuring investment property assets on either a cost or revaluation basis. We also recommend allowing for the use of current rateable or government valuations when a Tier 3 PBE elects to measure investment property at revalued amounts.

48. At this stage we have not considered in detail the scope of what is and is not included in the definition of investment properties for the purpose of a Tier 3 Standard – this will need to be kept simple. The need to consider this in detail will depend on whether the Board agrees with the general approach discussed here.

49. If the Board in principle supports the approach above, staff will develop amendments to the Tier 3 Standard for consideration at a future meeting. This will include further consideration of

where investment property revaluation gains or losses will be presented in the statement of financial performance.

Question for the Board
Q4. Does the Board broadly agree with the staff recommendations for developing proposed amendments to the Tier 3 Standard – in relation to introducing specific requirements or investment property, including a cost or revaluation option? The Board will have the opportunity to consider detailed proposals before making a final decision on any amendments.

Appendix A Property, plant and equipment

Summary of requirements in IFRS for SMEs and the Charities SORP related to revaluing property, plant and equipment

PP&E	Recognition and Measurement	Presentation and Disclosure
IFRS for SMEs	An entity may choose to apply the revaluation model to a class of property, plant and equipment. If an entity chooses to apply the revaluation model it shall: (a) measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. (b) Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.	If an entity chooses to apply the revaluation model: (a) Increases in carrying amount resulting from revaluations shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. (b) However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. (c) Decreases in carrying amount resulting from revaluations shall be recognised in profit or loss. (d) However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following: (a) the effective date of the revaluation; (b) whether an independent valuer was involved; (c) the methods and significant assumptions applied in estimating the items' fair values; (d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and (e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

PP&E	Recognition and Measurement	Presentation and Disclosure
Charities SORP	A charity may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds. Buildings of a similar nature, function or use held by the charity constitute a class of tangible fixed assets. *Measurement of Asset Value* If a policy of revaluation is adopted, then charities must: (a) Carry all assets within the relevant class of tangible fixed assets at its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. (b) Undertake valuations on a regular basis to ensure that the carrying amount does not differ materially from the fair value of the asset at the end of the reporting period. (c) Undertake valuations of land and buildings with sufficient regularity, for example charities may undertake a review on a rolling basis over a five-year period.	If a policy of revaluation is adopted, then revaluations and recognised gains and losses must be presented in the accounts as follows: (a) A separate revaluation reserve must be shown on the balance sheet. (b) Revaluation gains must be recognised as 'Gains on the revaluation of fixed assets' within the SoFA[4], unless they reverse a charge for impairment that has previously been recognised as a cost within the expenditure headings of the SoFA. (c) Any gain on disposal over the carrying amount must be recognised in 'Other' income within the SoFA. (d) Revaluation losses must be recognised as an expense in the relevant expenditure heading of the SoFA except to the extent to which they offset any previous revaluation gains, in which case the loss is shown in the 'Gains/(losses) on the revaluation of fixed assets' section of the SoFA. If any class of tangible fixed assets has been revalued, charities must disclose: (a) the effective date of the revaluation; (b) whether an independent valuer was involved; (c) the methods and significant assumptions applied in estimating the items' fair value; and (d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

[4] Statement of Financial Activities – This is roughly equivalent to the Statement of Financial Performance in the Tier 3 Standard.

Appendix B Basic financial instruments

Summary of requirements in IFRS for SMEs and the Charities SORP related to basic financial instruments

Fin Ins	Recognition and Measurement	Presentation and Disclosure
IFRS for SMEs	Generally investments in ordinary shares, debt instruments, bank deposits and loans advanced on market terms are considered to be basic financial instruments. *Initial Measurement* When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction for either the entity (for a financial liability) or the counterparty (for a financial asset) to the arrangement. *Subsequent Measurement* At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal: (a) Debt instruments [that meet other conditions] shall be measured at amortised cost using the effective interest method. (b) Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e. net of impairment) unless the arrangement constitutes, in effect, a financing transaction. (c) Commitments to receive a loan [that meet other conditions] shall be measured at cost (which sometimes is nil) less impairment.	An entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements. An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes: (a) financial assets measured at fair value through profit or loss (b) financial assets that are debt instruments measured at amortised cost; (c) financial assets that are equity instruments measured at cost less impairment; (d) financial liabilities measured at fair value through profit or loss; (e) financial liabilities measured at amortised cost; and (f) loan commitments measured at cost less impairment. An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity). For all financial assets and financial liabilities measured at fair value, the entity shall disclose the basis for determining fair value, for example, quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions

Fin Ins	Recognition and Measurement	Presentation and Disclosure
	(d) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows: (i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in profit or loss; and (ii) all other such investments shall be measured at cost less impairment. Impairment or uncollectibility must be assessed for financial assets other than publicly traded shares.	applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this Standard, the entity shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort.
Charities SORP	Generally investments in ordinary shares, debt instruments, bank deposits and loans advanced on market terms are considered to be basic financial instruments. *Initial measurement* Charities preparing accounts normally measure a basic financial asset or basic financial liability on its initial recognition at the amount receivable or payable adjusted for any related transaction costs. However, if initially measured at fair value, transaction costs are not included in the measurement of financial assets or liabilities; instead, the transaction costs are treated as an expense. If extended credit is offered, the accounting treatment depends on those extended credit terms. *Subsequent measurement* The subsequent measurement of financial assets and financial liabilities depends on their nature and settlement dates. The carrying amount must be calculated without any deduction for transaction costs that may be incurred on sale or disposal.	Investment gains and losses, whether realised or unrealised, are combined and shown in the heading ‘Gains/(losses) on investments’ in the SoFA. The notes to the accounts must: (a) state the accounting policies for investments, including the basis on which investments are measured; (b) provide an analysis of investments by class of investment identifying the amounts held within each class, with those investments held at fair value differentiated from those held at historical cost less impairment; and (c) provide an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held.

Fin Ins	Recognition and Measurement	Presentation and Disclosure
	For example: (a) Current assets and current liabilities must be measured at the cash or other consideration expected to be paid or received and not discounted. (b) Debt instruments, for example a bank loan, must be measured at amortised cost using the effective interest method. (c) Investments in shares which can be publicly traded must be measured at fair value (market value). (d) Investments in shares which cannot be publicly traded must be measured at cost less impairment if fair value cannot be established using a valuation technique.	Charities with basic financial instruments must disclose: (a) the measurement bases and the accounting policies used for financial instruments; (b) the carrying amount of financial assets measured at fair value through income and expenditure; (c) the carrying amount of financial liabilities measured at fair value through income and expenditure; (d) information about the significance of financial instruments to the charity's financial position or performance, for example the terms and conditions of loans or the use of hedging to manage financial risk; (e) for all financial assets and financial liabilities measured at fair value, the basis for determining fair value, including any assumptions applied when using a valuation technique; (f) if the charity or its subsidiary has provided financial assets as a form of security, the carrying amount of the financial assets pledged as security and the terms and conditions relating to its pledge; (g) the income, expense, net gains and losses, including changes in fair value, for financial assets and financial liabilities measured at fair value, and financial assets and financial liabilities measured at amortised cost; (h) the total interest income and expense for financial assets and financial liabilities that are not measured at fair value; and (i) the amount of any impairment loss for each class of financial asset.

Appendix C Investment property

Summary of requirements in IFRS for SMEs and the Charities SORP related to investment property

Inv Pty	Recognition and Measurement	Presentation and Disclosure
IFRS for SMEs	An entity shall measure investment property at its cost at initial recognition. Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. An entity shall account for all other investment property using the cost model in Section 17 (Property, Plant and Equipment).	Changes in the fair value of investment property shall be recognised in profit or loss. An entity shall disclose the following for all investment property accounted for at fair value through profit or loss: (a) the methods and significant assumptions applied in determining the fair value of investment property. (b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed. (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. (d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements. (e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately: (i) additions, disclosing separately those additions resulting from acquisitions through business combinations; (ii) net gains or losses from fair value adjustments; (iii) transfers to and from investment property carried at cost less accumulated depreciation and impairment (see paragraph 16.8);

Inv Pty	Recognition and Measurement	Presentation and Disclosure
		(iv) transfers to and from inventories and owner-occupied property; and (v) other changes. This reconciliation need not be presented for prior periods.
Charities SORP	Investment properties must be measured initially at cost and subsequently at fair value at the reporting date, except where that property is rented to another group entity. Depreciation is not provided on investment property measured at fair value.	Investment gains and losses, whether realised or unrealised, are combined and shown in the heading 'Gains/(losses) on investments' in the SoFA. The notes to the accounts must: (a) state the accounting policies for investments, including the basis on which investments are measured; (b) provide an analysis of investments by class of investment identifying the amounts held within each class, with those investments held at fair value differentiated from those held at historical cost less impairment; and (c) provide an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held. The classes of investments disclosed in the note will vary from charity to charity reflecting the differing nature of the investments held. This SORP requires that the analysis must as a minimum identify material amounts held in the following classes of investment: (a) Cash or cash equivalents; (b) Listed investments; (c) Investment properties; (d) Loans to group undertakings; (e) Equity investment in group undertakings; (f) Social investments; and (g) Other investments.

Inv Pty	Recognition and Measurement	Presentation and Disclosure
		Charities holding investment property must also disclose: (a) the methods and significant assumptions applied in determining the fair value of investment property; (b) the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the property being valued (or if there has been no such valuation this fact must be disclosed); (c) the existence and amounts of any restrictions on the ability to realise investment property or on the remittance of income and proceeds of disposal; (d) any contractual obligations for the purchase, construction, or development of investment property or for repairs, maintenance or enhancements; (e) in the analysis (see paragraph 10.15) the additions resulting from acquisitions through business combinations, if any; and (f) the carrying amount at the end of the reporting period of investment property rented to another group entity, where the charity has chosen to account for such property using the cost model.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 134

Approval to Issue *Deferred Tax related to Assets and Liabilities arising from a Single Transaction Amendments to NZ IAS 12*

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 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction Amendments to NZ IAS 12;* and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Deferred Tax related to Assets and Liabilities arising from a Single Transaction Amendments to NZ IAS 12* pursuant to section 12(b) of the Financial Reporting Act 2013.

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Michele J. Embling
Chair
External Reporting Board

5 July 2021