XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Board Meeting Agenda

Virtual meeting — Tuesday, 19 October 2021

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
PUBLIC SESSION					
9.40 am	**3**	**IPSASB Measurement**	(JS/GS/JP/TC)		
	3.1	Cover memo	Consider	Paper	03
	3.2	Draft comment letter	Approve	Paper	10
	3.3	Draft AASB comment letter to the IPSASB	Note	Link to AASB website	–
	3.4	IPSASB EDs 76–79	Consider	Link to XRB website	–
10.40 am	Morning tea break				
11.00 am	**4**	**Tier 3 and Tier 4 PIR**	(JC/NH)		
	4.1	Cover memo	Note	Paper	48
	4.2	Issues paper: Accumulated funds	Consider	Paper	49
	4.3	Issues paper: Opting up	Consider	Paper	62
	4.4	Issues paper: Statement of service performance	Consider	Paper	68
	4.5	Issues paper: Draft grant and donation revenue recognition requirements	Consider	Paper	80
12.20 pm	Lunch break				
NON-PUBLIC SESSION					
PUBLIC SESSION					
1.50 pm	**7**	**Disclosure Initiative – Targeted Standards-level Review of Disclosures**	(JS)		
	7.1	Cover memo	Consider	Paper	87
	7.2	Draft comment letter	Approve	Paper	96
	7.3	IASB ED *Disclosure Requirements in IFRS Standards—A Pilot Approach*	Consider	Link to XRB website	–
	7.4	IASB Basis for Conclusions	Consider		–
	7.5	IASB snapshot summary	Note		–

Est Time	Item	Topic	Objective		Page
2.50 pm	**8**	**IPSASB Mid-period Work Program Consultation**	(NH)		
	8.1	Cover memo	Consider	Paper	123
	8.2	Draft comment letter	Consider	Paper	124
	8.3	IPSASB RFI *Mid-period Work Program Consultation*	Consider	Link to XRB website	–
3.30 pm	Afternoon tea break				
NON-PUBLIC SESSION					
4.25 pm	*Finish*				

Next NZASB meeting: Thursday 16 December 2021 (in-person, subject to alert levels)

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 3.1

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Joanne Scott
Subject:	**IPSASB Measurement**

Purpose and introduction

1. We are seeking approval of the comment letter on the following IPSASB EDs.
   (a) ED 76 *Conceptual Framework Update: Chapter 7,* Measurement of Assets and Liabilities in Financial Statements
   (b) ED 77 *Measurement*
   (c) ED 78 *Property, Plant and Equipment*
   (d) ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

Recommendation[1]

2. The Board is asked to:
   (a) NOTE the outreach conducted;
   (b) NOTE the submissions and other feedback received; and
   (c) CONSIDER and APPROVE the comment letter (see agenda item 3.2).

Background

NZASB measurement discussions

3. The NZASB has been considering the EDs over the course of this year.

Table 1 Summary of NZASB agenda papers

Meeting	Agenda papers
April 2021	Education session The 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

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).

Meeting	**Agenda papers**
May 2021	The 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 • Australian NFP measurement requirements and recent AASB discussions Draft comment letter contents • Bullet points for those SMCs we recommended commenting on
June 2021	The 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
August 2021	Complete draft comment letter

Update on AASB comment letter

4. The AASB issued a separate Invitation to Comment seeking feedback on aspects of the EDs relevant to the AASB's *Fair Value Measurement of Not-for-Profit Entities* project. The AASB began that project following requests for guidance to assist the application of AASB 13 in the not-for-profit (NFP) public sector, particularly to assets not held primarily for their ability to generate net cash inflows.

5. The AASB has commented on selected SMCs in ED 76 and ED 77. The AASB considered a complete draft of its comment letter at its meeting on 8–9 September (see agenda item 3.3 in supporting papers) and approved that letter subject to a few changes (as outlined in Appendix A of this memo).

Structure of this memo

6. The remaining sections in this memo are as follows.

   (a) Outreach update

   (b) Draft comment letter

   (c) Seeking approval

   (d) Next steps

Outreach update

7. Table 2 summarises outreach activities.

Table 2 Outreach update

<table>
<tr><td>TRG</td><td>25 May
Feedback from the TRG was reported at the Board’s June meeting and considered under relevant SMCs</td></tr>
<tr><td>LinkedIn post</td><td>May</td></tr>
<tr><td>PINZ</td><td>22 June
Meeting with some members of the Standards Board of the Property Institute of New Zealand</td></tr>
<tr><td>XRB webinar</td><td>8 July
Over 100 registered, over 40 attended
Slides and recording made available on the website
Follow up email to some attendees (especially museums and councils) in August, offering to discuss proposals</td></tr>
<tr><td>CA ANZ</td><td>23 July
Informal staff discussion</td></tr>
<tr><td>NZAuASB</td><td>1 September

Board members expressed the following views:
Aligning the definition of fair value in IFRS Standards and IPSAS (to the extent possible) is a positive move.
The NZAuASB shares the NZASB’s concerns about the lack of clarity regarding the proposed new measurement basis (current operational value), noting that the current requirements in PBE Standards are well understood and work reasonably well.
The lack of clarity in the proposals is more of an issue than the proposed requirement to classify assets as being held for financial capacity or operational capacity. There are already different requirements for different types of assets.
Any new proposals need to acknowledge that the concept of highest and best use is difficult to apply to certain types of assets such as national parks and sewage systems.
The costs of the proposed fair value disclosure in ED 79 paragraph 52 could be significant and are likely to outweigh the benefits.
Climate change will give rise to new impairment issues (such as potential abandonment of assets) and the suitability of standards to deal with these issues should be considered. Staff noted that these EDs do not propose to change the current impairment requirements.
Some of the heritage issues which have not been considered by the IPSASB are important in a New Zealand context.
The NZAuASB offered to assist the NZASB further if required.</td></tr>
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<table>
<tr><td>Auckland Council Valuers</td><td>9 September
General
It is hard to understand what COV is trying to achieve, which makes it challenging to comment on the proposals.
The current fair value requirements in PBE Standards work well (including the use of DRC when there is no market for the asset), but restricted land is an area that could benefit from further guidance.
COV proposals
By requiring that an asset be measured as if it is fully utilised, COV does not appear to allow an entity to take optimisation into account – which is an issue and is different to current valuation practice.
COV requires a focus on the existing use of the asset, rather than highest and best use. If there is excess land (which the entity itself is not using), using COV could result in an overly conservative valuation of the land.
Disagreement with ED 77's proposals about restricted assets. The value of a restricted asset is not comparable to the value of an unrestricted asset, although it is possible to use the value of an unrestricted asset as a starting point when valuing a restricted asset. Need to consider the "chance of change" in a restricted asset's use (which may be very low).
Income approach: The selection of an appropriate approach should be left to the valuer's judgement. The income approach could still be used for assets with lower than market cash flows (by including any top-up payments or using market rates).
Surplus capacity must be taken into account if considering the value of an asset from a market participant's perspective. The treatment of surplus capacity depends on whether there are alternative uses.
Fair value
Fair value as per IFRS 13 requires a focus on market participants, but this is not necessarily an issue for operational assets that are specialised or have 'limited appeal' to the open market (e.g. a prison), because in such cases valuers would consider a market participant that is similar to the entity (rather than the general open market).</td></tr>
<tr><td colspan="2">In addition to the above groups we contacted a number of other entities and individuals (including Charities Services, Taituarā, and a number of museums and councils) to make sure they were aware of the proposals and to offer to discuss the proposals. Charities Services took us up on this offer. We did not receive specific feedback from this outreach.</td></tr>
</table>

8. In addition to the outreach in Table 2 we observed an event held by the AASB on 6 July 2021 to seek feedback from valuers. We are also aware that a New Zealand valuer has been corresponding with IPSASB staff about some measurement issues and may submit directly to the IPSASB.

9. Although we have not received any formal submissions to the NZASB, a copy of the Office of the Auditor-General's submission to the IPSASB is included in correspondence (see the consent agenda).

Draft comment letter

10. The comment letter was last considered by the Board at its 12 August meeting. We have revised the comment letter to reflect feedback from the Board (both at the meeting and from individual members) and other constituents.

11. The main changes are listed below.

    (a) The cover letter has been drafted. The key point made in the cover letter is shown below.

    > Rather than developing a new current value measurement basis we would prefer that the IPSASB explores the possibility of fair value as a single current value measurement basis for non-financial assets and considers how the detailed guidance that accompanies IFRS 13 should be applied in particular public sector-specific circumstances. There may be aspects of IFRS 13 where specific public sector modifications or guidance are required, but we think that these instances could be fairly limited and it would be easier for people to apply one concept.

    (b) The response to ED 77 SMC 7 has been rewritten.[2] On reflection we realised that some of the comments were not relevant to the question.

    (c) The response to ED 77 SMC 9 has been rewritten. This response has comments about the adjusted net asset method of measuring unquoted equity instruments. We have rewritten the response to say that ED 77 does not propose any changes to Illustrative Example 26 in IPSAS 41 and it would be good to know what, if any, changes the IPSASB would expect to fair value measurements obtained using that method.

    (d) ED 77 SMCs on disclosure. These now include more comments about materiality and cost:benefit considerations.

12. We have deleted the staff notes and background information that were in the August draft. We have shown changes to the responses as markups. If you would like a clean copy please contact staff.[3]

Seeking approval

13. We plan to go through the SMC responses first and then the cover letter. We are seeking approval of the comment letter, subject to any changes agreed at the meeting. If the changes required are more than minor, we suggest that the changes be reviewed by the Chair.

Question for the Board
Q1 Does the Board APPROVE the comment letter, subject to changes agreed at the meeting.

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2 SMC 7 asks "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."

3 Joanne.scott@xrb.govt.nz

Next steps

14. We will finalise and submit the letter to the IPSASB by the due date of 25 October 2021. A copy of the final comment letter will go on the XRB website.

Attachments

Agenda item 3.2:	Draft comment letter
Agenda item 3.3:	Draft AASB comment letter as at September 2021 (supporting paper)

Accessing the EDs

Agenda item 3.4:	The At A Glance documents and EDs were distributed to Board members in April. They are available on the XRB website.

Appendix A Extract from AASB Action Alert September 2021

IPSASB EDs on Public Sector Measurement

The Board considered stakeholder feedback on fair value and current operational value (COV) measurement, including comment letters received on AASB Invitation to Comment ITC 45. Further to the decisions made in its August 2021 meeting, the Board decided its submission to the IPSASB on Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement* should also include the following comments:

(a) the Board's tentative views in respect of the cost of a modern equivalent asset used to estimate the fair value of an operational capacity asset under the cost approach, which may be relevant for the IPSASB's proposed guidance on estimating an asset's COV:

  (i) all necessary costs intrinsically linked to acquiring the asset at the measurement date should be included;

  (ii) in contrast with the IPSASB's proposal in ED 77 para. B35(a), the accounting policy choice regarding capitalisation of borrowing costs at an asset's initial recognition is irrelevant to how those costs should be treated in subsequent current value measurements of the asset; and

  (iii) the notional replacement should be assumed to be in the same location as the existing asset is situated or used;

(b) ED 77 is unclear regarding whether a loss of utility of an asset should be treated as surplus capacity, an indication of economic obsolescence or an indication of impairment;

(c) the Board supports the alignment of IPSAS guidance on fair value with IFRS 13 *Fair Value Measurement*, but the application of fair value should not be limited to non-financial assets held primarily for their financial capacity;

(d) the acknowledgement that the income approach would have limited use in estimating an asset's COV should be noted in the IPSAS and not only in the Basis for Conclusions; and

(e) in respect of the proposed deletion of certain measurement bases from the IPSASB Conceptual Framework, the Board:

  (i) supports deletion of market value upon the inclusion of fair value; and

  (ii) considers better justification is needed for deleting replacement cost and value in use.

A subcommittee of the [AASB] Board will finalise the submission out of session, including considering any further stakeholder feedback on ITC 45.

[Date] October 2021

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

Submitted to: www.ifac.org

Dear Ross

IPSASB Measurement-related Exposure Drafts

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

Background

In 2019 we commented on the Consultation Paper (CP) that preceded these EDs. The CP proposed to identify fair value, as defined in IFRS 13 *Fair Value Measurement*, as a measurement basis. Because the proposal to adopt fair value represented a change from the IPSASB's views when it developed the Conceptual Framework, we asked the IPSASB to explain why it had changed its views on the appropriateness of fair value in the measurement of public sector assets and liabilities, what this would mean for the measurement basis 'market value' in the Conceptual Framework, and the implications for individual IPSAS that require or permit a current value measurement basis.

Measurement basis proposals in ED 76 and ED 77

The EDs illustrate how the IPSASB's thinking on these issues has progressed and outline the proposed changes to the Conceptual Framework and specific IPSASs. We are pleased the IPSASB has issued a complete set of proposals so that constituents can more fully understand the implications of the proposals.

We have expressed general support for the IPSASB's proposal to adopt the IFRS 13 definition of fair value and to bring the IFRS 13 fair value requirements into IPSAS, but disagree with the proposals to introduce current operational value (COV).

The EDs put forward two current value measurement bases (being COV and fair value), both of which could be measured using three approaches – market, cost and income. We think the proposed definition of COV and aspects of the COV proposals are unclear. We have found it difficult to identify what differences one would observe in practice between the two measurement bases (if similar approaches are used under each) and think it will be confusing if two measurement bases are applied to similar assets.

Rather than developing a new current value measurement basis we would prefer that the IPSASB explores the possibility of fair value as a single current value measurement basis for non-financial assets and considers how the detailed guidance that accompanies IFRS 13 should be applied in particular public sector-specific circumstances. There may be aspects of IFRS 13 where specific public sector modifications or guidance are required, but we think that these instances could be fairly limited and it would be easier for all parties concerned to understand and apply one concept.

Notwithstanding our overall disagreement with the COV proposals, we have commented on most of the SMCs about COV.

We have also commented on the proposals to remove certain measurement bases from the Conceptual Framework. In most cases we disagree with the proposed removal of measurement bases on the grounds that they are not being used in standards. The measurement bases exist regardless of whether they are currently used in a suite of standards and they can inform future debates both in new and existing standards.

ED 78 *Property, Plant and Equipment*

In addition to the proposals regarding revaluation, ED 78 proposes to require the recognition of heritage assets that can be reliably measured and to add some guidance on heritage and infrastructure assets. As New Zealand's PBE Standards already require the recognition of heritage assets that can be reliably measured we support the IPSASB's recognition proposal. We have also commented on some of the proposed additional guidance on heritage and infrastructure assets.

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

We support the introduction of an IPSAS based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and most of the proposals in that ED.

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

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

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 the proposed 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 (i.e. residual value and value-in-use) 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

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 in the EDs to align IPSAS with IFRS 13~~, to the extent that fair value is used in IPSAS~~.

10. We note that the EDs ~~have some concerns about the~~ propose~~d~~ changes to IPSAS 41 *Financial Instruments* and would like the IPSASB to carefully consider the implications of those changes for unlisted shares and equity contributions to public sector entities. See our response to ED 77 SMC 9.

11. Given our disagreement with the COV proposals, we recommend that the IPSASB consider an alternative approach of broad application of fair value, with modifications for public sector specific issues as required.

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

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework? If not, why not? *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.*

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

13. We acknowledge that, in developing COV, ~~if~~ the IPSASB has been responding to a concern that, if it were ~~decides~~ to adopt fair value as a measurement basis, there would~~will~~ be some assets where the application of the fair value requirements in ~~(as per~~ IFRS 13~~)~~ would not lead to ~~be the most~~ appropriate information for decision-making and accountability purposes. However, the lack of clarity around COV and the potential confusion from having two current value measurement bases means that we do not support the COV proposals. ~~We consider in more detail what those assets might be in our responses to ED 77.~~

14. Our response to this SMC touches on current practice in New Zealand, feedback that these requirements ~~appear to~~ work reasonably well, and our concerns regarding COV.

15. 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 *Property, Plant and Equipment* 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 and has been widely used in New Zealand. ~~It has not been regarded as an alternative measurement basis.~~

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

~~17. 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.~~

~~18.~~17. The IPSASB is now ~~has chosen to~~ proposeing COV ~~rather than replacement cost~~ as a ~~that~~ new ~~alternative~~ measurement basis for assets primarily held for operational capacity. ED 76 paragraphs BC7.26 and BC7.27 (set out below) give the IPSASB's rationale~~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.

~~19.~~18. We have found it difficult to follow this rationale and difficult to understand exactly what COV is trying to achieve~~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 value~~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.

~~20.~~19. 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.

~~21.~~20. 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.

21. 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. We also note that versatility can lead to non-comparability for the measurement of similar assets~~.~~

22. Another option would have been to consider the application of fair value to all non-financial assets and consider when public sector modifications might be required. Having considered the COV proposals, we recommend that the IPSASB instead consider the use of fair value as the measurement basis for revalued non-financial assets. IFRS 13 has been widely applied in some jurisdictions such as Australia. We understand that, although Australian constituents have sought additional guidance on some aspects of AASB 13 *Fair Value Measurement*, there has not been widespread disagreement with that Standard as a whole. We also understand that to some extent IFRS 13 is already used as an additional source of guidance by entities applying PBE Standards in New Zealand.

23. 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.

24. 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.

25. 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 for preparers and users. 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

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?

26. 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.

27. The discussion of VIU in the Conceptual Framework~~ED 76~~ could be quite short, but the Conceptual Framework~~it~~ should refer to VIU~~it~~ as a measurement basis.

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

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework: • Market value—for assets and liabilities; and • Replacement cost—for assets? If not, which would you retain and why?

28. 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.

29. As indicated ~~noted~~ in our responses to other SMCs~~ED 76 SMC 3~~, we disagree with a number of aspects of COV and consider that replacement cost is a clearer concept than COV. The Conceptual Framework should continue to acknowledge that replacement cost is a measurement basis, regardless of whether it is required by particular standards. Our comments on SMC 6 express similar concerns about the proposed deletion of other measurement bases.

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

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework? • Net selling price—for assets • Cost of release—for liabilities • Assumption price—for liabilities If not, which would you retain and why?

30. 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.

31. Of the three bases mentioned in SMC 6, 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

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?

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

APPENDIX B: Responses on ED 77 *Measurement*

33. We have not commented on SMCs 1–4.

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

> Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:
>
> - That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or
> - Otherwise required or permitted by another IPSAS?
>
> If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

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

> Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.
>
> If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

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

> In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities?
>
> If not, please provide your reasons, stating what guidance should be added or removed, and why.

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

> Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?
>
> If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

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

> Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?
>
> If not, please provide your reasons, stating clearly what principles [are] more appropriate for the public sector, and why.

34. We have commented on ED 77 SMC 5 and SMC 6 together. Our combined response is set out under SMC 6.

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

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)? If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

35. Our comments on this SMC should be read together with our comments on ED 76 SMC 3. ~~We disagree with the definition of COV.~~ As mentioned in our response to SMC 3 of ED 76, we think the definition of COV and the objective of a COV measurement are~~is~~ unclear. We also disagree with aspects of the ~~have the following comments in relation to the~~ proposed guidance on COV.

36. We have commented first on two aspects that we disagree with – surplus capacity and restrictions. We have then considered why the IPSASB felt that it was necessary to develop COV as an alternative current value measurement basis and whether the concerns with fair value necessitated the development of an alternative measurement basis.

~~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.~~

Surplus capacity

37. 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.

38. We also agree with the Alternative View that more guidance is required about determining the unit of account when an asset has surplus capacity with an alternative use. In our view, if surplus capacity has a viable alternative use then the surplus capacity should be treated as a separate asset and measured separately. ~~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.~~

~~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.~~

Restrictions

39. 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. Examples of land to which discounts are currently applied include council reserve land, prisons and land under roads (see also our comments about land under roads in ED 78 SMC 7). The discounts acknowledge restrictions on the use or disposal of the land. The proposals in ED 77 would permit a discount only if restrictions are legally enforceable. However, the restrictions on some land such as reserves may be just as long lasting and effective as if they were legally enforceable. The proposals would create a different approach to restrictions which may not reflect the practical effect of the restrictions. ~~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.~~

40. 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.

IPSASB's reasons for proposing COV

41. The IPSASB's rationale for developing COV as a public sector-specific measurement basis for all revalued operational capacity assets is set out in the Basis for Conclusions on ED 77 (from paragraph BC29 onwards). It states that the concepts of highest and best use and maximising the use of market participant data are generally not applicable in the public sector.

42. In our response to ED 76 SMC 3 we noted that another option would have been to consider the application of fair value to all non-financial assets and consider when public sector modifications might be required. We recommended that the IPSASB consider the use of fair value as the measurement basis for revalued non-financial assets and noted that IFRS 13 has been widely applied in some jurisdictions such as Australia.

43. In conjunction with the IPSASB's consultation on EDs 76 and 77 the Australian Accounting Standards Board (AASB) issued an Invitation to Comment (ITC)[2] seeking feedback on aspects of the EDs relevant to the AASB's Fair Value Measurement of Not-for-Profit Entities project. That project was initiated following requests for guidance to assist the application of AASB 13 *Fair Value Measurement* in the not-for-profit (NFP) public sector, particularly to assets not held primarily for their ability to generate net cash inflows. That ITC outlined the

[2] AASB ITC 45, Request for Comment on IPSASB Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* and ED 77 *Measurement* (May 2021)

AASB's preliminary thinking on some application issues, noted the relevant IPSASB proposals and sought feedback from constituents on these matters. We understand the AASB will be commenting to the IPSASB on this feedback.

44. Although we would prefer a single current measurement basis to be used throughout IPSAS, New Zealand constituents do not have the experience of Australian constituents in applying the requirements in IFRS 13 to a range of public sector assets. They have therefore not had the types of discussions that have occurred in Australia. Nor has the NZASB had the types of discussions that have occurred in Australia.

45. We therefore think the comments in the AASB's comment letter will be very helpful for the IPSASB in considering whether fair value could be that single current value measurement basis.

~~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).~~

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

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used? If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

46. 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~~ This is consistent with the current practice of New Zealand public sector entities revaluing land at fair value in accordance with PBE IPSAS 17.~~.~~ ~~However, we have reflected on why this is current practice. The use of~~ Such entities use 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.~~

47. ~~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.~~ We note that IFRS 13 paragraph 11 requires that an entity applying fair value take into account the characteristics of an asset (such as location or condition) if market participants would take those characteristics into account.

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

> Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?
>
> If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.
>
> *The Exposure Draft includes an Alternative View on current operational value*.

48. We partially agree with this SMC. Our agreement is partial because we acknowledge the matters raised in the Alternative View on this ED and share the concerns about the potential for inappropriate use of the income approach. This response outlines our concerns and concludes by suggesting that some guidance about the limited circumstances in which the income approach could be appropriate would be helpful.~~We do not consider the income approach to be an appropriate technique for measuring COV. We agree with the Alternative View on this matter.~~

49. While the proposed 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.~~ The use of ~~We think that~~ the income approach appears to be~~is~~ inconsistent with the notion of an entry value and/or the cost of replacing the service potential embodied in an asset. This point is more about the lack of clarity regarding the principle underlying COV than the income approach.

50. Under the income approach~~ to COV~~, if entity-specific cash flows were used, similar assets could be valued very differently, depending on the entity's decision of how much to charge for its services. For example, the COV of ~~for~~ a building used for social housing~~, determining COV using the income approach could result in a range of different values,~~ could vary, 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). ~~Additionally, when an entity charges a~~ Services provided at nominal prices or ~~for its services or provides services~~ at no charge~~, an asset measured at COV under the income approach w~~would lead to ~~have a~~ very different 'income approach COVs' to '~~carrying amount to an asset measured at COV under the~~ market or cost approach COVs'. Differing policies (both over time and for different entities) could lead to a range of income approach COVs for similar assets or for the same asset over time. This variation could have a negative impact on the comparability and understandability of public sector entities' financial statements. Application of the income approach to entity-specific cash flows ~~When an entity charges low or nominal prices for the services it provides using a specific asset, the income approach w~~could also 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.

51. It may be that the IPSASB did not intend that entity-specific cash flows be used when applying the income approach. Rather, the IPSASB may have intended that the income approach be applied to the cash flows that would be derived if that asset were used commercially. If so, the proposals should state this.

52. ~~We have considered whether there would be any situations in which the income approach would be appropriate. It might be appropriate~~ We acknowledge that the income approach could be appropriate in some circumstances for operational assets. For example, 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 comments on this SMC. If the IPSASB ~~does~~ proceeds with its proposal~~s~~ to permit the use of the income approach for COV, we think that the IPSASB would also need to indicate when it is and is not appropriate ~~its use should be limited~~.

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

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on fair value has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.

53. 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.~~

54. We note that ED 77 proposes changes to IPSAS 41 *Financial Instruments*[3] to align IPSAS 41 with the fair value requirements in IFRS 9 *Financial Instruments.* We have received some queries about the implications of those changes for unquoted equity instruments such as investments in other public sector entities that deliver services to a community or region. Some public sector entities currently measure the fair value of unquoted equity instruments such as equity contributions to other public sector entities using a ~~based on the~~ net asset approach~~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.~~

55. Illustrative Example 27 of IPSAS 41 discusses an adjusted net assets approach to unquoted equity instruments. As ED 77 does not propose any changes to this illustrative example, the adjusted net asset method could still be used. It is not immediately apparent to us that the proposed changes to the fair value requirements in IPSAS 41 would lead to different fair value measurements using the methods in the illustrative examples. In order to form a view on the proposals it would have been helpful to know what types of changes, if any, the

[3] ED 77 proposes to amend IPSAS 41 paragraphs 9, 66, AG31, AG38, AG115 and AG117, add paragraphs AG143A–AG143AB, and delete paragraphs 67, 68 and AG144–AG155.

IPSASB would expect to fair value measurement under IPSAS 41 and its views on those changes. This would still be helpful going forward, particularly for constituents currently using the adjusted net asset method, either by way of more detailed BC paragraphs or by way of educational material. ~~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

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.

56. 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.

57. 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

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.

58. SMCs 11~~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.

59. 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.).

60. 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.

61. 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?

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.

62. We have not commented on this SMC.

ED 77 SMC 13: Disclosure – Consistency across standards

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value. If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

63. Before responding to the question posed by this SMC, ~~W~~we note that, ~~consistent with IFRS 13, there is a minor difference between~~ the proposed fair value disclosures for financial instruments ~~as compared to~~ and non-financial instruments are not exactly the same. Consistent with IFRS 13, there is a minor difference between two sets of disclosures. 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.[4] No such requirement is proposed for non-financial assets measured at fair value using Level 3 inputs.

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

64. 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).

65. We have some specific comments about IPSAS 12 *Inventories.* The IPSASB is proposing to include ~~However, we note that including the proposed~~ fair value disclosure requirements in IPSAS 12 *Inventories*. We think this 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, we recommend that the IPSASB make it clear ~~may wish to consider clarifying in IPSAS 12~~ that the proposed fair value disclosures in IPSAS 12 apply only to commodity broker-traders.

66. Although~~While~~ we generally agree with requiring similar current value disclosures across all assets and liabilities measured under a current value model, we think that it is important for the IPSASB to take the opportunity to highlight the ~~we note that it is~~ importance~~t~~ of~~to~~ considering materiality when applying ~~these~~ disclosure requirements. The proposed current value disclosure requirements are relatively extensive and detailed and, as with any disclosure requirement, ~~yet~~ there are likely to ~~could~~ be cases where the~~se~~ fair value disclosures are~~may~~ not ~~be~~ material for a specific type of asset or liability held by an entity. IPSAS 1 paragraph 47 already states that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material. However, as shown by the discussions about the IASB's recent Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*, such statements are not necessarily enough to prompt good discussions about materiality and the amount of detail that is appropriate.

67. ~~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 IASB's 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 some of the IASB's ~~2018~~ amendments to the materiality requirements in IFRS Standards~~IAS 1 (and the discussion of materiality in the Conceptual Framework)~~, and

that it will ~~would~~ be some time before the IASB decides whether to proceed with its latest proposals~~IPSASB considers the recent IASB ED~~. Nevertheless, we think that the factors that led the IASB to embark on its latest disclosure project ~~the~~ highlight the importance of taking every opportunity to stress ~~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. The IASB's project also highlights the importance of seeking feedback from users when establishing disclosure requirements.

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

Do you agree with the proposal [that] disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS. If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.

Note to the Board We have written a new introductory section explaining why we found it difficult to respond to SMC 14. We have then given feedback about proposed and possible disclosures. We have also added subheadings to make it easier to read the response.

68. In principle, we agree 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 stated in SMC 14). However, we are not sure what the IPSASB intended to propose in relation to disclosures for "items measured at current value at acquisition". We note the following.

    (a) There seems to be an inconsistency within SMC 14. The main question in the SMC asks about disclosure requirements for "items measured using the current value model *at acquisition*". However, the sentence that follows this question refers to "*non-recurring items* measured using the current value model". The proposed disclosure requirements for "non-recurring items measured using the current value model" in Appendix E of ED 77 and in ED 78 relate to items that are measured at fair value or COV *after initial recognition*. Therefore, the proposed disclosure requirements for "non-recurring items measured using the current value model" do not relate to "items measured using the current value model at acquisition".

    (b) SMC 14 asks whether the disclosure requirements for "items remeasured under the current value model at each reporting date" should be more detailed than "items measured using the current value model at acquisition". This implies that some disclosures are being proposed for items measured at current value at initial recognition. However, the EDs do not seem to propose any specific disclosure requirements for such items (other than retaining the existing requirements in IPSAS 31 to disclose the fair value of intangible assets acquired in non-exchange transactions, and the requirements in IPSAS 33 around 'deemed cost'). As noted above, based on the current drafting of the EDs, the proposed disclosures in ED 77 and ED 78 for non-recurring fair value or COV measurements would *not* apply to items measured at fair value or COV *on initial recognition*.

(c) We think that some disclosures on items recognised initially at fair value or COV could be useful in the year when the item is first recognised (but it seems that such disclosures are not being proposed). We agree that such disclosures need not be as detailed as those required for items that are measured at fair value or COV after initial recognition. If the IPSASB intended the proposed disclosure requirements for non-recurring current value measurements to apply to items recognised at current value *on initial recognition*, we would recommend clarifying this in the proposed requirements. Alternatively, we would recommend adding disclosure requirements for items measured at current value on initial recognition, noting that it would be important to take materiality into account when developing such requirements.

69. We explain our response in more detail in the paragraphs that follow.

Response to the main question in SMC 14

70. ~~We generally~~ In principle, we 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 the 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). 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.~~

Our understanding: proposed disclosure requirements do not seem to apply to items measured at current value on initial recognition

71. 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 an item of property, plant and equipment but has had to impair it to fair value less costs to sell in the current period.

72. 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 <u>non-recurring basis in the statement of financial position *after initial recognition*</u>, 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. <u>To meet the objectives in paragraph 89A</u>, 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 <u>after initial recognition</u>:
>
> [*Specific fair value disclosure requirements follow this paragraph in IPSAS 16.*]

73. Similar disclosure requirements are included in the proposed amendments to a number of standards.[5] 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*.

74. 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.

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[5] See 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*.

75. 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.

Recommendations

76. If our understanding explained above 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 disclosed, it would be important to ensure that the costs do not outweigh the benefits of the disclosures. Please refer to our response to SMC 15.

77. 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

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.

78. We disagree with the proposal to require disclosure of inputs to the fair value hierarchy for most assets. 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, we consider that the costs of providing these disclosures would~~may~~ outweigh the benefits. Further explanation is included in the paragraphs below.

The rationale for the proposals

79. This paragraph sets out our understanding of the IPSASB's rationale for the proposals. 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.

80. Despite understanding that rationale, we disagree with the impact of the proposals on non-financial assets.

Implications for non-financial assets

81. ~~However, we note that~~ The disclosure proposals 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* require that entities ~~include a general requirement to~~ disclose "the method and significant assumptions applied" in determining the fair value of the respective asset~~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.

82. ~~However, t~~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 than these current requirements. For example, they include specific requirements to quantify Level 3 inputs and to provide disclosures about the sensitivity of these inputs.

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

84. We note that property, plant and equipment is the most commonly held type of non-financial asset among public sector entity. We also note that specialised assets, as well as assets that are not often traded, are prevalent in the public sector. Such assets are likely to be measured using unobservable inputs. Taking heritage assets as an example, the uniqueness of those assets can mean that there are no comparable inputs for valuation. The valuation models can be unique and detailed. The notes describing the inputs would also tend to be unique and detailed. The proposals would impose costs on both preparers and users (due to the increased volume of information being disclosed). Therefore, the more extensive and more detailed ~~proposed~~ disclosures ~~requirements~~ about unobservable inputs would ~~is~~ likely ~~to~~ have a significant impact on many public sector entities.

Costs and benefits

85. 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,~~ W~~w~~e think that the costs and benefits of ~~the related~~ disclosure requirements in the public sector context merit separate consideration from recognition and measurement requirements. We are concerned that, in the public sector, the costs ~~of providing these disclosures~~ of providing information about unique and detailed valuation models would~~may not~~ outweigh the benefits.

86. 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 the respective EDs. ~~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.~~

Guidance on materiality judgements

87. 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".

88. 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.

Editorial comment on terminology

89. 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

IPSAS 23 – Assets acquired through non-exchange transactions

90. 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. <u>Appendix A of [draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on measuring assets at fair value.</u>**

91. 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

[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?

92. We have not commented on SMC 1.

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

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

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

93. 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.

94. 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’.

95. 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 then deducting 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 is commonly ~~has been~~ used in New Zealand to measure the improvements. However, this overall measurement has still been regarded as fair value (as per extant IPSAS).

96. ED 78 refers to making the accounting policy choice by class of assets, and land and buildings could be separate asset classes. In c~~C~~onsidering the application of the proposals to land and buildings we think it would be~~is~~ possible for an entity to decide~~argue~~ that it is holding land for financial capacity but improvements for operational capacity. For example, this could occur if an entity has an operational building on a high-value inner city site or expects the value of land to increase over the next few years. If the IPSASB did not intend a mixed measurement to be possible, we think the standards would need to be clearer that this is not possible. ~~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.~~

97. 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.

98. 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.

99. 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

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.

100. We have not commented on SMC 3.

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

Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

101. We have not commented on SMC 4.

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

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. Do you agree that such disclosure should be limited to heritage items? If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

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

102. We agree with SMC 5 that disclosures for assets that cannot be measured reliably be limited to heritage items. As explained in our response to this SMC, we support the proposed disclosure in ED 78 paragraph 80(b) but suggest alternative wording for paragraph 80(a). We propose the deletion of paragraph 81. For ease of reference we have shown ED 78 paragraphs 80, 81 and AG20 below. Our response discusses possible changes to these paragraphs.

Extract from ED 78

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) 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.

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

…

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG20. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 7. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 7 to determine whether or not it meets the recognition principle and should be recognized as an asset.

103. 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[6] has great historical significance.

104. 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).

105. 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.

106. 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
(ED 78, paragraphs 72 and 81)

107. ED 78 proposes to clarify (in paragraph AG20) that subsequent expenditure on heritage assets may meet the requirements for separate recognition as an asset, despite the original heritage asset to which it relates not having been recognised. We support this clarification and agree, as proposed in ED 78 paragraph 81, that the disclosure requirements in the standard should apply to all classes of assets including those relating to subsequent expenditure on unrecognised heritage assets. However, paragraph 81 is the first time that subsequent expenditures on unrecognised assets are mentioned in ED 78. Without the explanation in paragraph AG20 readers may think that paragraph 81 is referring to the

[6] The Treaty of Waitangi is New Zealand's founding document.

unrecognised heritage asset as well as the subsequent expenditure. ~~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.~~

108. There are a few ways of avoiding this confusion, all of which involve deleting paragraph 81. The first option would be to delete paragraph 81 without adding any further explanation in paragraph 72 or AG20. The disclosure requirements in standards apply to all classes of assets unless they are specifically excluded from that requirement. However, if the IPSASB wants to highlight the need to apply the general disclosure requirements to all classes of recognised assets, including subsequent expenditure on heritage assets, it could include a statement to this effect in paragraph A20 or modify paragraph 72. ~~Whilst we agree that paragraphs 7273 could be applied to subsequent expenditure, we recommend that paragraph72 be to accommodate the unrecognised heritage assets as follows:~~

> 72. The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements, (including any class of assets ~~or~~ for ~~the~~ subsequent expenditure o~~f~~n unrecognised heritage assets):
>
> (a) …

~~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

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 (ED 78, paragraphs IG6 and IG7)

109. We welcome the inclusion of additional ~~disagree with the implementation~~ guidance on assessing control of heritage assets (in paragraphs IG6 and IG7) and have some comments on the proposed guidance. ~~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)

110. 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.

111. 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.

112. 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.

113. We also support the use of the terminology "parties" in paragraph IG7 as this includes indigenous groups such as Māori iwi[7] and individuals.

Effect of storage on control status (paragraph IG8)

114. 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.

[7] The term iwi often refers to a large group of people descended from a common ancestor and associated with a distinct territory.

ED 78 SMC 7: IG for infrastructure assets

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

Costs relating to road infrastructure

115. 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.

116. 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.

117. 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

118. 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.

119. 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.

120. 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.

121. 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.

122. 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

123. We note that certain directly attributable costs are set out in ED 78 paragraph 16(a)–(f). However, we think the application guidance could have a fuller description of other directly attributable costs. For example, a 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…".*

Other comments on ED 78

Paragraph 67

124. The first sentence in ED 78 paragraph 67 differs from IPSAS 17 paragraph 83A (see blue shading below). We do not understand why the word 'ordinary' was omitted from the first sentence in paragraph 67 and request that the IPSASB confirms that this change was intentional.

IPSAS 17	**ED 78**
Derecognition 82. **The carrying amount of an item of property, plant, and equipment shall be derecognized:** (a) **On disposal; or** (b) **When no future economic benefits or service potential is expected from its use or disposal.**	**Derecognition** 65. **The carrying amount of an item of property, plant, and equipment shall be derecognized:** (a) **On disposal; or** (b) **When no future economic benefits or service potential is expected from its use or disposal.**

IPSAS 17	ED 78
83. **The gain or loss arising …** 83A. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9, *Revenue from Exchange Transactions*.	66. **The gain or loss arising …** 67. However, an entity that, in the course of its activities, routinely provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The amount of consideration from the disposal of such assets shall be recognized as revenue in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. [Draft] IPSAS [X] (ED 79) does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories[10].

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

ED 79 SMC: Additional disclosure

> The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes.
>
> The additional proposed disclosure is shown at paragraph 52 of this ED.
>
> Do you agree with this disclosure proposal? If not, why not?

New Zealand context

125. 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

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

127. 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.

128. 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.

129. 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.

130. 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.

131. 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

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

132. 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.

133. 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

134. 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.

135. 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

136. 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

137. 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.

138. 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)

139. 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 IPSAS 16 paragraph 13(a) to refer ~~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.

Agenda Item 4.1

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Jamie Cattell and Nicola Hankinson
Subject:	**Tier 3 and Tier 4 PIR**

Purpose

1. The purpose of this item is to progress the Board's thinking on its response to issues raised in the Simple Format Reporting Standards Post implementation Review (PIR). This item deals with some topics on which the Board has agreed to consider standard-setting activity.

2. The recommendations are set out in each issues paper.

3. In addition to these issues papers, we are continuing to progress development of the simplified Tier 4 Standard. We have set up a targeted working group to review this draft Standard and are due to receive feedback in the week commencing 11 October 2021. We will provide the Board with a verbal update on this feedback at the meeting.

Attachments

Agenda item 4.2: Issues paper: Accumulated funds

Agenda item 4.3: Issues paper: Opting up

Agenda item 4.4: Issues paper: Statement of service performance

Agenda item 4.5: Issues paper: Draft grant and donation revenue recognition requirements

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Date:	8 October 2021
To:	NZASB Members
From:	Jamie Cattell and Nicola Hankinson
Subject:	**Accumulated funds in the Tier 3 Standard**

Introduction and Recommendations[1]

1. At its June 2021 meeting the Board agreed on the high-level approach in response to issues raised through the Simple Format Reporting Standards Post-implementation Review (PIR). One of the areas the Board agreed to consider standard-setting activity for was accumulated funds in the Tier 3 Standard.[2]

2. Specifically the Board agreed to consider how to improve the disclosure requirements for accumulated funds and reserves in order to improve transparency about how entities manage their accumulated funds. It also agreed to consider how the terminology used in the requirements could more appropriately reflect the not-for-profit context.

3. The Board is asked to
   (a) NOTE the PIR feedback which relates to the disclosure of accumulated funds in the Tier 3 Standard;
   (b) CONSIDER staff recommendations to address the issues raised; and
   (c) provide DIRECTION on the development of proposed amendments to the Tier 3 Standard in response to issues highlighted.

Structure of this memo

4. The remaining sections in this memo are:
   (a) Current requirements in the Tier 3 Standard;
   (b) PIR feedback;
   (c) Analysis of PIR feedback;
   (d) Review of other approaches to accumulated funds disclosure; and
   (e) Staff recommendations in responding to concerns raised.

Current requirements in the Tier 3 Standard

5. The public sector and not-for-profit versions of the Tier 3 Standard are virtually identical in relation to the requirements which apply to accounting for accumulated funds and reserves.

[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)*.

6. In the Tier 3 Standard the term "accumulated funds" is used in place of "equity". However, it has functionally the same definition. The Tier 3 Standard defines accumulated funds as follows.

> **Accumulated funds**
>
> The owners' or members' financial interest in the entity. It comprises capital contributed by owners or members, accumulated surpluses or deficits, and reserves. It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.[3]

7. The Tier 3 Standard requires that entities aggregate accumulated funds into categories and present them separately on the statement of financial position. It specifies and defines three categories which must, at a minimum, be presented separately (see paragraphs A139–A143 below).

> A139. In order to make information understandable to users, accumulated funds shall be aggregated and presented separately in categories. As a minimum, the following aggregated categories shall be reported separately:
>
> (a) Capital contributed by owners or members (if any);
>
> (b) Accumulated surpluses or deficits; and
>
> (c) Reserves.
>
> A140. Contributions from owners means contributions to the entity by external parties that establish a financial interest in the equity of the entity, which:
>
> (a) Conveys to owners the entitlement to:
>
> (i) Distributions by the entity during its life; and/or
>
> (ii) Distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
>
> (b) Gives the owner or member a voice in the management of the entity as an owner; and/or
>
> (c) Can be sold, exchanged, transferred, or redeemed.
>
> A141. A contribution from owners (see paragraph A53 for a further discussion) may, but does not necessarily need to, be evidenced by a formal ownership document, such as a share certificate.
>
> A142. Accumulated surpluses or deficits are the total of all the surpluses and deficits from the commencement of the entity, excluding returns of capital or other distributions paid to owners/members in their capacity as owners/members (if any), and amounts transferred to other reserves.
>
> A143. Reserves are of two types:
>
> (a) Restricted reserves which may be used only for a particular purpose (the restriction). The restriction may apply to the use of revenue from the funds such as interest received, or to changes to the capital fund, or to both. To be a restricted reserve the restriction must be set by an external party, for example:
>
> (i) The express wishes of a donor (including in relation to endowment funds);
>
> (ii) A specific purpose agreed with a donor; or
>
> (iii) The terms of a fundraising appeal.

[3] This definition comes from the glossary in the Tier 3 Standard.

> (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as a decision of the entity so that it sets aside resources for a particular purpose. A feature of this type of reserves is that they may be transferred back to accumulated surpluses or deficits whenever the entity chooses.

8. The general approach to accounting for each category of accumulated funds is set out in the following paragraphs of the Tier 3 Standard.

> A146. Contributed funds shall be recorded at the amount contributed by, less any contributed capital returned to, owners/members.
>
> A147. Accumulated surpluses or deficits shall be recorded at the opening balance plus the current period's surplus or deficit from the statement of financial performance, less distributions paid to owners/members, less amounts transferred to reserves, plus amounts transferred from reserves.
>
> A148. Reserves shall be recorded at the opening balance of the reserve for the period plus transfers to/from accumulated surpluses or deficits. The amount of the transfer should be equal to the amount of any revenue or expenses relating to the purpose of the reserve that were recorded in the statement of financial performance and therefore included in the current period's surplus or deficit.

9. In addition to the requirements included above, paragraph A196 of the Tier 3 Standard also requires disclosure of changes in accumulated funds in the notes to the performance report.

> A196. The notes to the performance report shall include an explanation of the movements between the opening and closing balances of all categories of Accumulated Funds. An entity shall also disclose the nature and purpose of each reserve.

PIR feedback

10. Some respondents to the PIR commented on the need for additional guidance and/or requirements on reporting of accumulated funds. The views expressed included the following.

    (a) Not-for-profit entities should be required to provide more narrative description on their accumulation strategy, including the intended purposes of any accumulations, and any restrictions in place on their reserves.

    (b) More guidance is needed on the circumstances in which it is appropriate to create a restricted reserve and how these reserves should be disclosed.

    (c) In the limited number of cases where entities create restricted reserves, the disclosures do not generally describe the purpose of the reserve or the relevant restrictions on it very well.

    (d) Reserve reporting requirements should capture both the accounting treatment as part of accumulated funds and the disclosure of an organisation's reserve policies.

    (e) Small NFPs are struggling to attract funding and a key driver of this is misinterpretation of performance reports by funders. The assumption is that a high accumulated funds balance or apparent cash in the bank means an entity does not need more funding. More robust requirements and greater clarity on the nature and purpose of accumulated funds would help address this.

(f) The current requirements for accumulated funds provide an unnecessary amount of detail on the nominal value while not providing enough focus on the narrative description.

(g) There is widespread misunderstanding about the difference between an "accounting reserve" and an "operating reserve". More guidance is needed to clarify the distinction between these two concepts.

(h) The use of the terms "owners" and "capital contributions" in the Tier 3 Standard is inappropriate and often creates confusion. These terms should be removed or changed to more appropriate terminology.

11. Some of these comments appear to have overlooked the existing requirement to disclose nature and purpose of reserves in paragraph A196. In addition, we think some of the desire for more information about accumulated funds is actually to avoid misunderstandings about the composition of accumulated funds (and the impact of current revenue recognition practices on this). We consider that there is a close relationship between revenue recognition and this issue and have taken this into account in our recommendations later in this paper.

Analysis of PIR feedback

12. The PIR feedback highlights two main issues to consider regarding the requirements for accumulated funds in the Tier 3 Standard. Issue 1 considers the comments in paragraph 9(a)-(g) and Issue 2 considers the comment in paragraph 9(h).

Issue 1: Should the Tier 3 Standard:

(a) require additional narrative disclosures of the entity's policy or plans for managing its accumulated funds? If so, what should be the extent of these additional disclosures?; and

(b) include additional guidance on establishing different types of equity reserves?

Issue 2: Should the terminology in the Tier 3 Standard related to accumulated funds (ie owners and capital contributions) be changed to more understandable terminology? What should this terminology be?

13. For issue 1, we agree that there is scope to improve the disclosures related to accumulated funds by introducing additional disclosure requirements into the Tier 3 Standard. While we note that the Tier 3 Standard does already require disclosure of the nature and purpose of each reserve, based on the feedback received it appears that these requirements are not resulting in sufficient disclosures in practice.

14. For issue 2, we agree that minor changes to terminology in the Tier 3 Standard could be made to aid in understanding. Staff recommendations for issue 2 begin on page 8 of this memo.

Review of other approaches to accumulated funds disclosures

15. In addition to reviewing the feedback received from respondents, we also considered the requirements relating to accumulated funds in comparable standards or frameworks where the objective is to provide simplified requirements for smaller entities and/or not-for-profit focused reporting requirements. We looked at the *IFRS for SMEs* Standard and the Charities SORP[4] (applicable to charities in the UK and Republic of Ireland). We did not consider the CA ANZ *Special Purpose Reporting Framework* in any detail as, despite requiring the presentation of a statement of changes in equity, it does not appear to contemplate the use of reserves outside of asset revaluation.

16. On this topic there is significant divergence between the Charities SORP and IFRS for SMEs. The Charities SORP follows a fund accounting approach which requires separation of a charity's funds into unrestricted and restricted funds. As a for-profit framework, IFRS for SMEs does not make such a distinction and is instead more concerned with classes of shares issued by the entity. However, both the Charities SORP and IFRS for SMEs require the nature and purpose of any reserves created by the entity to be disclosed to some extent. The requirements in the Charities SORP and IFRS for SMEs are summarised in Appendix A of this memo.

IFR4NPO Project

17. We also thought it may be helpful to bring to the Board's attention, the alternatives outlined in the Consultation Paper (CP)[5] released in early 2021 by the *International Financial Reporting for Non-Profit Organisations* (IFR4NPO) project. This project aims to develop internationally recognised financial reporting guidance for non-profit organisations (NPOs) to improve the transparency, consistency, comparability, credibility and reliability of NPO financial statements.

18. The CP specifically considers the disclosures related to accumulated funds as part of Section 5: *Presentation, content and scope of financial reports.* The three alternatives set out in Section 5 use IFRS for SMEs as a base, with additional disclosures included in alternatives 2 and 3, both of which would require fund accounting. An important point to highlight is that all three alternatives being considered include disclosure of the entity's policy for the management of reserves on the basis that this could improve transparency.[6]

19. Detail on each alternative has been included in Appendix B of this memo.

Update on the review of the Charities Act 2005

20. One of the key issues being considered as part of the review of the Charities Act 2005 is the accumulation of funds by registered charities. In early October 2021 the Department of

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[4] *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).

[5] *IFR4NPO Consultation Paper* released January 2021 is available here*:* IFR4NPO_consultation_paper.pdf.

[6] Under alternative 1, disclosure of an entity's policy for managing reserves would be recommended while under alternatives 2 and 3 it would be mandatory.

Internal Affairs confirmed that it will be making a recommendation to the Minister on this issue.

21. The Department will recommend that Tier 1, 2, and 3 charities be required, in the annual return, to report the purposes for which their accumulated funds are being held. The Department's view is that this proposal will introduce minimal compliance burden and consist only of a short, high-level narrative description based on an entity's existing plans.

Issue 1: Additional disclosures of accumulated funds

22. As noted above, the Tier 3 standard currently requires that an entity reconcile the opening and closing balances of all components of accumulated funds. It also requires disclosure of the nature and purpose of any <u>reserves created</u> by the entity.

23. The Tier 3 Standard does not, however, require any narrative disclosures about <u>accumulated funds</u> in general. It also does not specify any circumstances in which an entity is required to establish a specific reserve.

24. The PIR feedback reflects a strong preference among respondents for the Tier 3 Standard to include additional requirements and guidance related to accumulated funds to:

    (a) provide greater transparency over entities' general approach and rationale for retaining funds; and

    (b) more clearly separate the amounts of accumulated funds which may be freely applied by the entity from those which are subject to some form of restriction or condition.

25. At its June meeting the Board agreed to consider alternative revenue recognition approaches which will allow greater flexibility to defer revenue in the Tier 3 Standard. We consider that there is a close relationship between revenue recognition and point (b) above and have taken this into account in identifying and selecting options to address issue 1.

26. Staff have identified the following options.

Option	**Advantages**	**Disadvantages**
1. No change – Retain current requirements.	• Allows entities to retain current practice. • Current requirements are simple to apply and provide the entity with the flexibility to establish different reserves within accumulated funds if it so chooses.	• **Will not** address concerns related to transparency over entities' general approach and rationale for retaining funds. • **Will not** address feedback regarding separation of restricted and unrestricted funds where an entity does not create a reserve. • Inconsistent with changes being recommended as part of the review of the Charities Act 2005.

Option	**Advantages**	**Disadvantages**
2. Introduce **a requirement** for the entity to disclose its general approach to managing its accumulated funds and its longer term plans.	• **Will allow** entities to retain current practice in relation to reserves • **Will address** concerns related to transparency over entities' general approach and rationale for retaining funds. • Changes would be simple to explain to Tier 3 preparers. • Likely to be consistent with changes being recommended as part of the review of the Charities Act 2005.	• **Will not** address feedback regarding separation of restricted and unrestricted funds *where an entity does not create a reserve*. • Introduces a change to the existing requirements that will need to be explained and applied.
3. Introduce: (a) **a requirement** to disclose the entity's general approach to managing its accumulated funds; and (b) additional guidance on the circumstances in which an entity may **choose** to create a reserve (whether restricted or unrestricted).	• **Will allow** entities to retain current practice in relation to reserves. • **Will address** feedback related to transparency over entities' general approach and rationale for retaining funds. • **May partially address** feedback regarding separating the restricted and unrestricted accumulated funds. • Changes to requirements would be simple to explain to preparers. • Likely to be consistent with changes being recommended as part of the review of the Charities Act 2005.	• **May not** address the desire from some for the separation of restricted and unrestricted funds because this will remain a optional disclosure. • Introduces a change to the existing requirements that will need to be explained and applied. • May reduce comparability across entities due to different choices about whether or not to create a reserve.
4. Introduce: (a) **a requirement to** disclose the entity's general approach to accumulating funds and its longer term plans; and (b) **a requirement to** create a separate reserve for restricted funds when there is an expectation or restriction over their use.[7] (and for which revenue recognition is not deferred).	• **Will address** feedback related to transparency over entities' general approach and rationale for retaining funds. • **Will address** feedback regarding separating the restricted amounts of accumulated funds from those that are unrestricted.	• Introduces changes to the existing requirements that will need to be explained and applied. • Additional requirements will make the Tier 3 Standard more complex and time consuming to apply. • May be seen as too prescriptive. • More onerous than the recommended changes as part of the review of the Charities Act 2005.

[7] This would only apply in cases in which the expectation or restriction is insufficient to defer revenue recognition. The complete population of transactions to which this would apply depends on the Board's final decision on revenue recognition.

<u>Staff recommendation – Additional disclosures of accumulated funds</u>

27. In response to concerns raised by respondents, we support developing amendments to the Tier 3 Standard based on **Option 3**. This option will provide greater transparency about the rationale and intended purposes of funds being retained in the entity. It will also provide more guidance in relation to creating and maintaining reserves without introducing an additional requirement.

28. While this option may not fully address all concerns raised by respondents, we consider it appropriately balances the need for increased transparency over accumulated funds against the cost of preparing the information.

29. In reaching this conclusion, we are also mindful of the Board's response on the issue of revenue recognition in the Tier 3 Standard. Specifically, the Board's intention to consider permitting deferral of revenue in a wider set of circumstances. We consider that changes to revenue recognition and more widespread recognition of deferred revenue as liabilities could reduce the need to create reserves as a means of identifying funds intended for a particular purpose.

30. We also want to emphasise that we do not envision extensive disclosures of the entity's general approach to accumulating funds. Our intention is that, in practice, these disclosures will consist of a short paragraph explaining an entity's plans for its accumulated funds and highlighting specific important projects to which it intends to apply them.

31. Our view is that taking this approach is most appropriate in light of the recommended changes arising from the review of the Charities Act 2005. Requiring a simple narrative disclosure of this nature and providing additional guidance on reserves will retain consistency with the information in Charities Services' annual return while also clarifying the current requirements.

Question for the Board
Q1. Does the Board agree with the staff recommendation to develop amendments to the Tier 3 Standard based on Option 3? If not, what option does the Board prefer?

Issue 2: Terminology related to accumulated funds

32. Although only one respondent raised concerns about terminology, several respondents raised general concerns about the understanding of the concepts related to accumulated funds.

33. One of the terminology concerns, was a concern that the term "owner" is inappropriate in a not-for-profit context. We do not accept that using this term is always inappropriate in a not-for-profit context as many registered charities and other not-for-profits are structured as companies that do have "owners" in the sense implied in the Tier 3 Standard.

34. However, as most not-for-profits are structured as trusts or incorporated societies rather than companies, we do not consider that "owners" should be the primary term used in the Tier 3 Standard. We also consider that using alternative terminology would be more helpful to readers.

Staff recommendation – terminology

35. We recommend the requirements Tier 3 Standard be re-expressed to:

    (a) include terminology specific to trusts (for example "trustee", "settlor", and "beneficiary"); and

    (b) reduce the prominence of the term "owners" and focus more on the NFP context for holding accumulated funds and the circumstances in which capital distributions would arise .

36. If the Board agrees with this general direction, we would bring proposed drafting to a future meeting.

Questions for the Board

Q2. Does the Board agree with the staff recommendation to include terminology specific to trusts in the Tier 3 Standard?

Q3. Does the Board agree with the staff recommendation re-express the requirements in the Tier 3 Standard to more appropriately reflect the not-for-profit context?

Q4. Does the Board have any other feedback on the proposed response to concerns raised with accumulated funds?

Next steps

37. Based on Board FEEDBACK and DIRECTION staff will develop amendments to the Tier 3 Standard and examples for consideration at a future meeting.

Appendix A – Review of comparable reporting frameworks

This Appendix summarises the accumulated fund requirements in the *IFRS for SMEs* and the UK Charities SORP.

	Recognition and Measurement	Presentation and Disclosure
IFRS for SMEs	2.22 Equity is the residual of recognised assets minus recognised liabilities. It may be subclassified in the statement of financial position. For example, in a corporate entity, subclassifications may include funds contributed by shareholders, retained earnings and items of other comprehensive income recognised as a separate component of equity. ***This Standard does not prescribe how, when or if amounts can be transferred between components of equity.***	4.12 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes: (a) for each class of share capital: (i) the number of shares authorised. (ii) the number of shares issued and fully paid, and issued but not fully paid. (iii) par value per share or that the shares have no par value. (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods. (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital. (vi) shares in the entity held by the entity or by its subsidiaries or associates. (vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts. (b) a description of each reserve within equity. 4.13 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 4.12(a), showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity. … Entities are also required to present a statement of changes in equity unless the only changes to equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. In this case entities may choose to instead present a *statement of income*

	Recognition and Measurement	Presentation and Disclosure
		and retained earnings which requires the following to be presented in the income statement/statement of comprehensive income: (a) retained earnings at the beginning of the reporting period; (b) dividends declared and paid or payable during the period; (c) restatements of retained earnings for corrections of prior period errors; (d) restatements of retained earnings for changes in accounting policy; and (e) retained earnings at the end of the reporting period.
Charities SORP	The Charities SORP section 2 deals with fund accounting by charities. The requirement to apply fund accounting is not found in FRS 102 (on which the SORP is based). Rather, the requirements in the SORP reflect the requirements of charity law and current accounting practice. In the SORP, funds are separated into “unrestricted funds” and “restricted funds” which are defined as follows. **Unrestricted Funds** 2.6 Unrestricted funds are spent or applied at the discretion of the trustees to further any of the charity’s purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project. 2.7. Trustees may choose during the reporting period to set aside a part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. This is because the designation has an administrative purpose only and does not legally restrict the trustees’ discretion in how to apply the unrestricted funds that they have earmarked. Identifying designated funds may be helpful when explaining the charity’s reserve policy and the level of reserves it holds.	Being based on fund accounting principles, the statement of financial activities (equivalent to the statement of financial performance) in the SORP is disaggregated into unrestricted funds, restricted funds, and endowment funds. There are also specific disclosures which apply to each of the funds held. These are included below. 2.28. This SORP requires that the notes to the accounts must provide information on material individual fund balances, movements in the reporting period and the purposes for which the funds are held. The notes must differentiate unrestricted funds (both general and designated), restricted income funds, permanently endowed funds and expendable endowments. 2.29. In particular, this SORP requires that notes to the accounts must disclose: • a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet; • details of the purposes and trust law restrictions imposed on each material individual fund; • details of the movements on material individual funds in the reporting period, reconciling the opening and closing fund balance (small funds with similar purposes may be aggregated);

	Recognition and Measurement	Presentation and Disclosure
	<u>**Restricted Funds**</u> 2.8. Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity. … 2.11. Restricted funds fall into one of two sub-classes: ***restricted income funds or endowment funds***. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity, which is to further one or more but not all of the charity's charitable purposes. Alternatively the restricted fund may be an endowment. Trust law requires a charity to invest the assets of an endowment, or retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income.	• details of the reasons for any material transfers between different classes of funds; • where endowment has been converted to income, details of the amount(s) converted and the legal power for its conversion; • where the trustees have a power to invest permanent endowment on a total return basis, the details of the movements in the value of unapplied total return for the reporting period (refer to the SORP module 'Total return (investments)'); and • details of the planned use of any material designated funds, explaining the purpose of the designation.

Appendix B – IFR4NPO Consultation Paper: Presentation of financial statements alternatives

The IFR4NPO CP (2021) considered three alternative approaches to setting the requirements related to the presentation, content, and scope of financial reports. The CP explores the advantages and disadvantages of each approach, but the CP does not settle on a preferred approach – instead respondents were asked to identify the alternative treatment they favoured.

All of the alternatives include disclosure of the entity's policy for the management of reserves on the basis that this could improve transparency

Alternative 1: retain the requirements in the international standards (IFRS Standards, the IFRS for SMEs Standard and IPSAS) unchanged and provide supplementary guidance. This guidance could include how additional information would be included in the financial statements when this is relevant for stakeholders. This could involve disclosures on restricted funds.

Alternative 2: is built on the IFRS for SMEs Standard and draws on guidance from national standards, specifically the use of fund accounting. The use of fund accounting would require, as a minimum, that income is split between restricted and unrestricted income on the face of the income statement. It could also result in additional disclosure on the face of the statement of financial position or in the notes to the financial statements.

Alternative 3: builds on alternative 2 and adds a new requirement to provide supplementary donor or project statements for material funds or projects. This supplementary information could be part of the financial statements or form part of the notes to the accounts and could be on a cash or accrual basis. This goes beyond existing requirements globally and has the potential to meet the reporting needs of major donors.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Jamie Cattell and Nicola Hankinson
Subject:	**Opting Up**

Recommendations[1]

1. At its June 2021 meeting the Board agreed on the high-level approach in response to issues raised through the Simple Format Reporting Standards Post-implementation Review (PIR). The Board agreed to consider standard-setting activity for opting up requirements in the Tier 3 Standard[2] which allows an entity to opt up the PBE Standards for specific transactions or balances.[3]

2. The Board is asked to:

   (a) NOTE the PIR feedback which relates to these requirements;

   (b) CONSIDER staff recommendations to address the issues raised; and

   (c) Provide DIRECTION on the development of proposed amendments to the Tier 3 Standard in response to these matters.

Structure of this memo

3. The remaining sections in this memo are:

   (a) Current requirements in the Tier 3 Standard;

   (b) Post-implementation review feedback;

   (c) Analysis of post-implementation review feedback; and

   (d) Staff recommendations.

Current requirements in the Tier 3 Standard.

4. The public sector and not-for-profit versions of the Tier 3 Standard are virtually identical in relation to the requirements which allow an entity to opt up.

5. The requirements which apply to opting up in the Tier 3 NFP Standard are set out below.

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

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

3 Hereafter referred to simply as “opt up” or “opting up”

Application of PBE Standards

7. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements to a specific type of transaction, as long as it applies that option to all transactions of that type. For example, an entity may decide to opt up to PBE IPSAS 17 *Property, Plant and Equipment* for a class of assets, such as buildings, so that it can revalue that class of assets, or 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).

8. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity shall disclose this in the statement of accounting policies.

9. If, for a specific type of transaction, an entity elects to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements instead of applying the requirements in this Standard, the entity cannot then choose to return to applying this Standard for that type of transaction unless the entity complies with the requirements of this Standard for changes in accounting policies (see paragraphs A181–A182).

…

Specific Accounting Policies

…

A180. Where an entity has elected to apply the requirements of a PBE Standard that is part of the Tier 2 PBE Accounting Requirements in place of a requirement of this Standard (see paragraphs 7–9), the PBE Standard applied shall be disclosed.

Post-implementation review feedback

6. Respondents to the PIR that commented on opting up made two points.[4]
   (a) The ability to opt up to the Tier 1 and 2 PBE Standards for specific transactions or balances is helpful and should be retained in the Tier 3 Standard.
   (b) Many entities do not understand the requirements for opting up and there is a need for more guidance on what this means in practice, particularly for the more common opting up situations.

7. The most common reason entities choose to opt up is to revalue (i) property, plant and equipment, (ii) investment properties and (iii) financial investments. The difficulties entities face generally fall into one of two categories.
   (a) Entities may be unsure about which PBE Standard to apply. This was particularly relevant for financial instruments.
   (b) Entities do not understand what to do if the relevant PBE Standard requires revaluation movements to be recognised in other comprehensive income.

[4] Five respondents of the 65 in total commented on opting up.

Analysis of post-implementation review feedback

8. Based on the feedback received it appears that respondents would like more guidance on what opting up means. In particular they would like guidance that tells them:

   (a) which PBE Standard(s) applies to specific opting up situations; and

   (b) how to account for situations where a PBE Standard requires that a surplus or deficit be recognised in other comprehensive income.

9. This raises the following issues for consideration.

> **Issue 1:** Should we provide additional guidance which explicitly states the applicable PBE Standard for situations in which an entity may choose to opt up? If so:
>
> (a) Should the guidance be included in the Tier 3 Standard or as other guidance?
>
> (b) Which situations should be covered by the guidance?
>
> **Issue 2:** Should the Tier 3 Standard specify how to account for situations where PBE Standards requires a movement to be recognised in other comprehensive income? If so, how should the Tier 3 entities account for that surplus or deficit?

10. At its August 2021 meeting the Board considered whether to introduce alternative valuation options into the Tier 3 Standard for property, plant and equipment, investment property, and financial investments. The Board agreed in principle to:

    (a) amend the Tier 3 Standard to introduce simple alternative valuation options for these assets; and

    (b) to recognise revaluation gains directly in accumulated funds as a separate revaluation reserve.

11. These principles have been taken into account in developing the staff recommendations below.

Issue 1: More guidance on which PBE Standard(s) to apply when opting up

12. We agree that it would be helpful to provide additional guidance which explicitly states the applicable PBE Standard in situations where a Tier 3 entity may choose to opt up. If the Board decides to include some revaluation options in the Tier 3 Standard,[5] this would reduce the number of instances in which Tier 3 entities opt up. However, there will still be other situations where an entity needs to opt up (for example, for biological assets and consolidation).

13. Further, we do not expect that any revaluation options added to the Tier 3 Standard would be exhaustive. Entities that wish to access the full range of revaluation treatments available in PBE Standards would still need to opt up.

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[5] The Board has agreed that it would like staff to draft proposals to allow for the revaluation of assets within the Tier 3 Standard.

Should the guidance be included in the Tier 3 Standard or as other guidance?

14. The main advantage of including additional guidance in the Tier 3 Standard is that this would keep the guidance in the main document that preparers use and make it easier for them to find.

15. However, there could also be disadvantages with including additional opting up guidance in the Tier 3 Standard. They are as follows.
    (a) More frequent amendments to the Tier 3 Standard may be required as PBE Standards are updated or replaced.
    (b) It will be more difficult to update the guidance as each change will require approval by the NZASB.
    (c) Overall it will make the Tier 3 Standard longer and more complex.

16. Overall, our view is that it would be better to put any additional guidance on opting up in a document other than the Tier 3 Standard.

Which situations should be covered by the guidance?

17. We do not think it would be appropriate to try to cover all circumstances in which an entity may want to opt up, nor was this requested by respondents to the PIR.

18. A possible starting point could be to focus on those transactions and balances on which PIR respondents raised issues. If we took this approach, we could consider providing guidance on the following topics.
    (a) Property, plant and equipment
    (b) Financial instruments
    (c) Investment property
    (d) Biological assets
    (e) Intangible assets
    (f) Non-exchange revenue
    (g) Consolidation

19. This list could be expanded over time as additional issues and queries arise.

Staff recommendation – Issue 1

20. We recommend additional guidance on opting up be developed and located outside the Tier 3 Standard. We recommend that it covers the transactions and balances in paragraph 18 above.

Questions for the Board

Q1. Does the Board agree with the staff recommendation in response to issue 1 above?

Q2. Are there any other transactions or balances the Board thinks this guidance should initially cover?

Issue 2: Additional guidance on OCI

21. The Tier 3 Standard does not explain how entities opting up should deal with other comprehensive income. Therefore preparers that opt up do not know how to account for other comprehensive income.

22. Our view is that the Tier 3 Standard should explain how to account for other comprehensive income, at least at a high level.

<u>How should OCI be accounted for in the Tier 3 Standard?</u>

23. The Board has already agreed in principle to introduce some revaluation options into the Tier 3 Standard for property, plant and equipment, investment property, and financial investments. It also agreed that revaluation gains on these assets should be recognised *directly in accumulated funds* as a *separate revaluation reserve* rather than introducing the concept of other comprehensive income, or another analogous concept, into the Tier 3 Standard.

24. Our view is that this type of treatment would be appropriate for all situations in which a Tier 3 entity opts up and PBE Standards require that an amount be taken through other comprehensive income.

25. We consider aligning the treatment of other comprehensive income by Tier 3 entities for all situations to be appropriate for the following reasons.

    (a) It ensures consistency of presentation if an entity applies the revaluation option in the Tier 3 Standard but also opts up for another reason.

    (b) It ensures that the treatment of other comprehensive income is consistent across different classes of assets. Not aligning may result in similar transactions being presented differently based solely on whether an entity has opted up.

    (c) It is a simple approach which Tier 3 preparers should find easy to understand.

    (d) It also avoids making significant changes to the structure of the statement of financial performance which will help retain comparability across entities.

Staff recommendation – Issue 2

26. We recommend developing the following amendments to the Tier 3 Standard.

    (a) If a Tier 3 entity elects to apply PBE Standards for a specific transaction instead of applying the requirements in the Tier 3 Standard and the PBE Standards require the effect of that transaction to be recognised in other comprehensive income, the entity shall instead:

        (i) recognise the effect of that transaction directly in accumulated funds; and

        (ii) present the cumulative effect of similar transactions as a separate reserve within accumulated funds.

Question for the Board

Q3. Does the Board agree with the staff recommendation in response to Issue 2 above? If not, what alternative approach would you prefer?

Next steps

27. Based on Board FEEDBACK and DIRECTION staff will develop amendments to the Tier 3 Standard and examples for consideration at a future meeting.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Nicola Hankinson
Subject:	**Proposed amendments to the Statement of Service Performance requirements**

Purpose and introduction

1. The purpose of this session is to seek feedback on the proposed amendments to the Statement of Service Performance (SSP) requirements in the Tier 3 and 4 Standards.

Recommendations

2. The Board is asked to PROVIDE FEEDBACK on the proposed amendments to the SSP requirements in the Tier 3 and 4 Standards, and in particular the proposals to re-express these requirements to remove the terms "outcomes" and "outputs".

Background

3. At the June meeting the Board considered feedback on the Post-implementation Review and agreed to consider standard-setting activity in relation to the SSP requirements.

4. The Board noted that the SSP requirements in the Tier 3 and 4 Standards were developed before PBE FRS 48 *Service Performance Reporting* (PBE FRS 48). There was general agreement that it would be sensible to re-express the requirements for Tier 3 and 4 entities so that they were more in line with those included in PBE FRS 48. Doing so would address the majority of the issues raised by respondents to the Post-implementation Review, which centred around the difficulty in understanding what is meant by the terms "outcomes" and "outputs".

Structure of this memo

5. The remaining sections in this memo are:

   (a) Summary of feedback received;

   (b) PBE FRS 48 requirements;

   (c) Proposed amendments; and

   (d) Proposed public sector amendments.

Summary of feedback received

6. As noted in the Feedback Statement, many respondents commented that they find the objectives and requirements of the SSP difficult to understand.

7. In particular it was noted that the requirement to report on "outputs" and "outcomes" was causing confusion among PBEs, as the terms were difficult to understand and apply and were considered to be too prescriptive. Appendix B includes extracts from the June 2021 Board

meeting papers summarising the feedback received as part of the Post-implementation Review in relation to the SSP requirements. One respondent suggested that the Board consider aligning the Tier 3 and 4 Standards with PBE FRS 48 (see comment below).

> **Extract from a submission on the Tier 3 Simple Format Reporting Standard**
>
> Since the Tier 3 and 4 Standards were issued PBE FRS 48 on service performance reporting has been issued for tier 1 and 2 entities. FRS-48 has taken a broader view of service performance and uses straightforward language (e.g. paragraph 15) and does not explicitly require the use of an outcomes and outputs framework. The NZASB's decisions to remove the use of the terms outcomes and outputs from FRS-48 are explained in the basis for conclusions (BC26 to BC28). We suggest that the SSP requirements of the tier 3 and 4 standards be reviewed to see if they can be more aligned with the high-level principles in FRS-48.

8. At the June Board meeting the Board discussed a proposal to remove the requirements to report "outputs" from the Tier 4 Standards, and "outputs" and "outcomes" from the Tier 3 Standards in order to simplify the requirements and terminology used and align more closely with the principles-based requirements of PBE FRS 48. Instead the existing requirements would be retained but re-expressed using language from PBE FRS 48.

9. Doing so would retain requirements to report on service performance in the Tier 3 and 4 Standards but would address respondents' concerns about the difficulty of understanding and applying these specific concepts.

PBE FRS 48 requirements

10. When PBE FRSB 48 was being developed the Board became aware that there was no single accepted set of terms for aspects of service performance and that multiple frameworks are used to describe service performance. In particular the Board noted that the word "impact" is used in different ways by different people. As such, the requirements in PBE FRS 48 were drafted to avoid the use of specific terms such as "outputs", "outcomes" and "impacts".

11. Appendix A to this memo sets out extracts from PBE FRS 48 showing the key requirements and the Basis for Conclusions paragraphs that relate to these requirements.

Proposed amendments

Tier 3 Standards

12. As outlined above, we recommend that the Board proposes to remove the requirements to report on "outcomes" and "outputs" but retain the requirements to report on what entities set out to achieve over the longer term and what they have achieved during the reporting period. We also propose removing the optional information from the Standards and including this in the guidance and templates.

13. We are seeking feedback on the following proposed wording for the Tier 3 NFP Standard.

Section 4: Statement of Service Performance

Purpose and Value to Users

A39. The purpose of the statement of service performance is to provide ~~mainly non-financial~~ information to help users understand what the entity did during the reporting period to achieve its broader aims and objectives.

Required Information

A40. The statement of service performance ~~reporting~~ provides information about:

(a) ~~Outcomes:~~ Information about what the entity is seeking to achieve over the medium to long term ~~in terms of its impact on society~~ (i.e. its 'objectives'); and

(b) ~~Outputs: the goods or services that the entity delivered during the year~~ Information about the significant activities the entity has undertaken during the reporting period to achieve its objectives.

A41. The statement of service performance should:

(a) Describe ~~the outcome(s) that~~ what the entity is seeking to achieve ~~or influence the of its goods or services~~ over the medium to long term. ~~The outcomes are~~ This information is likely to be closely related to the mission/purpose reported in the entity information section of the performance report. The main difference is that the mission/purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the ~~description of the outcomes~~ information in the statement of service performance should be more specific and focused on what the entity is seeking to achieve over the medium to long term.

(b) Describe, and quantify to the extent practicable, ~~the outputs (goods or services) the entity has delivered for the current year~~ information about the significant activities the entity has undertaken during the year. This may include for example: the delivery of goods or services; or making grants to individuals or entities.

A42. The statement of service performance need include only information about the activities conducted ~~the outputs~~ that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity has done ~~does~~ in the reporting period.

~~Optional Information~~

~~A43. An entity may wish to report additional information such as:~~

~~(a) Additional output measures:~~

~~(i) Appropriate quality measures of goods or services delivered;~~

~~(ii) A measure of the timeliness of delivery of the entity's goods or services if this is important to the recipient;~~

~~(iii) An allocation of revenue and expenses related to each category of the entity's outputs; and~~

~~(iv) A quantification of the contributions from volunteers in terms of hours or full-time staff equivalents (this figure may be estimated, and shall be noted as such if this is the case).~~

~~(b) Comments on those factors which affect the achievement of the outcomes. This might include the working relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors;~~

~~(c) The entity's plans for the reporting period being reported on, and an explanation of actual performance achieved against the plans set by the entity; and~~

~~(d) Any additional information that is considered to be relevant to users' understanding of the entity's outcome goals, or the delivery of goods or services.~~

~~A44. The way in which the statement of service performance is presented can enhance the user's understanding of the entity. Sometimes a pictorial representation of the entity's achievements during the reporting period presents the story more clearly than words or numbers only.~~

A43. Entities should include additional information that is considered important for the reader's overall understanding of about what the entity is seeking to achieve and significant activities undertaken during the period.

A44. Entities can choose how to report the information provided in the statement of service performance. The Tier 3 template reports provide a generic simple example. An image or infographic showing your entity's activities and achievements during the reporting period is another useful approach to tell your entity's performance story.

Tier 4 Standards

14. We recommend that the Board proposes to remove the requirement to report on "outputs" but retain the requirement to report on what it has achieved during the reporting period. We also propose removing the optional information from the Standards and including this in the guidance and templates.

15. We are seeking feedback on the following proposed wording for the Tier 4 NFP Standard.

Section 4: Statement of Service Performance

Purpose ~~and Value to Users~~

A27. The purpose of the statement of service performance is to provide ~~mainly non-financial~~ information to help users understand what the entity did during the reporting period to achieve its broader aims and objectives.

A28. The statement of service performance provides information about:

(a) what the entity is seeking to achieve over the medium to long term (i.e. its 'objectives'); and

(b) the significant activities the entity has undertaken during the reporting period to achieve its objectives.

~~A29. The statement of service performance shall report the entity's outputs, but may also report the outcomes the entity is seeking to influence (see paragraph A32(a)).~~

~~A30. In reporting the entity's outputs, the statement of service performance shall describe, and quantify to the extent practicable, the outputs (goods or services) the entity has delivered for the current year.~~

A31. The statement of service performance need include only ~~the outputs~~ information about the activities conducted that are significant to the performance of the entity. It is not expected to include a detailed account of everything the entity has done ~~does~~ in the reporting period.

A32. Entities should include additional information that is considered important for the reader's overall understanding of about what the entity is seeking to achieve and significant activities undertaken during the period.

~~**Optional Information**~~

~~A32. An entity may wish to report additional information such as:~~

~~(a) A description of the outcome(s) that the entity is seeking to achieve or influence through the delivery of its goods or services. The outcomes are likely to be closely related to the mission/purpose reported in the entity information section of the performance report. The main difference is that the mission/purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the description of the outcomes in the statement of service performance should be more specific and focused on what the entity is seeking to achieve over the short to medium term.~~

~~(b) Additional output measures:~~

~~(i) Appropriate quality measures of goods or services delivered;~~

~~(ii) A measure of the timeliness of delivery of the entity's goods or services if this is important to the recipient;~~

~~(iii) An allocation of receipts and payments related to each category of the entity's outputs; and~~

~~(iv) A quantification of the contributions from volunteers in terms of hours or full-time staff equivalents (this figure may be estimated, and shall be noted as such if this is the case).~~

~~(c) Comments on those factors which affect the achievement of the outcomes. This might include the relationships between volunteers and employees, decisions to broaden or narrow the delivery of services, or the impact of factors external to the entity – such as economic, legal and geographical factors;~~

~~(d) The entity's plans for the reporting period being reported on, and an explanation of actual performance achieved against the plans set by the entity; and~~

~~(e) Any additional information that is considered to be relevant to users' understanding of the entity's outcome goals or delivery of goods or services.~~

~~A33. The way in which the statement of service performance is presented can enhance users' understanding of the entity. Sometimes a pictorial representation of the entity's achievements during the reporting period presents the story more clearly than words or figures only~~

16. Table 1 below includes a summary of the pros and cons relating to the proposed amendments as well as the pros and cons of retaining the status quo.

Table 1: Pros and cons of amending the Tier 3 and 4 SSP requirements

	Pros	**Cons**
Option 1: No change to SSP requirements	No staff time or Board time required to undertake due process on proposals. No transitional issues. No need to explain changes to preparers and users. No need for other entities (such as Charities Services) to update guidance on the current requirements.	Does not address feedback received. Tier 3 and 4 SSP requirements not in line with Tier 1 and 2 requirements.

	Pros	**Cons**
Option 2: Rephrase the SSP requirements in response to feedback received	Addresses feedback received from preparers. Tier 3 and 4 SSP requirements would be more in line with Tier 1 and 2 requirements.	Need to change standards, guidance and templates. Need to communicate changes to preparers, regulators and users. Staff time in drafting guidance to assist preparers in understanding the updated requirements, including illustrative examples based on a range of performance measures.

17. The staff recommendation is to include the proposed amendments in the Tier 3 and 4 Exposure Drafts to seek feedback from constituents.

Proposed public sector amendments

18. The Tier 3 Public Sector Standard includes paragraphs A42 and A43 which modify the scope of the SSP requirements. Paragraph A42 specifies that only public sector entities required by legislation to prepare an SSP are required to do so in accordance with the Tier 3 Standard. Staff propose retaining this paragraph but clarifying it as suggested by a respondent.

19. The respondent noted that:

> This paragraph needs to be amended to be clear that this part of the Tier 3 [and 4] standard only applies to entities that are required by legislation to provide a SSP in accordance with generally accepted accounting practice (GAAP) or non-GAAP standard. This will then align with practice and the scope of PBE FRS-48 where Tier 1 and 2 public sector PBEs only apply PBE FRS-48 if legislation requires the service performance information to comply with GAAP.
>
> We note that we are not currently aware of any public sector tier 4 entities that are required to produce a statement of service performance. However, we see no harm in retaining the service performance requirements in the tier 4 standard as this will future proof the standard for any future changes in reporting requirements. Note Reserve Boards previously were required to produce a statement of service performance, but this requirement was removed by the Public Finance Amendment Act 2013.

20. It is proposed that the words "in accordance with generally accepted accounting practice" be included in paragraph A42 as follows.

Requirement to Complete a Statement of Service Performance

A42. Public sector entities which are required by legislation to provide a statement of service performance (by whatever name called including "statement of performance") <u>in accordance with generally accepted accounting practice (GAAP)</u> shall prepare a statement of service performance in accordance with this Standard

21. The Tier 4 Public Sector Standard also includes an additional SSP scope paragraph, A30, which states that only public sector entities required by legislation to provide an SSP are required to prepare an SSP in accordance with the Tier 4 Standard. Given the Tier 4 Standard is a non-GAAP standard and there are currently no entities preparing performance reports using the

Tier 4 Public Sector Standard that are required to prepare an SSP, we do not propose inserting the additional words into the Tier 4 Public Sector Standard.

Questions for the Board

1. Does the Board agree with the proposed re-expression of the SSP requirements for the Tier 3 and 4 Standards?
2. Does the Board agree with the proposed scope clarification in the Tier 3 Public Sector Standard?

Appendix A Extracts from PBE FRS 48

This Appendix contains extracts from PBE FRS 48 and the Basis for Conclusions.

Extracts from the Standard

Service Performance Information

15. **An entity's service performance information shall:**

    (a) **Provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and**

    (b) **Provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a) above.**

16. Paragraph 15 establishes requirements about the service performance information to be reported. Presentation of service performance information is discussed in paragraphs 29 to 35.

17. Paragraph 15(a) requires contextual information about why an entity exists, what it intends to achieve and how it goes about this. This information should be drawn from relevant documents such as founding documents, governance documents, accountability documents and planning documents. For example, a not-for-profit entity would consider documents such as its constitution, trust deed, mission statement (vision, purpose) and its most recent plans and strategies. If an entity uses a performance framework, theory of change or intervention logic at its highest level of management or in the governance of the entity, the contextual information should also draw upon that performance framework, theory of change or intervention logic. For example, a local authority's Long-Term Plan provides a meaningful performance framework for its activities.

18. In providing the contextual information required by paragraph 15(a), an entity shall explain the main ways in which it carries out its service performance activities. For example:

    (a) Delivering goods and services directly to individuals, entities or groups (including members);

    (b) Working together with other entities that share common objectives;

    (c) Contracting with other entities to deliver goods and services on their behalf; or

    (d) Making grants to other individuals or entities.

19. The nature of the information that an entity provides to meet the requirements of paragraph 15(b) will depend on the circumstances of the entity. An entity shall consider all of the following factors in deciding what to report.

    (a) *What it is accountable/responsible for*. Some entities have responsibility for working towards particular improvements in the health, education, welfare and/or social or economic well-being of individuals or a segment of society. For example, a public sector entity may be required to target its resources to reduce disparity in educational achievement between different groups in society. In this case, the entity's service performance information is likely to focus on whether and the extent to which those particular improvements occurred. In other cases, entities are primarily responsible for the delivery of specific types and/or volume of goods or services to a target population, rather than trying to bring about particular improvements in the health, education, welfare and/or social or economic well-being of the recipients of those goods and services. For example, an entity may be required to provide support services to elderly people in a city. In that case, the entity's service performance information is likely to focus on the delivery of the specified goods or services. Even in cases where an entity determines the nature and extent of its service performance itself, it will need to consider the nature of its accountability to funders and service recipients.

    (b) *What it intended to achieve during the reporting period*. The information that an entity provides about its planned performance will be influenced by how much information the entity has previously published about its planned performance. If a not-for-profit entity has identified specific performance goals or targets when obtaining funding from other parties, its service performance information is likely to focus on reporting whether, and/or the extent to which, it met those goals or targets. If a not-for-profit entity has been working towards general service performance objectives for the reporting period (for example, a planned increase in the range or volume of goods or services provided or a planned improvement in the entity's effect on a target population) rather than specific service performance goals or targets, its service performance information is likely to focus on reporting whether, and/or the extent to which, it made progress in relation to those general objectives. Public sector entities are often required to publish information about planned performance in planning documents. In such cases this Standard requires comparisons between actual and planned performance (see paragraph 38A).

(c) *How it went about achieving its service performance objectives.* If an entity delivers goods and services in conjunction with another entity or collaborates with another entity in seeking to achieve its service performance objectives and goals, it needs to consider the most appropriate and meaningful way of reporting on its service performance. If an entity has agreed to deliver goods and services and then contracts with another entity to deliver those goods and services on its behalf, the first entity generally remains accountable for reporting on the delivery of those goods and services. If an entity makes grants to other entities to be used by those entities in delivering goods and services, the entity needs to exercise judgement in deciding whether to report solely on its funding activities or to include information about the goods and services provided by those other entities. In the public sector a department may administer an appropriation used by another department or it may use an appropriation administered by another department. The information a department includes in its service performance information will reflect which department has responsibility for reporting on such appropriations.

(d) *Other factors* relevant to an understanding of its service performance during the period, such as the links between its financial statements and service performance information and/or external social, legal or economic factors (for example, changes in funding levels that affect its service performance).

Performance Measures and/or Descriptions

20. **In reporting on what an entity has done during the reporting period an entity shall provide users with an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period. The performance measures and/or descriptions used by an entity to communicate its service performance may be:**

(a) **Quantitative measures: Examples of quantitative measures are the quantity of goods and services, the cost of goods and services, the time taken to provide goods and services, levels of satisfaction using a rating scale on a questionnaire or survey, and numerical measures for service performance objectives or goals;**

(b) **Qualitative measures: Examples of qualitative measures are descriptors such as compliance or non-compliance with a quality standard, ratings such as high, medium or low, or ratings assigned by experts; or**

(c) **Qualitative descriptions: Examples of qualitative descriptions are those based on participant observations, open-ended questions on interviews and surveys and case studies. For example, how did an entity's service performance activities change the well-being and circumstances of a client group?**

[Paragraphs 21–28 discuss performance measures in more detail]

Appendix A continued…

Extracts from the Basis for Conclusions on PBE FRS 48

BC24. The requirements in the 2016 ED were based on the following three dimensions of service performance.

(a) What did the entity do?

(b) Why did the entity do it?

(c) What impact did the entity have?

BC25. These dimensions were described using the terms outputs, outcomes and impacts. The 2016 ED defined outcomes as the impacts on society or segments of society as a result of the entity's outputs and operations. The 2016 ED proposed that all entities explain the outcomes that they seek to influence, how they consider their outputs contribute to those outcomes, and, where appropriate, what impacts the entity had on those outcomes. It acknowledged a number of factors that could make it difficult for some entities to report on impacts and suggested that reporting on what it referred to as intermediate outcomes could partly address these difficulties.

BC26. Although respondents supported the development of a standard on service performance reporting, the proposed requirements were regarded as too prescriptive and too difficult for a range of entities to apply. Comments from respondents centred around the following issues.

(a) Entities may be subject to a range of other service performance reporting requirements, including legislative requirements. Entities should be able to comply with both the proposed standard and those other requirements without restating or duplicating information.

(b) Legislative requirements continue to evolve. For example, the terms outputs and outcomes had recently been removed from some legislation.

(c) Differing views about whether the term impacts should be used to describe what an entity is seeking to influence or ultimate outcomes. NFP entities and public sector entities indicated that they used the term impact in differing ways.

(d) The difficulty of attributing changes to an entity's actions, particularly when a number of entities have been working together.

(e) A lack of clarity about when an entity was required to report on impacts.

BC27. A number of respondents suggested changes to the proposals based on the performance frameworks which they were familiar with. These suggestions highlighted that there are a number of performance frameworks being used by PBEs. Common suggestions were to generalise language, use fewer defined terms and develop higher-level requirements.

BC28. The NZASB noted this feedback and agreed that in order to achieve its objective of developing a standard that could be applied by a wide range of entities it needed to focus on high-level principles and express the requirements regarding the information to be reported in more general terms. The NZASB focused on identifying requirements that would provide useful information but which could be applied by any Tier 1 or Tier 2 PBE. This led the NZASB to require that an entity provide users with:

(a) sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and

(b) information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a).

BC29. On the whole, respondents to the limited scope review draft acknowledged why the NZASB had decided to develop a more principles-based standard and expressed their support for the approach taken.

Appendix B Extracts from June 2021 NZASB Agenda Papers summarising feedback on Tier 3 and 4 SSP requirements

<table>
<tr><th colspan="2">Service Performance Reporting</th></tr>
<tr><th>Topic</th><th>Summary of feedback received</th></tr>
<tr><td>Difficulty understanding the objectives and requirements related to the statement of service performance.</td><td>
Accounting Firm 2, Presbyterian Church, Community Foundations NZ, Community Capacity Accounting, NZ Ukulele Trust, Louise Edwards, Accountant roundtable, Charities Services – Commented that in general, they did not consider the requirements applicable to preparing the statement of service performance are well understood. These respondents raised concerns that the lack of understanding among NFPs was reducing the overall quality of information provided in performance reports.
Charities Services noted that entities will frequently report what they spent money on during the period in the statement of service performance rather than reporting their outputs.
These respondents noted that a frequent cause of the misunderstanding is the terminology used in the Tier 3 and Tier 4 standards to describe these requirements. In particular these respondents noted that NFPs do not understand what is meant by the terms “outputs” and “outcomes”.
Some respondents made suggestions about how to improve the requirements including:

making the requirements more open-ended and encouraging more narrative description;
replacement of the “outputs” and “outcomes” terminology with plain-language terms such as “goods and services delivered”; and
making it clear in the standard and guidance that the statement of service performance is asking about what “activities” a charity has undertaken during the period.

Academics roundtable participants noted that with regard to the reporting of outcomes, there will always be an attribution issue among NFPs. That is, it is difficult to know what effect an entities outputs have had on achieving the desired outcome. One participant suggested that it may be more useful to frame the statement of service performance as reporting of a not-for-profits “achievements” and that this may improve understanding of the requirements. It was also noted that the output and outcome focus of the statement of service performance for Tier 3 and Tier 4 entities is now inconsistent with the model established for Tier 1 and Tier 2 entities in PBE FRS 48 Service Performance Reporting and suggested that the Tier 3 and Tier 4 standards should now be aligned with the approach taken in that Standard.
Community Capacity Accounting considered that the XRB was not the appropriate entity to issue service performance reporting requirements for NFPs due to its lack of proximity to the NFP sector and primary role as a financial reporting standard-setter. They considered that responsibility for setting service performance reporting requirements should instead lie with Charities Services.
</td></tr>
</table>

Service Performance Reporting	
Topic	**Summary of feedback received**
Additional guidance on selecting appropriate performance measures.	Respondents Accountants' Roundtable, AGNIU Accounting, CA ANZ and CPA Australia, Charity Integrity Audit, Community Capacity Accounting, Hui E, Louise Edwards, Rata Foundation, and Ruth Sio-Lokam made comments about difficulties NFP entities are having in selecting appropriate, meaningful performance measures. These respondents generally noted that while they considered it appropriate to keep the requirements for the statement of service performance broad, this makes it difficult for some NFPs to understand how to apply them in their specific context. They noted that in practice, this is leading to a "template" approach to preparing statements of service performance and a lack of variety among the measures being used by entities. Some of these respondents also raised concerns that this was leading to entities not considering whether their chosen performance measures are appropriate on an ongoing basis. Academics roundtable participants and Rata Foundation noted that they frequently come across statements of service performance that use performance measures which bear no resemblance to the NFP entity's stated purposes. Rata Foundation also raised a concern that in some cases entities were selecting performance measures in a way which did not provide a balanced view of the entities' performance and instead focused on the measures that provided only a positive view of the entity. CA ANZ and CPA Australia, and AGNIU Accounting noted that many of these entities do not have appropriate systems in place to collect information and that this lack of underlying support makes it difficult for them to know what measures can feasibly be reported on. These respondents generally considered that the XRB should provide more guidance on preparing statements of service performance including: • guidance on determining which performance measures are meaningful; • a wider range of example performance measures which may be relevant for different types of entities; • illustrative examples of statements of service performance; and • the information that may need to be collected to report on different performance measures.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Agenda Item 4.5

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Nicola Hankinson
Subject:	**Tier 3 Grant and donation revenue recognition – proposed wording**

Purpose and introduction

1. The purpose of this session is to seek feedback on the proposed wording for the Tier 3 grant and donation revenue recognition requirements.

Recommendations

2. The Board is asked to PROVIDE FEEDBACK on the proposed wording for the Tier 3 grant and donation revenue recognition requirements, following on from the exploration of recognition approaches at the September meeting.

Background

3. At the September Board meeting the Board asked staff to draft proposed wording to reflect grant and donation revenue recognition requirements based on options 3 and 4 in the issues paper.
   (a) Option 3 — Recognise grant and donation revenue in the same accounting period in which any associated obligations over use are satisfied – when there are expectations over how the transferred resources will be used (but no requirement to assess enforceability).
   (b) Option 4 — Introduce a requirement to recognise grant and donation revenue over the period in which the inflow of resources is used in the delivery of the entity's NFP objectives – i.e., revenue is recognised when matching expenditure is incurred (aka, the "matching principle").

4. Both options would broaden the ability of the Tier 3 entity to defer recognition of revenue as obligations over the use of grants or donations received are satisfied. Respondents to the Tier 3 and Tier 4 post-implementation review highlighted concerns over the restrictive nature of the current Tier 3 grant and donation revenue recognition requirements which focus on the existence of "use or return" conditions.

Structure of this memo

5. The remaining sections in this memo are:
   (a) Current Tier 3 grant and donation revenue recognition requirements;
   (b) Proposed drafting based on options 3;
   (c) Proposed drafting based on option 4;

(d) Analysis; and

(e) Staff view.

Current Tier 3 grant and donation revenue recognition requirements

6. The current Tier 3 recognition requirements for grants and donation revenue are shown below.

A62 Revenue shall be recorded on the occurrence of a recognition event. This is when there is a legal right to receive cash either now or sometime in the future. The timing of the recording of specific revenue types is provided in Table 1.

Table 1: Recording of specific types of revenue

Donations, fundraising and other similar revenue		
…	…	…
Donations and grants with no "use or return" condition attached	Record as revenue when cash received.	Recording as revenue shall not be deferred even if the resources are received in advance of any expense on the activity funded by the donation or grant.
Grants for current operations with no "use or return" condition attached	Record as revenue on receipt.	A grant for current operations might be to help staff a drop-in centre for new mothers, whereas a grant for capital purposes might be to contribute to a new building.
Grants for capital purposes with no "use or return" condition attached	Record as revenue on receipt.	
Grants and donations that have a "use or return" condition attached	On receipt of grant record asset received (generally cash) and a liability. As the conditions are met the liability is reduced and revenue is recorded.	The liability as at balance date reflects the extent to which conditions have not been satisfied.

7. Paragraphs A63 to A66 of the Tier 3 Standard provide further guidance on applying the recognition requirements to revenue with or without "use or return" conditions.

Revenue with and Without Conditions

A63. Revenue from donations, grants and fundraising without "use or return" conditions attached is recorded when the cash or significant assets are received.

A64. Some donations and grants have conditions attached. Sometimes these can be of a general nature, for example to be used for specific purposes by the entity, and the entity is not legally required to return the money if it is not used for that purpose. Other donations and grants can be received on a "use or return" basis, for example when the entity is required to either use the donation/grant as specified by the donor/grantor or return the donation/grant to the donor/grantor.

A65. Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition, shall initially be recorded as a liability until the condition has been met, at which point the revenue shall then be recorded.

A66. For the purposes of this Standard donations or grants with conditions attached, but which are not "use or return" conditions, shall be accounted for in the same way as revenue without conditions (see paragraph A63). In these circumstances entities may elect to keep track of these unconditional but "tagged" donations or grants by establishing a designated reserve within accumulated funds (see paragraph A143). Note, however, that under this approach the donation/grant received is still recorded as revenue and any subsequent spending is recorded as an expense of the entity; the reserve fund is just a vehicle to keep track of the amount of the unused donation/grant.

Proposed drafting based on option 3

8. As outlined in the September paper, under Option 3 grant and donation revenue would be recognised in the same accounting period in which any associated obligations over use are satisfied – when there are expectations over how the transferred resources will be used (but no requirement to assess enforceability).

Proposed Tier 3 revenue recognition requirements

9. Grants or donations shall be recorded when the cash is received.

10. The timing of recording the grant or donation as revenue will depend on the extent to which the donor or funding organisation has expressed an expectation about how the grants or donations should be used by the receiving entity and whether these expectations have been met. The requirements for recording grant and donation revenue with and without expectations is provided in Table 1.

Table 1: Recording grant and donation revenue

Revenue types	When to record revenue
…	…
Grants and donations	
Donations and grants received with no expectations about how the donation or grant funds transferred will be used	Record as revenue immediately when cash is received.
Donations and grants received with expectations about how the donation or grant funds transferred will be used	On receipt of the donation or grant, record the asset received (generally cash) and a liability. As the expectations are met the liability is reduced and revenue is recorded.

11. Donor or funding organisation expectations about how grants or donations should be used include expectations such as capital expenditure (i.e. developing a capital asset such as a building), providing goods or services to third-party beneficiaries, funding general operating costs, and funding the delivery of specific programmes or activities. These expectations should be documented by the provider of the grant or donation.

12. The notes to the performance report should include information to help readers understand how grants and donations recorded as liabilities (i.e. deferred revenue) at balance date are expected to be used and when the entity expects these expectations to be satisfied (i.e. when does the entity expect to spend the grants or donations received in line with the donor or funding organisation expectations?)

Proposed drafting based on option 4

13. As outlined in the September paper, under option 4 grant and donation revenue would be recognised over the period in which the inflow of resources is used in the delivery of the entity's NFP objectives – i.e., revenue is recognised when matching expenditure is incurred (aka, the "matching principle").

Proposed Tier 3 revenue recognition requirements

14. Grants or donations without expectations should be recognised when the cash is received.

15. The timing of recording grants or donations with expectations as revenue will depend on when the grant or donation is spent in line with the donor or funder's expectations.

16. When funds from grants and donations are first received, the receiving entity should record a liability. The liability should be subsequently reduced, and revenue recognised, in the same accounting period in which the funds are spent (i.e. a three-year grant should be recognised over the period in which these funds are spent rather than on a straight-line basis over the three-year period). This spending should be in line with the expectation for which these funds were provided.

17. The notes to the performance report should include information to help readers understand when funds received from grants and donations which are recorded as liabilities (i.e. deferred revenue) at the entity's balance date are expected to be used (i.e. when does the entity expect to spend the grants or donations in line with the donor or funder's expectations?)

Analysis

18. In developing the proposed wording, we have considered below the following matters raised by the Board at the September meeting.

    (a) Auditability — the Tier 3 requirements need to be verifiable. This is particularly important if new concepts such as "specific", "conditions" or "enforceability" are introduced.

    (b) Clarity — the Tier 3 requirements need to be clear and easy to understand and apply.

    (c) User needs — users expressed a desire to tell their performance story, which included recognising revenue in the same period as the related expenditure. Readers of the financial statements want to understand how grants or donations have been spent and whether these have been spent in line with expectations.

    (d) Clarifying the boundary between government grants and payments for services —Board members noted that it would be important to clearly define the scope of the new revenue recognition requirements, given the difference in requirements between grants (for which deferral is currently only permitted where there is a "use or return" condition) and payments for services (which have separate revenue recognition requirements in the Tier 3 Standard).

	Consideration	**Staff comments**
Option 3 – wording from September Issues Paper Introduce a requirement to recognise donation and grant revenue in the same accounting period in which any associated obligations over use are satisfied – when there are <u>expectations</u> over how the transferred resources will be used (but no requirement to assess enforceability). **Proposed requirements** Donor or funding organisation expectations about how grants or donations should be used include expectations such as capital expenditure (i.e. developing a capital asset such as a building), providing goods or services to third-party beneficiaries, funding general operating costs, and funding the delivery of specific programmes or activities. These expectations should be documented by the provider of the grant or donation. The notes to the performance report should include information to help readers understand how grants and donations recorded as liabilities (i.e. deferred revenue) at balance date are expected to be used and when the entity expects these expectations to be satisfied (i.e. when does the entity expect to spend the grants or donations received in line with the donor or funding organisation expectations?) Where there are no expectations over how grant and donation revenue will be used, revenue should be recognised when received.	Auditability	Auditors would be able to request documentation to support donor or funders expectations and assess the degree to which these expectations have been met (i.e. compare against the disclosure in the notes). Doing so is likely to require professional judgement to be exercised. The concept of "expectations" is the introduced in the new requirements, replacing the "use or return" condition. While this concept has not been defined, the proposed amendments require that these expectations need to be documented by the provider in order for the revenue to be deferred.
	Clarity	We consider that these requirements would be reasonably clear for preparers to understand and apply.
	Meeting user needs	User needs are considered to be met by broadening the ability to defer revenue. We consider that preparers would be able to apply these requirements easily, working with their funders and donors to ensure that expectations over the use of funds are documented and that revenue is recognised when these expectations have been met. We also consider that these requirements would address readers desire to better understand the financial position of the entity as well as any future obligations relating to use of grants and donations.

<table>
<tr><th></th><th>Consideration</th><th>Staff comments</th></tr>
<tr><td rowspan="3">Option 4 – wording from September Issues Paper

Introduce a requirement to recognise donation and grant revenue over the period in which the inflow of resources is used in the delivery of the entity’s NFP objectives – i.e., revenue is recognised when matching expenditure is incurred (aka, the “matching principle”).

Proposed requirements

Grants or donations without expectations should be recognised when the cash is received.

The timing of recording grants or donations with expectations as revenue will depend on when the grant or donation is spent in line with the donor or funder’s expectations.

When funds from grants and donations are first received, the receiving entity should record a liability. The liability should be subsequently reduced, and revenue recognised, in the same accounting period in which the funds are spent (i.e. a three-year grant should be recognised over the period in which these funds are spent rather than on a straight-line basis over the three-year period). This spending should be in line with the expectation for which these funds were provided.

The notes to the performance report should include information to help readers understand when funds received from grants and donations which are recorded as liabilities (i.e. deferred revenue) at the entity’s balance date are expected to be used (i.e. when does the entity expect to spend the grants or donations in line with the donor or funder’s expectations?)</td><td>Auditability</td><td>Auditors would be able to request documentation to support the expectations and evidence (from accounting records or bank statements) that funds have been spent in accordance with these expectations.</td></tr>
<tr><td>Clarity</td><td>We consider that these requirements are likely to be clearer for preparers to understand and apply than the draft wording for option 3.</td></tr>
<tr><td>Meeting user needs</td><td>User needs are considered to be met by broadening the ability to defer revenue.

We consider that preparers would be able to apply these requirements relatively easily, working with their funders and donors to ensure that expectations over the use of funds are documented and that expenditure is coded appropriately to allow reporting of expenditure against each significant grant or donation.

We also consider that these requirements would address readers desire to understand the financial position of the entity as well as any future obligations relating to use of funds.</td></tr>
</table>

Government grants vs payments for services

19. If the proposed wording for option 3 or option 4 is adopted, there would no longer be a substantive difference in revenue recognition requirements between government grants and government funding which is a payment for the provision of services. As such, this distinction is not as likely to be as significant an issue for preparers or auditors as it is now.

20. The revenue recognition requirement for grants that are service contracts which have a "use or return" condition is *on receipt of grant record asset received (generally cash) and a liability. As the conditions are met (i.e. services provided) the liability is reduced and revenue is recorded. The liability as at balance date reflects the extent to which obligations under the service contract have not been satisfied.*

21. In substance, it is expected that there would be a similar ability to defer revenue from grants or donations by applying the new requirements as there is for grants that are service contracts.

Staff view

22. Staff consider that the grant and donation revenue recognition requirements that have been drafted based on Options 3 and 4 would result in very similar accounting outcomes.

23. The staff view is that the draft requirements based on Option 4 which allows entities to recognise revenue in line with the related expenditure is slightly clearer and, as such, may be slightly more straightforward for preparers to apply. It is also considered that the requirements based on Option 4 would be easier to verify and, as such, would be easier to verify and more straightforward to audit.

Questions for the Board

1. Does the Board prefer the proposed grant and donation revenue recognition requirements based on Option 3 or Option 4?

2. Does the Board have any additional comments in relation to these requirements?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.1

Memorandum

Date:	8 October 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);
   (b) NOTES the update on outreach and feedback received; and
   (c) AGREES the process for finalising the comment letter.

Background

IASB proposals

2. The IASB is seeking feedback on proposed guidance for developing and drafting disclosure requirements in IFRS Standards and the application of that approach to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. The Board has classified this as a medium priority project.

3. We have repeated Tables 1 and 3 from the August agenda papers as they summarise the proposals, the current requirements in IAS 1 *Presentation of Financial Statements* and the changes the IASB is hoping for.

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).

[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).

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?

August 2021 NZASB meeting

4. At its August meeting the Board provided feedback on a first draft of the comment letter. The draft supported the use of disclosure objectives but raised a number of concerns and suggested that the proposals would not bring about the changes in behaviour that the IASB is seeking. The Board indicated stronger disagreement with the proposals than outlined in the draft.

5. Staff recommended commenting on questions 1–10 which cover the proposed new approach and the application of the new approach to IFRS 13. The Board generally agreed with that recommendation. During the discussion it was suggested that we could consider commenting on the overall disclosure objectives for IAS 19. We have considered this suggestion but found it difficult to form a view on the overall disclosure objectives and therefore propose not to answer any IAS 19 questions.

Principles of Disclosure (2017) – NZASB comments

6. The NZASB commented on the 2017 Discussion Paper.[2] That DP sought feedback about the possibility of developing disclosure principles, a general disclosure standard and disclosure objectives. It also sought feedback on a disclosure objective approach developed by NZASB staff.

7. We have included a summary of the NZASB's comments on the 2017 DP in Appendix A to this memo. A copy of the full submission is available on the XRB website.[3] The IASB considered the feedback on the 2017 DP when developing the current proposals.

Structure of this memo

8. The remaining sections in this memo are:

   (a) Outreach update;

   (b) Other feedback;

   (c) Draft comment letter; and

   (d) Next steps.

Outreach update

9. Table 4 summarises outreach activities and feedback received. The Table indicates the tenor of comments – the comments are not necessarily the views of all present.

Table 4 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.

[2] IASB DP/2017/1 *Disclosure Initiative–Principles of Disclosure*

[3] https://www.xrb.govt.nz/accounting-standards/standards-in-development/submissions-by-the-nzasb/

	➢ 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.[4]
Panel	5 August ➢ Three panellists with differing perspectives (preparer, auditor and regulator) commented on the proposals. ➢ There were over 200 attendees.
RBNZ	10 September ➢ Informal discussion to raise awareness of proposals.
IRD	13 October ➢ Informal discussion with IRD staff scheduled.
Analysts	Various dates ➢ Informal discussions and emails to raise awareness of proposals. ➢ Analysts did not comment specifically on the proposals. Their comments centred more on their need for information to develop models, including good segmental information and separate identification of recurring and non-recurring items. ➢ Re segmental information, one analyst noted that analysts want disclosure of key reporting segments (as the Board would see the segmental information). Commercial sensitivity of information *can* be a legitimate reason for not disclosing information but there needs to be a balance and commercial sensitivity should not be overused as an excuse for not disclosing information.

[4] 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.

	➢ Analysts commented that it is evident from annual reports that some entities think more carefully about analysts' information needs (financial and non-financial) than others. ➢ We also received some comments about the usefulness of non-GAAP measures and the desirability of standard non-GAAP measures in an industry (although we did point out that this project is not dealing with non-GAAP measures).
In addition to the above groups we also reached out to a number of other entities and individuals to make sure they were aware of the proposals and to offer to discuss them. They included INFINZ, Institute of Directors, New Zealand Bankers' Association, New Zealand Shareholders' Association, Responsible Investment Association Australasia, NZ SuperFund, Public Trust, NZ Funds and ACC.[5]	

Other feedback

10. Comments to the NZASB closed on 4 October. We have received some confidential feedback (see agenda item C2.3) and anticipate receiving more between now and the Board meeting. Any additional feedback will be circulated as a late paper.

Draft comment letter

11. We have revised the draft letter to incorporate feedback from the Board in August and to bring in feedback received from others. The changes since August are shown as marked-up text. The draft comment letter notes the Board's overall disagreement with the proposals but still indicates support for disclosure objectives. Table 5 lists the questions in the ED, and indicates which ones we have commented on.

Table 5 Questions in the ED

Proposed Guidance	
Question 1—Using overall disclosure objectives	Response
Question 2—Using specific disclosure objectives and the disclosure problem	Response
Question 3—Increased application of judgement	Response
Question 4—Describing items of information to promote the use of judgement	Response
Question 5—Other comments on the proposed Guidance	Response
Proposed amendments to IFRS 13 *Fair Value Measurement*	
Question 6—Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition	Response
Question 7—Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition	Response
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	Response
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	Combined response for 9 and 10
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	Combined response for 9 and 10

5 Some individuals associated with these organisations are also members of XRAP. We presented to XRAP in May.

Question 11—Other comments on the proposed amendments to IFRS 13	No response
Proposed amendments to IAS 19 *Employee Benefits*	
Question 12—Overall disclosure objective for defined benefit plans	No response
Question 13—Specific disclosure objectives for defined benefit plans	
Question 14—Information to meet the specific disclosure objectives for defined benefit plans	
Question 15—Overall disclosure objective for defined contribution plans	
Question 16—Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control	
Question 17—Disclosures for other types of employee benefit plans	
Question 18—Other comments on the proposed amendments to IAS 19	

12. At the meeting we plan to:

    (a) seek feedback on the draft responses;

    (b) discuss how to incorporate any feedback received after the initial Board mail out;

    (c) seek feedback on the cover letter; and

    (d) confirm the process for finalising the comment letter.

Question for the Board

Q1. Does the Board APPROVE the comment letter (subject to the changes agreed at this meeting and the process agreed for finalising the letter)?

Next steps

13. We will finalise and submit the comment letter in accordance with the process agreed by the Board. We will also make a copy of the comment letter available on the XRB website.

Attachments and related agenda papers

Agenda item 7.2:	Draft comment letter
<u>Supporting papers</u>	*The supporting papers were also included in the April and August agendas.*
Agenda item 7.3:	IASB ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*
Agenda item 7.4:	IASB ED/2021/3 Basis for Conclusions
Agenda item 7.5:	Snapshot IASB ED/2021/3
<u>Consent agenda</u>	
Agenda item C2.3:	Informal feedback on ED
Agenda item C2.4	[Placeholder for further feedback]

Appendix A NZASB Comments on 2017 DP

This Appendix summarises points from the NZASB's comment letter on IASB DP/2017/1 *Disclosure Initiative–Principles of Disclosure* that are relevant to the 2021 ED. The NZASB's 2017 comment letter is available on the XRB website.[6]

Extracts from NZASB comment letter on 2017 Discussion Paper

From cover letter on 2017 DP

As noted in our response in Section 1, we consider that behavioural issues in applying judgement may play a greater role in contributing to the disclosure problem, rather than existing requirements.

However, we think that the development of the NZASB staff's approach would encourage more effective disclosures as a result of:

(a) imposing a greater level of discipline on the IASB to ensure each disclosure requirement is linked to a disclosure subobjective. The need to provide clear disclosure subobjectives should focus the IASB's attention on:

   (i) the purpose of each disclosure requirement; and

   (ii) whether disclosure requirements contribute to meeting that purpose; and

(b) encouraging preparers to apply judgement through the use of less prescriptive wording and the inclusion of paragraphs emphasising the use of judgement.

We also believe that this approach will help drive a positive change in behaviour from wider stakeholders, which will give preparers greater confidence to exercise judgement.

….

As noted in our response to question 4, we believe that greater emphasis on materiality is needed when drafting disclosure requirements. However, care needs to be taken when doing so. In particular, to avoid similar problems as currently arises with the drafting in IFRS 12, we do not believe that referencing materiality in specific disclosure requirements is helpful. Materiality is a pervasive concept and it confuses preparers if it is explicitly mentioned in some places in a standard but not others. Hence, we recommend providing greater emphasis on materiality in a manner that reinforces materiality as a pervasive concept, e.g. by including a general paragraph in each standard reminding entities to apply materiality or with appropriate cross-references to the relevant parts of IAS 1 (or its replacement).

From responses to 2017 DP questions

Q1(a) The disclosure problem

- Agreed with the IASB's description of the disclosure problem.
- Referred to issues identified in a 2014 FMA report on a disclosure forum.

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[6] https://www.xrb.govt.nz/accounting-standards/standards-in-development/submissions-by-the-nzasb/

Q1(b) Disclosure principles

- Agreed that the development of disclosure *principles* would help address the disclosure problem.
- Behavioural issues in applying judgement play a significant role in the disclosure problem. *Some* stakeholders view financial statements as a compliance document.
- Noted that many NZ entities have already taken steps to improve disclosure effectiveness.

Q2 Other issues?

- Need for guidance on making judgements on materiality in relation to *disclosures*.
- What about disclosure principles for financial statements made available in *digital* format?
- Expressed support for 2015 Accountancy Europe CORE & MORE approach (being a core report plus other more detailed reports).

Q3 Principles of Effective Communication

- Proposed principles are largely common sense but could be helpful.
- Proposed principles are similar to those identified in a 2014 FMA report.
- Principles should be non-mandatory guidance, possibly in a general disclosure standard.

Q11–13 Centralised disclosure objectives

- Agreed that the IASB should develop centralised disclosure objectives.
- Did not express a preference for either of the two possible methods for developing centralised disclosure objectives (one method was based around elements of financial statements and the other was based on cash flows).
- Open to the idea of putting all disclosure requirements in one disclosure standard.

Q14 NZASB staff approach to developing disclosure requirements

- Supported the development of disclosure objectives and subobjectives when drafting disclosure requirements in IFRS Standards (see summary of the proposed approach and the NZASB's comments below).
- Supported having an overall disclosure objective for each standard that is based on the objective of financial statements.
- Subobjectives would need to clearly explain why users need particular types of information.
- Strongly supported the inclusion of paragraphs to emphasise the use of judgement (in each standard).
- Supported the use of less prescriptive language in disclosure requirements – some think that "shall" implies that materiality does not apply.
- Expressed the view that behavioural issues in applying judgement are possibly the biggest contributor to the disclosure problem. Disclosure objectives could encourage more effective disclosures. The IASB should consider the NZASB staff's approach in its Standards-level Review of Disclosures project.
- The way the IASB currently drafts disclosure requirements in IFRS Standards has contributed to the disclosure problem.
- [In relation to a comment about IFRS 12] Materiality is a pervasive concept and it confuses preparers if it is explicitly mentioned in some places in a standard.

Summary of NZASB staff approach set out in 2017 DP

Section 8 of the 2017 Discussion Paper set out an NZASB staff approach to drafting disclosure requirements in IFRS Standards. The main features of the NZASB staff's approach (2017) were:

(a) the inclusion of disclosure objectives, comprising an overall disclosure objective for each Standard and more specific disclosure subobjectives for each type of information required to meet that overall disclosure objective;

(b) the division of disclosure requirements into two tiers, with the amount of information to be disclosed depending on the relative importance of an item or transaction to the reporting entity and the extent of judgement required in accounting for the item or transaction. The two tiers were:

    (i) summary information, intended to provide users with an overall picture of the effect of the item or transaction. All entities would be required to disclose this information, subject only to materiality considerations (tier 1 disclosures); and

    (ii) additional information, which an entity would consider disclosing if that information is necessary to meet the overall disclosure objective in the Standard (tier 2 disclosures).

(c) greater emphasis on the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives; and

(d) less prescriptive wording in disclosure requirements.

[date 2021]

Mr Andreas Barckow
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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.

Note to the Board

This is the first time that the Board has considered the draft cover letter. Changes to other sections of the comment letter since the August NZASB meeting are shown as marked-up text.

We appreciate the IASB's ongoing efforts to bring about improvements in financial reporting by addressing aspects of the disclosure problem. When we commented on the 2017 Discussion Paper *Disclosure Initiative—Principles of Disclosure*, we agreed with the description of the disclosure problem and its causes. At that time we expressed the view that behavioural issues in applying judgement play a larger part in contributing to the disclosure problem than a lack of guidance or the actual requirements in IFRS® Standards. Despite this, we indicated support for the idea of developing overall and specific disclosure objectives in individual standards.

Recent efforts to address the disclosure problem include the development of IFRS Practice Statement 2 *Making Materiality Judgements,* publication of the *Better Communication Case Studies* and amendments to various standards. We believe that all of these projects have contributed to addressing aspects of the disclosure problem.

The current proposals reflect the IASB's view that there continues to be a disclosure problem and that further action is required to change behaviour.

Although we support the objective of the current project and aspects of the proposals, our overall view is that the current proposals will not bring about the desired behavioural changes.

Aspects of the proposals that we support include early engagement with users, better justification of disclosure requirements and explanations of how information will be used. We think that these initiatives will support informed debate during the development of disclosure requirements, including considering the risk of disclosure overload in standards. We think that more widespread use of overall and specific disclosure objectives would be useful both in developing and applying disclosure requirements. They could contribute to the debate when developing disclosure requirements, assist preparers in making materiality judgements and play a useful role in discussions between preparers, auditors and regulators.

However, we do not support the proposals to shift the current relationship between disclosure objectives and items of information to be disclosed, nor do we support the proposed language to be used when identifying items of information.

We have heard that aspects of the disclosure problem (both disclosing too little and disclosing too much) are also observed in New Zealand. However, we have also heard that some entities take the opportunity to maximise the value of their financial statements to investors, and are able to do so while applying current standards. We therefore remain of the view that behavioural issues in applying judgement play a larger part in contributing to the disclosure problem than a lack of guidance or the actual requirements in IFRS® Standards. Entities that currently take a considered and thoughtful approach to disclosures and document judgements about disclosure would most likely take the same approach to any new requirements. Those that treat disclosure as a compliance exercise (whether disclosing too much or too little) would most likely continue with that approach.

Given that we do not support key aspects of the proposals, we have reflected on what else the IASB could do to bring about the desired behavioural changes.

We think that it is useful to have both disclosure objectives and specific disclosure requirements in standards, along with a materiality overlay. When all these components are in place, a disclosure objective can usefully provide an explanation for why certain items of information are required and what the standard setter was trying to achieve when establishing those requirements. In reflecting on the way forward we think that ongoing education and awareness, along with celebrating good practice, will continue to be important in improving disclosures.

Ongoing education (such as webinars, webcasts and articles), about the requirements in standards and the practical application of those requirements could help maintain interest in effective disclosure. For example, we have received feedback that the 2014 amendments to IAS 1 *Presentation of Financial Statements* encouraged entities to review their note disclosures and had a positive impact. *Disclosure Initiative* (Amendments to IAS 1) issued in December 2014 clarified that (i) materiality applies to the whole of the financial statements and that the presence of immaterial information can reduce the usefulness of financial disclosures and (ii) an entity should use professional judgement to determine where and in what order information is presented in the notes.

It could be helpful to reiterate the messages from this and other disclosure initiative projects. Informal interviews with entities about how they have applied disclosure requirements or reviewed disclosures could also maintain interest in this topic.

We have one final point that we would like to make in this letter but which is not reflected in our more detailed comments. In New Zealand we have an Accounting Standards Framework which establishes two tiers of requirements for for-profit entities with legislative requirements to report in accordance with GAAP. Tier 1 (NZ IFRS) incorporates all the requirements in IFRS Standards, including all disclosure requirements. Tier 2 (NZ IFRS RDR) has reduced disclosure requirements, which in the most part are identified by means of asterisks beside the Tier 1 disclosure requirements.

In commenting on these proposals we have considered how they would be applied by Tier 1 entities. We are also aware of, and monitoring, the IASB's work on subsidiaries without public accountability, which could offer an alternative way of establishing disclosure requirements for Tier 2 entities. We intend to look at other possible ways of establishing Tier 2 disclosure requirements once that project has been completed. We are therefore interested in both of the IASB's active disclosure projects but note that the two sets of proposals reflect quite different approaches – the ED *Subsidiaries without Public Accountability: Disclosures* does not use disclosure objectives. We are interested in how these two sets of requirements will interact and whether a consistent approach to both sets of disclosure requirements is a possibility.

Our responses to the questions are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact staff (Joanne.Scott@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Note to the Board
Background information for each question is set out first, followed by the draft response.
Changes since August are shown as marked-up text.

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 contains the proposed guidance paragraphs DG5–DG7, the proposed overall objectives for IFRS 13 and IAS 19, and the current disclosure objectives in 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*

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*

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(a)

1. Our responses to Questions 1–5 should be read in the light of our comments in our cover letter in which we support aspects of the proposals, but express the view that the current proposals will not bring about the desired behavioural changes and disagree with the proposals to shift the current relationship between disclosure objectives and items of information to be disclosed. Our responses to Questions 1–5 should also be read together.

2. ~~We support a number of aspects of the proposals, including the use of overall disclosure objectives in individual standards.~~ We agree that overall disclosure objectives, along with the process of developing objectives, can be useful. Overall disclosure objectives can 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. However, overall disclosure objectives have their limitations. They state the main purpose of the disclosures in a standard but, by their nature, they do not help preparers in deciding which individual items of information to disclose. As explained below, we do not agree with the proposal to use the word "shall" in overall disclosure objectives and consider that the current proposals would extend the role of overall disclosure objectives beyond what is appropriate. ~~, 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.~~

3. Paragraph DG6 explains ~~We understand~~ that the intention of the proposed overall disclosure objectives is to require that entities consider whether they have to provide additional information that is not directly required by the specific disclosure objectives in a standard. ~~bring the existing requirement in p~~Paragraph 31 of IAS 1 *Presentation of Financial Statements* already requires that entities~~(to~~ consider whether ~~to provide~~ additional disclosures are required~~) into each standard, and to stress the importance of that requirement~~. The overall disclosure objectives would therefore seem to be bringing an existing requirement in IAS 1 into individual standards. As outlined in our response to Question 4, we are not averse to the materiality requirements in IAS 1 being referred to, or repeated, in all standards but consider that the requirements in IAS 1 are already quite clear. ~~We support that intention.~~

4. ~~However, w~~We read the proposals as going further than stressing the need to consider additional disclosure ~~this~~ and creating an absolute requirement for an entity to consider whether it has satisfied user needs. This could place an unreasonably heavy burden on preparers. It could also lead to situations where preparers, auditors and regulators hold differing views about the information required to satisfy overall objectives. 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.[1] 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, a~~As worded, we think the proposed overall disclosure objectives would create a requirement for an entity to meet all user needs, rather than those

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[1] One of the objectives of this project is to help stakeholders improve the usefulness of disclosures in the notes for the primary users of financial statements (paragraph BC11). As explained in the Conceptual Framework (paragraph 1.5) primary users include existing and potential investors, lenders and other creditors. However, the discussion of how the IASB proposes to seek feedback from users appears to focus on investors (paragraph BC36). This description of how the IASB will seek to obtain feedback may have been indicative, but, going forward, we think that there should be explicit consideration of the needs of all primary users.

user needs that are collectively regarded as appropriate and necessary in GPFR.

5. User needs can change over time. Times of crisis (such as the global financial crisis in 2008 and the current pandemic) can highlight deficiencies in existing information or lead to calls for different information. Users may not know what information they would find useful in such situations until after the event has happened. 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. Given the potential changes in user needs over time, we disagree with prescriptive language in overall disclosure objectives.

6. We think that some ~~the~~ existing disclosure objectives, such as that in IFRS 7 *Financial Instruments: Disclosures*, play~~s~~ a useful role without the use of such prescriptive language.

7. To conclude our response to Question 1(a), we ~~would~~ support more widespread ~~the~~ use of overall disclosure objectives in standards, but we do not support ~~using~~ the prescriptive language proposed in those objectives.

Draft response to Question 1(b)

8. We have partially addressed Question 1(b) in our response to 1(a). Although we support more widespread ~~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.**

Extract from IFRS 3 *Business Combinations*

Examples of existing specific disclosure objectives

59 **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:**

(a) during the current reporting period; or

(b) after the end of the reporting period but before the financial statements are authorised for issue.

60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64–B66.

61 **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.**

62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.

63 If the specific disclosures required by this and other NZ IFRSs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Draft response to Question 2(a)

9. We note that specific disclosure objectives are already used in a number of IFRS Standards and ~~We~~ support the proposal for more widespread ~~to~~ use of specific disclosure objectives. ~~,~~ We also support the proposals to explain how users would use certain information~~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, as discussed in Question 3, we disagree with the combined package of proposals which would require assessments of compliance against specific disclosure objectives.

10. Although we agree that specific disclosure objectives serve a useful role we do not think that more widespread use of specific ~~However, the inclusion of detailed~~ disclosure objectives will bring about the desired changes in behaviour~~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.

11. 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, particularly the use of explanations about how users would use certain information could encourage a more thoughtful approach to disclosure by some entities. ~~help, but~~ However, 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.

12. We are not proposing an alternative approach. We think that it is useful to have both disclosure objectives and specific disclosure requirements in standards, along with a materiality overlay. When all these components are in place a disclosure objective can usefully provide an explanation for why certain items of information are required and what the standard setter was trying to achieve when establishing those requirements. ~~However, we think that any amendments to standards should be regarded as part of an ongoing process.~~ In reflecting on the way forward ~~W~~we think that ongoing education and awareness, along with celebrating good practice, will continue to be~~play~~ important ~~roles~~ in improving disclosures.

Draft response to Question 2(b)

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

14. Taken as a whole, we do not agree with the proposed approach. Our main areas of disagreement are with the proposals to ~~As indicated in Question 1 we have concerns about the~~ use ~~of~~ prescriptive language in overall disclosure objectives and use less prescriptive language when referring to items of information. As indicated in our responses to Questions 1 and 2 we support the use of overall and specific disclosure objectives, but not in the way proposed in the ED. ~~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.~~

15. Our reasons for disagreeing with the proposed approach are outlined in our responses to Questions 3(b) to (e). In brief, we do not think that the proposals will lead to the desired changes in behaviour, and we have concerns about enforceability and cost.

Draft response to Question 3(b) and 3(c)

16. ~~We agree that adding disclosure objectives to standards could~~ Overall we do not consider that the proposals will have a significant effect on the checklist approach because they would not change the factors ~~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~~. Adding more disclosure objectives to standards could encourage a more thoughtful approach to disclosure by some, but 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.

17. Factors that could lead to entities continuing to adopt a checklist approach to disclosures (and possibly disclosing too much irrelevant information) include the following. ~~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 about items of information.

18. The description of the disclosure problem also includes entities that do not disclose enough relevant information. We have heard that this aspect of the disclosure problem can also be observed in New Zealand. Such entities may cite concerns about commercial sensitivity and the cost of preparing and auditing information. The more widespread use of specific disclosure objectives could be helpful if auditors or regulators consider that important information has been omitted, but we do not think that the proposed approach will encourage entities to disclose more information.

19. 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.

Draft response to Question 3(d)

20. 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.

21. 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 including such additional information in standards ~~it~~ will necessarily lead to entities and others making the same judgements.

22. 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, and 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.

Draft response to Question 3(e)

23. 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.

24. We have flagged some possible additional costs that entities might incur. An increased emphasis on judgement~~s~~ 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.

25. 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

The following table contains extracts from IAS 1, examples of the 'non-mandatory wording in the ED, and extracts from the Basis for Conclusions on the ED.

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.

Extract from Basis for Conclusions on ED

Disclosure requirements that promote the use of judgement

BC19 Paragraphs DG8–DG10 of the proposed Guidance summarise how the Board proposes to use specific disclosure objectives to describe the detailed needs of users of financial statements and require entities to disclose all material information needed to meet those information needs. The Board's approach is intended to:

(a) provide entities with a sound basis for making materiality judgements. By enabling entities to understand the user needs that disclosed information satisfies, they will be better equipped to assess which information is material; and

(b) require entities to apply judgement to achieve compliance with disclosure requirements. Entities will be required to satisfy disclosure objectives and, therefore, be required to assess whether the user needs described in the specific disclosure objectives have been satisfied.

BC20 The proposed approach is intended to help entities shift the focus from applying disclosure requirements like a checklist to considering whether disclosure objectives have been satisfied. The approach does this by using prescriptive language to require entities to comply with overall and specific disclosure objectives, while typically using less prescriptive language when referring to items of information to meet the specific disclosure objectives (items of information).

BC21 The Board considered the following ways to describe the items of information using less prescriptive language:

(a) 'to meet the disclosure objective in paragraph [x], an entity shall consider disclosing…';

(b) 'to meet the disclosure objective in paragraph [x], an entity will normally disclose…'; and

(c) 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]…'.

BC22 In deciding which language to propose, the Board considered which formulation would be most effective in signalling to entities the need to apply judgement and shift the focus away from applying disclosure requirements like a checklist.

BC23 Some Board members support the language 'an entity shall consider disclosing…' because, in their view:

(a) applying this language, entities would need to assess compliance with disclosure requirements and make materiality judgements at the level of the specific disclosure objectives.

(b) the disclosure of items of information identified using this language would not be mandatory. Instead, the inclusion of those items of information in the Standards would help entities to apply judgement about whether specific disclosure objectives have been met.

(c) this language would help address concerns about information that would be provided to users of financial statements applying the other language options considered, and about the enforceability of those other language options.

BC24 However, the Board decided not to take this approach because:

(a) some Board members thought the language 'an entity shall consider disclosing' would not help entities to avoid applying disclosure requirements like a checklist because it would place a compliance burden on entities. That is, to comply with such proposals, an entity would need to demonstrate that it had considered each item of information regardless of whether that item was ultimately disclosed. Similar to the stakeholder feedback described in paragraphs BC5–BC6, it may be easier for entities to disclose each item of information than to justify why any item is not disclosed. Therefore, this approach is unlikely to be effective in addressing the disclosure problem.

(b) in contrast, some other Board members thought that a requirement to 'consider' disclosing information may result in material information being omitted from financial statements. These Board members were concerned about a perception that compliance could be achieved by 'considering' disclosure of material information, without actually disclosing that information.

BC25 In the Board's view, the language 'an entity will normally disclose…' would require an entity to disclose items of information unless there is a specific reason not to do so. Supporters of this approach think it would reinforce the concept of materiality by requiring an entity to disclose each item of information unless it can demonstrate that item of information to be immaterial. However, the Board decided not to take this approach for similar reasons to those described in paragraph BC24(a)—that is, the Board did not think this approach would be effective in discouraging entities from applying disclosure requirements like a checklist. Furthermore, IFRS Standards already require an entity to disclose all material information and the Board questioned whether reinforcing this requirement alone would be effective in addressing the disclosure problem.

BC26 The Board concluded that the language 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]' would be the most effective option of those considered, in helping to address the disclosure problem. The Board observed that, provided disclosure objectives are specific enough to be operational and enforceable (see paragraph BC27), requiring entities to comply with disclosure objectives would require all material information necessary to meet the objective to be disclosed. Consequently, specifying that items of information are not mandatory should not result in material information being omitted. Instead, using this language to describe items of information would help entities to fully understand specific disclosure objectives and determine which information is material and therefore has to be disclosed. Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply similar judgement to that required by paragraph 31 of IAS 1. In the Board's view, this approach would reinforce the materiality requirements in IAS 1 while also reducing the perceived compliance burden that stakeholders told the Board was a cause of the disclosure problem (see paragraphs BC5 and BC6(a)).

Draft response to Question 4

26. Our response to this question should be read in the light of our overall disagreement with the proposed approach. The proposed wording makes it clear that entities would need to apply judgement to determine how to meet the specific disclosure objective, but we do not think that the proposed wording would be any more effective in changing behaviour than the other wording options considered by the Board (as outlined in paragraph BC21). Nor do we think that the proposed wording would lead to a significant shift in behaviour compared to that observed under the current requirements.

27. We think that ~~the requirements in~~ IAS 1 paragraph 31 is~~are~~ already quite clear that an entity need not provide a specific disclosure required by an IFRS Standard if the information resulting from that disclosure is not material. We are not averse to the existing materiality requirements in IAS 1 being referred to, or repeated, in individual standards if it were felt that this would highlight the importance of that requirement.[2] ~~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.~~

28. The language proposed by the ED reflects the IASB's desire to shift the focus away from applying disclosure requirements like a checklist. We acknowledge that application of checklists can contribute to the disclosure of irrelevant information by some entities. However, checklists also have their advantages. The pros and cons of checklists depends on the behaviour of preparers, auditors and regulators.

29. Checklists can be an efficient and effective way for an entity to document its disclosure judgements. Entities are more likely to be able to identify additional items of information that need to be disclosed if the items identified in a standard are reasonably comprehensive. If fewer items of information are identified in a standard and more additional items are required, entities could incur additional costs in identifying items to disclose.

[2] We acknowledge the description of the Board's intentions in paragraph DG4 (shown below) and agree with the comment that multiple or duplicate references to materiality can introduce confusion. However, we think that the proposals would effectively stress the existing requirements in IAS 1 and that explicit reference to those requirements in every standard might be clearer than introducing new requirements that touch on materiality without explaining the link between the new requirements and the existing requirements.

> DG4 The Board will, to the extent possible, avoid making generic or overarching references to materiality in the disclosure sections of individual IFRS Standards. This is to reinforce materiality as an overarching concept that applies across all Standards, including all disclosure requirements. Multiple or duplicate references to materiality can introduce confusion about how the concept applies to a Standard in which it is not mentioned.

30. Checklists can also limit the omission of important information. If an entity has a minimalistic approach to disclosing information it is less likely to disclose information if it is not specifically required by a standard.

31. We are also concerned that the proposed language around items of information could reduce the comparability of financial statements. We are aware of the arguments that uniform information and comparable information are not the same thing, and that what matters is meaningful comparability. Although we acknowledge these points we think that the proposals could adversely affect comparability.

32. We also have a comment about considering the implications of these proposals alongside the proposals in earlier EDs. ~~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).

Draft response to Question 5

33. Regardless of how disclosure requirements are expressed in the future, we support the proposals for early engagement with stakeholders to understand their needs and the likely practical effects of disclosure proposals.

34. It may be beyond the scope of this project, but before making decisions on this project we think it is important to consider the way that users access and use information both now and in the future. Some users such as analysts may be less concerned about the overall amount and layout of the notes than in being able to find specific items of information. This comment applies to people accessing financial data from more traditional PDF and HTML formats as well as those using the IFRS Taxonomy.

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

The following table contains paragraphs 100–101 from the ED, a summary of the key points in paragraphs BC62–BC73 and IFRS 13 paragraph 91.

Extract from the ED, paragraphs 100–101

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

Overall disclosure objective

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.**

101 An entity shall consider the level of detail necessary to satisfy the disclosure objectives set out in this IFRS and ensure that relevant information is not obscured by the inclusion of insignificant detail.

Key points from Basis for Conclusions about the development of the overall disclosure objective, paragraphs BC62–BC73

- IFRS 13 currently requires detailed disclosure for Level 3 FVM only. Level 3 FVM are those significantly affected by unobservable inputs.
  - Level 3 disclosures can be lengthy and detailed – but may also be immaterial.
  - Level 2 FVM may be material (and have some unobservable inputs) – but there may be little information on them.
  - Some users would like less information on Level 3 FVM and more on Level 2 FVM uncertainties.
- The ED tries to reinforce the proper application of materiality by:
  - requiring that entities consider the *level of detail* necessary to satisfy the disclosure objective.
  - trying to avoid linking disclosures with Level 2 or 3 FVM.
- Possible impact:
  - More disclosure of material uncertainty for Level 2 FVM that are close to Level 3.
  - Less information about immaterial Level 3 FVM.

Extract from IFRS 13, paragraph 91 [shown here for comparison with the ED proposals]

91 An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

Draft response to Question 6 (and some general comments)

35. Before responding to the questions on IFRS 13 we have some general comments, including some comments on the selection of IFRS 13 as one of the standards on which to illustrate the application of the proposed approach. ~~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.~~

36. At the conclusion of the PIR on IFRS 13, the IASB concluded that IFRS 13 is working as intended and expressed the following views~~:~~.

- 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 the application of IFRS 13.

37. 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. However, ~~W~~we are not convinced that there is sufficient concern about IFRS 13 to warrant change at this time or that the proposals will result in requirements that are better understood or more consistently applied than the existing requirements. Despite this, we have given feedback on some aspects of the proposals, as applied to IFRS 13. Our comments on Questions 6–10 are not comprehensive.

38. We found it necessary to read the Basis for Conclusions (paragraphs BC62–BC73, and in particular, paragraph BC63) to understand what the IASB is aiming to achieve with the overall disclosure objective in paragraph 100. We acknowledge that paragraphs 100–101 should be read together with the more detailed guidance in paragraphs 103–121 and that disclosure objectives tend to be expressed at a fairly high level. However, taking the overall disclosure objective on its own, we are not convinced that it is any more useful than the current disclosure objective in IFRS 13 paragraph 91 or that preparers will grasp what it is aiming to achieve. ~~We agree that the proposed overall objective outlines information that would be useful in respect of items measured at fair value.~~

39. Paragraph 100 focuses on disclosure of information to enable users to evaluate an entity's "exposure to uncertainties". Because paragraph 100 does not elaborate on what is meant by

this phrase, we looked to paragraph 107 (entitled 'Measurement uncertainties associated with fair value measurement'). Paragraph 107 is very similar to the existing requirement in IFRS 13, paragraph 91(a) – the main difference is that rather than just requiring disclosure of valuation techniques and inputs it requires information to enable users to understand those techniques and inputs. Paragraph 108 then says that the information about techniques and inputs is intended to help users assess the sources of measurement uncertainty. However, we do not think that the items of information listed in paragraphs 110 are sufficient to help a reader understand how the suggested items of information are intended to help a user evaluate an entity's "exposure to uncertainties".

40. These comments could be regarded as being inappropriately focused on the actual wording used in the ED. We have made these comments to try and convey our concerns that the proposals are not sufficiently clear for readers to grasp what is required and for everyone to form the same view about what is required. We think the intention of the overall objective should be reasonably clear from the requirements in the Standard, without having to revert to the Basis for Conclusions.

41. We have commented on Questions 7 and 8 together and Questions 9 and 10 together. Our comments on Question 7 also discuss paragraph 100(c).

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.
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?

Background information for Questions 7 and 8

Questions 7 and 8 relate to paragraphs 103–117 of the ED.

The following table summarises and paraphrases the proposals in the ED.

Assets and liabilities within each level of the FV hierarchy:

- Objective: Paragraph 103 requires sufficient information to enable users to understand the amount, nature and other characteristics of each class of assets/liabilities and how those characteristics relate to their level in the FV hierarchy.
- Why: 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…
- Mandatory disclosure: Group FVM by Level 1,2 or 3
- Non-mandatory disclosure: Paragraph 106
  - Description of each class of assets and liabilities by FV hierarchy level.
  - Information about inseparable third-party credit enhancements.

Measurement uncertainties:

- Objective: Paragraph 107 requires information about significant techniques and inputs.
- Why: Paragraph 108 says this is to help users assess the sources of measurement uncertainties.
- Mandatory disclosure: Paragraph 109 requires disclosure if an entity has applied a netting exception.
- Non-mandatory disclosure: Paragraph 110
  - Significant valuation techniques [We have commented on the fact that this is in a non-mandatory list but significant techniques is in the overall objective – see the response to Questions 7 and 8]
  - Changes in techniques and reasons why
  - Information about significant inputs
  - If highest and best use ≠current use: note and say why

Reasonably possible alternative fair value measurements:

- Objective: Paragraph 111 requires information about alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.
- Why: Paragraph 112 says that this is to help users evaluate possible outcomes and how those possible outcomes might affect future cash flows.
- Non-mandatory disclosure: Paragraph 113
  - Description of uncertainty caused by [reasonably] possible different inputs.
  - Range of FV, using reasonably possible inputs.
  - How range of FVM calculated.

    - Interrelationships between inputs and the effect of those relationships on FVM range.
- 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*."

Paragraphs 100, 111-113 and BC86-88 of the ED about alternative fair value measurements are shown below.

Overall disclosure objective

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.

…

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.

112 The information required by paragraph 111 is intended to help users of financial statements evaluate the possible outcomes of the fair value measurements at the end of the reporting period, and evaluate how those possible outcomes might affect the future cash flows of the entity.

113 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 111:

(a) a description of the uncertainty caused by the significant inputs used in determining the fair value, if those inputs could have reasonably been different at the end of the reporting period and would have resulted in a significantly higher or lower fair value measurement.

(b) the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.

(c) an explanation of how the range of alternative fair value measurements in (b) was calculated.

(d) a description of interrelationships between the inputs used and how those interrelationships magnify or mitigate the effect of using inputs that were reasonably possible at the end of the reporting period on the fair value measurements.

Extract from the BC about alternative fair value measurements

BC86 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. Consequently, the Board focused the specific disclosure objective on the range of reasonably possible fair values for items measured at fair value in the statement of financial position. In the Board's view, this approach should provide users with the information that is most useful to them, while avoiding undue costs to entities.

Items of information to meet the objective (paragraph 113 of IFRS 13)

BC87 The Board proposes to include items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about reasonably possible alternative fair value measurements. The Board expects that an entity would apply judgement to determine which items of information are relevant in its circumstances. The Board observed that the information necessary to meet the specific disclosure objective would vary depending on an entity's circumstances. For example, information about individual inputs might be relevant if the effect of reasonably possible changes in an input is individually significant. In other cases, information about movements in individual inputs might not contribute to a user's understanding of the overall possible fair value measurements at the end of the reporting period. In these cases, disclosure of the overall range of possible fair value measurements might meet the specific disclosure objective.

BC88 In developing the items of information in paragraph 113 of the proposed amendments, the Board referred directly to measurement uncertainty at the end of the reporting period and avoided direct reference to sensitivity analysis. The Board used such language because the Board:

(a) observed that the underlying needs of users of financial statements relate to understanding measurement uncertainty at the end of the reporting period. The Board does not expect entities to provide forward-looking information about expected future changes in fair value measurements.

(b) placed importance on feedback from users that they do not always use detailed sensitivity information in their analyses, and feedback from other stakeholders about the costs of preparing such information (see paragraph BC85).

Reasons for changes in fair value measurements

- Objective: Paragraph 114 requires information about the significant reasons for changes in FVM.
- Why: Paragraph 115 says to help users evaluate how transactions and other events have affected financial position and performance and decide what to include in their analyses.
- Mandatory disclosure: Paragraph 116 requires a tabular reconciliation of opening and closing balances in Level 3, showing significant reasons for changes in FVM.
- Non-mandatory disclosure: Paragraph 117
  - Significant reasons for changes in Level 1 and 2.
  - Reasons for transfers between levels and policy for deciding when there has been a transfer

Draft response to Questions 7 and 8

42. This is a combined response to Questions 7 and 8. As mentioned earlier, these comments are on selected aspects of the proposals. They are not comprehensive.

While not mandatory

43. 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. Although entities already have to make materiality judgements, we consider that the proposals will require more and possibly different types of judgements than at present. For example, under the proposals ~~Our understanding is that~~ an entity would have to apply judgement to determine which items of information are relevant in its circumstances. The proposed use of the phrase ‘while not mandatory’ as the lead in statement to items of information that might help satisfy disclosure objectives changes the current presumption that certain information should be disclosed unless an entity decides that it is not material to a more open--ended question. We think that the judgements for the open-ended question will be more difficult and will require more guidance. ~~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.~~

44. We have noted one instance where there could be confusion between a specific disclosure objective and the non-mandatory items of information. Paragraph 107 (a specific disclosure objective about measurement uncertainties) states that an entity shall disclose information that enables users to understand the significant techniques and inputs used in determining

fair value measurements. However, paragraph 110(a) then identifies a "description of significant valuation techniques" as information that may enable an entity to meet the disclosure objective, but which is not mandatory. We think this could lead to confusion about whether information about valuation techniques is mandatory or not.

Increased emphasis on judgement~~Response to Question 7~~

45. We would like to reiterate some of our comments on Questions 1–4. 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.

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

Assets and liabilities within each level of the fair value hierarchy (paragraph 104)

47. We do not think that the specific disclosure objective in paragraph 103 is sufficiently clear, or possibly it is the link between paragraphs 103 and 104 (shown below) that needs to be reconsidered.

ED, paragraphs 103 and 104

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.

48. Taken on its own, paragraph 103 seems fairly straightforward. However, we do not consider that the information required by paragraph 103 would necessarily lead to an understanding of the relative subjectivity in the entity's categorisation of items. Nor do we understand why the relative subjectivity in the entity's categorisation of items is being stressed in paragraph 104. The extent to which an item has unobservable inputs will affect how an entity categorises that item, but we do not think that such categorisation would necessarily involve subjectivity or why such subjectivity warrants disclosure over and above the characteristics used to categorise the item. Our comments may be based on a misunderstanding of paragraphs 103 and 104. However, we think that explanations of specific disclosure objectives should clearly link to the proposed requirements.

Alternative fair value measurements (paragraphs 100(c) and 111–113)

49. The ED introduces new proposals for disclosure of alternative fair value measurements. We think that there will be differing views about what is required by the proposals and differing views about the most appropriate way for an individual entity to meet those requirements. We are not convinced that the proposals will lead to information that is any more understandable or useful than sensitivity analyses.

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?
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?

Background information for Questions 9 and 10

The following table summarises the proposals about assets and liabilities not measured at fair value, and the current requirements and disclosure practices for such items (under IFRS 7 and IFRS 13). The requirements shown in this table are summarised and paraphrased.

Proposals	
What would the proposals require?	The proposals could require more detailed disclosures. Disclosure objective: Disclose information to enable understanding of the amount, nature and other characteristics, and how those characteristics relate to their fair value hierarchy categorisation (ED IFRS 13, paragraph 118). *Mandatory* information: Disclose the fair value of each class of assets/liabilities that are not measured at fair value but for which fair value is disclosed. Group these disclosures by Level 1, 2 or 3 (ED IFRS 13, paragraph 120). *Non-mandatory* information: see paragraph 121 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 changes in inputs*?
Current requirements in IFRS 7 and IFRS 13	
IFRS 7 current requirements for financial instruments not measured at FV	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 • the level • the valuation technique

Draft response to Questions 9 and 10

50. This is a combined response to Questions 9 and 10. As mentioned earlier, these comments are on selected aspects of the proposals. They are not comprehensive.

51. 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 proposals as requiring more than is currently required and do not support such a change~~understand why~~. We have concerns about the availability, cost and reliability of the information required by the proposals.

52. We also have a comment about the relationship between paragraphs 118 and 121 (shown below). As written it is not clear whether information about the characteristics of assets/liabilities is mandatory (as implied by paragraph 118) or non-mandatory (as implied by paragraph 121). We are not sure how it would be possible to meet the disclosure objective in paragraph 118 without also providing the disclosure that is labelled as non-mandatory in paragraph 121.

> **Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes**
>
> **118 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 (see paragraphs B48–B50) not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes; and**
>
> **(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.**
>
> 119 The information required by paragraph 118 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 and financial performance.
>
> 120 In meeting the disclosure objective in paragraph 118, an entity shall disclose the fair value measurement for each class of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).
>
> 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.

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?

53. We have not commented on Question 11.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	8 October 2021
To:	NZASB Members
From:	Nicola Hankinson
Subject:	**IPSASB Mid-period work plan consultation – draft comment letter**

Purpose and introduction

1. The purpose of this session is to:
   (a) seek Board FEEDBACK on the draft comment letter to the IPSASB in response to the mid-period work plan consultation; and
   (b) obtain Board APPROVAL of the comment letter, subject to including any additional feedback provided.

Background

2. As agreed at the August NZASB meeting, the Board agreed it would be appropriate to send a high-level, supportive comment letter to the IPSASB in relation to the Mid-Period Work Program Consultation.

3. We have drafted a comment letter on this basis.

Outreach undertaken

4. We promoted the mid-period work plan consultation via the Accounting Alert emails and included details of the consultation on our website. Website comments closed 1 October 2021. No comments were received.

5. We also sent the draft comment letter to those we considered may be interested in providing feedback. The comment letter has been updated to reflect comments received.

6. Comments are due to be sent to IPSASB by 30 November 2021.

Questions for the Board

Q1. Does the Board have any other comments it would like included in the draft comment letter (agenda item 8.2)?

Q2. Is the Board happy to approve the comment letter, subject to inclusion of additional comments raised?

Attachments

Agenda item 8.2: Draft comment letter

Agenda item 8.3: IPSASB RFI Mid-period Work Program Consultation (in supporting papers)

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 8.2

21 October 2021

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

Submitted to: www.ifac.org

Dear Ross

IPSASB MID-PERIOD WORK PROGRAM CONSULTATION

Overall comments

Thank you for the opportunity to comment on the IPSASB's *Mid-Period Work Program Consultation*.

We strongly support a mid-period "check-in" to confirm the appropriateness of the new projects to be added to the IPSASB's Work Program. A five-year work program covers an extended period, and the disruption of COVID-19 has shown us the importance of being nimble and re-evaluating priorities to take into account changes in the current environment.

Overall, we are supportive of the new projects the IPSASB is proposing to include in its work program as resources become available. However, we acknowledge that the IPSASB has a number of significant projects underway, in particular *Revenue and Transfer Expenses*, *Leases* (including concessionary leases), *Measurement*, and *Natural Resources.*

It is important that adequate time and staff resources are dedicated to completing these large projects before new projects are commenced. We anticipate that these projects will introduce significant changes that public sector entities will need to adopt and we encourage the IPSASB to ensure that adequate implementation support is provided as part of these projects.

We also encourage the IPSASB to collaborate with the IASB, particularly in relation to IFRS-alignment projects, and to carefully consider the cost-benefit of any divergence from IFRS® Standards at the commencement of each project.

Comments on the proposed projects

Alignment with IFRS is important for our New Zealand constituents and as such we support the following projects being added to the IPSASB's work plan:

- The *Presentation of Financial Statements* project (major); and
- Practice Statement: *Making Materiality Judgements* (minor).

We support the IPSASB considering public sector-specific issues relating to intangible assets (i.e. the requirements within IPSAS 31 *Intangible Assets)*. However, we do not support the IPSASB commencing a project to amend IPSAS 21 *Impairment of Non-Cash-Generating Assets*. We recommend the IPSASB wait for the IASB to complete its *Goodwill and Impairment* project before undertaking a holistic review of this standard.

We also recommend that the IPSASB wait until the IASB has completed its review of IAS 38 *Intangible Assets*[1] before undertaking a full review of IPSAS 31. However, there may be some value in the IPSASB considering public sector-specific issues in relation to intangible assets in preparation for an updated for-profit standard. These issues may include new types of intangible items that have emerged since IPSAS 31 was first developed, such as growing central bank interest in crypto-currencies and electromagnetic spectrum rights.

We note you have proposed two projects which are not likely to be directly relevant to New Zealand constituents — *Differential reporting*, and IPSAS 33 *First Time Adoption of Accrual Basis IPSASs*. However, we recognise the importance of undertaking these projects and support the IPSASB adding these to its work program as other major projects are completed. We agree that an internationally accepted framework for public sector differential reporting would be useful.

We would be happy to assist the IPSASB in developing a differential reporting regime, based on our experience in developing the New Zealand reduced disclosure regime (RDR) for Tier 2 reporting entities.

Comments on broader financial reporting developments — Sustainability

The IPSASB proposes actively monitoring developments in broader narrative reporting, including the increasing focus on sustainability reporting, as part of its work in Theme C – *Developing Guidance to Meet Users' Broader Financial Reporting Needs.* We support the IPSASB taking this approach and agree that it is not appropriate to undertake a formal project in relation to public sector sustainability reporting requirements at this stage.

In particular, we agree that it is appropriate for the IPSASB to bring a public sector perspective and expertise into discussions being held as part of the newly proposed International Sustainability Standards Board (ISSB). As the development of international sustainability standards becomes clearer, it will be important for the IPSASB to consider what role it will take in setting reporting standards on sustainability and broader environmental, social, and governance (ESG) matters for the

[1] We have supported a holistic review of IAS 38 in our submission on the IASB *Third Agenda Consultation* and, based on recent comments by the IASB, we consider it's likely the IASB will add a project on *Intangibles* to its Work Plan

public sector. As the IPSASB role becomes clearer, it will need to consider what additional skills and experience are required in relation to these areas.

Additional project to consider

Our constituents have suggested a project on PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* be added to the IPSASB work program.

In our view, PBE IPSAS 19 should be reviewed for consistency with the PBE Conceptual Framework, particularly in relation to when to recognise a provision for a constructive or non-legally binding obligation (such as those arising from policy announcements, targets set in domestic legislation or international treaty ratification).

Closing comments

We appreciate the opportunity to respond to the IPSASB's *Mid-Period Work Program Consultation*. Regular consultation on priorities contributes towards open and transparent standard-setting processes. We appreciate the IPSASB's commitment to the development of high-quality standards and support the IPSASB's work to improve public sector financial reporting.

We look forward to helping the IPSASB achieve its objectives over the coming years.

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

Yours sincerely

Carolyn Cordery
Chair, New Zealand Accounting Standards Board