

Board Meeting Agenda

In-person Meeting (Wellington) — Thursday, 16 February 2023

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
10.50 am 20 min	Morning tea				
PUBLIC SESSION					
11.10 am 70 mins	4	Tier 3 Standards	(JC and CB)		
	4.1	Board memo – analysis of issues and recommendations	Consider	Paper	3
	4.2	Submissions	Consider	Paper	58
	4.3	Draft Tier 3 (NFP) Standard (marked up)	Consider	Paper	72
	4.4	Draft Tier 3 (PS) Standard (marked up)	Consider	Paper	148
	4.5	Draft Tier 3 (NFP) Standard (clean)	Note	Supp paper	–
	4.6	Draft Tier 3 (PS) Standard (clean)	Note	Supp paper	–
NON-PUBLIC SESSION					
1.00 pm 40 min	Lunch				
PUBLIC SESSION					
1.40 pm 30 mins	6	PBE Leases: Responding to IPSASB ED	(JC and CH)		
	6.1	Board memo – Approach in responding to IPSASB ED on Concessionary Leases	Consider	Paper	222
	6.2	IPSASB ED <i>Concessionary Leases and Right-of-Use Assets In-Kind</i>	Note	Paper	249
2.10 pm 30 min	6A	PBE Leases: Analysis of responses to NZASB ED	(GS and CH)		
	6A.1	Board memo – analysis of issues and recommendations	Consider	Paper	291
	6A.2	Submissions	Consider	Paper	317

2.40 pm 40 mins	7	Disclosure of fees paid to audit firms	(GS and AH)		
	7.1	Board memo – consideration of other issues	Consider	Paper	346
	7.2	Draft Standard: <i>Disclosure of Fees Paid to Audit Firms</i> (Amendments to FRS-44)	Consider	Paper	367
	7.3	Draft Standard: <i>Disclosure of Fees Paid to Audit Firms</i> (Amendments to PBE IPSAS 1)	Consider	Paper	383
	7.4	Submissions on EDs <i>Disclosure of Fees Paid to Audit Firms</i>	Note	Supp Paper	–
3.20 pm 20 min	Afternoon tea break				
3.40 pm 30 min	8	Second Comprehensive Review of IFRS for SMEs	(CB)		
	8.1	Cover memo	Consider	Paper	399
	8.2	Disclosure analysis	Consider	Paper	405
	8.3	Draft comment letter	Approve	Paper	425
NON-PUBLIC SESSION					
4.30 pm	<i>Finish</i>				

Next NZASB meeting: 4 April 2023, in person, Wellington

Date: 2 February 2023
To: NZASB Members
From: Jamie Cattell and Carly Berry
Subject: Tier 3 Standards

COVER SHEET

Project priority and complexity

Project priority	<p>High</p> <p>The proposed amendments to the Tier 3 reporting requirements affect a large number of not-for-profit and public sector entities in New Zealand.</p>
Complexity of Board decision-making at this meeting	<p>High</p> <p>The Board is being asked to approve, in principle, two draft Standards:</p> <ul style="list-style-type: none"> • Tier 3 (NFP) Standard; and • Tier 3 (PS) Standard. <p>(together, ‘the Tier 3 Standards’)</p> <p>This is the first time that the Board will consider the feedback received on the Exposure Drafts: <i>Proposed Amendments to the Tier 3 (NFP) Standard and Tier 3 (PS) Standard</i> (the ‘Tier 3 EDs’).</p> <p>The Board will be asked to provide formal final approval of the Tier 3 Standards at its April 2023 meeting.</p>

Overview of agenda item

Project status	Seeking in-principle Board approval for the Tier 3 Standards based on updates in response to ED feedback received.
Project purpose	To review and update the Tier 3 Standards, with a focus on making improvements to key areas of the Standards based on feedback received.
Board action required at this meeting	<p>Approve, in principle, the draft Tier 3 Standards presented at this meeting.</p> <p>Staff welcome any editorial comments outside of the Board meeting – please send these to carly.berry@xrb.govt.nz and jamie.cattell@xrb.govt.nz</p>

Introduction

1. In May 2022, the XRB issued two exposure drafts with proposed improvements to the Tier 3 Standards (Tier 3 EDs).
2. The Tier 3 EDs were open for a 5-month consultation period which closed on 30 September 2022. We received 31 submissions with comments regarding the Tier 3 proposals.
3. Overall, feedback received indicated strong support for the proposed improvements to the Tier 3 Standards, with some useful suggestions for further refinements.
4. Based on the feedback received, staff considered it appropriate to consider the analysis of submissions, propose amendments, and seek approval in principle of the final pronouncements.

Recommendations

6. We recommend that the Board APPROVE the following standards in principle:
 - (a) Draft Tier 3 (NFP) Standard; and
 - (b) Draft Tier 3 (PS) Standard.

Background

7. The Tier 3 Standards set out the reporting requirements for Tier 3 NFP and PS entities when preparing their annual Performance Reports as required by legislation and other applicable regulations. The Tier 3 Standards are accrual-based and are used by public benefit entities with total expenses under \$2 million but more than \$140,000 annual operating payments.
8. In 2021, the XRB completed a post-implementation review (PiR) of the Tier 3 and Tier 4 Standards to assess whether they remain fit-for-purpose and to identify areas where improvements could be made. The feedback received highlighted that overall, the Tier 3 Standards were working well. However, there were some key areas identified where improvements could be made.
9. In response to the PiR, the Board issued for public consultation proposed improvements to the Tier 3 Standards in May 2022. The key proposed improvements included:
 - (a) amending the service performance reporting requirements;
 - (b) introducing simple revaluation requirements for certain types of assets;
 - (c) a new revenue recognition approach for donations, grants, bequests and pledges;
 - (d) refining and clarifying the required categories for presenting revenue and expenses; and
 - (e) amending the requirements relating to accumulated funds
10. During the five-month consultation period, staff undertook the following outreach events:
 - (a) May – presentation at an Inter Church meeting
 - (b) June – XRB reporting update at the CAANZ NFP Conference

- (c) June – CAANZ Sharing Knowledge webinar
- (d) June – XRB Deep Dive virtual sessions
- (e) July – CPA Australia webinar
- (f) August – Charities Services webinars
- (g) September – presentation to the Charities Sector Group

Structure of this memo

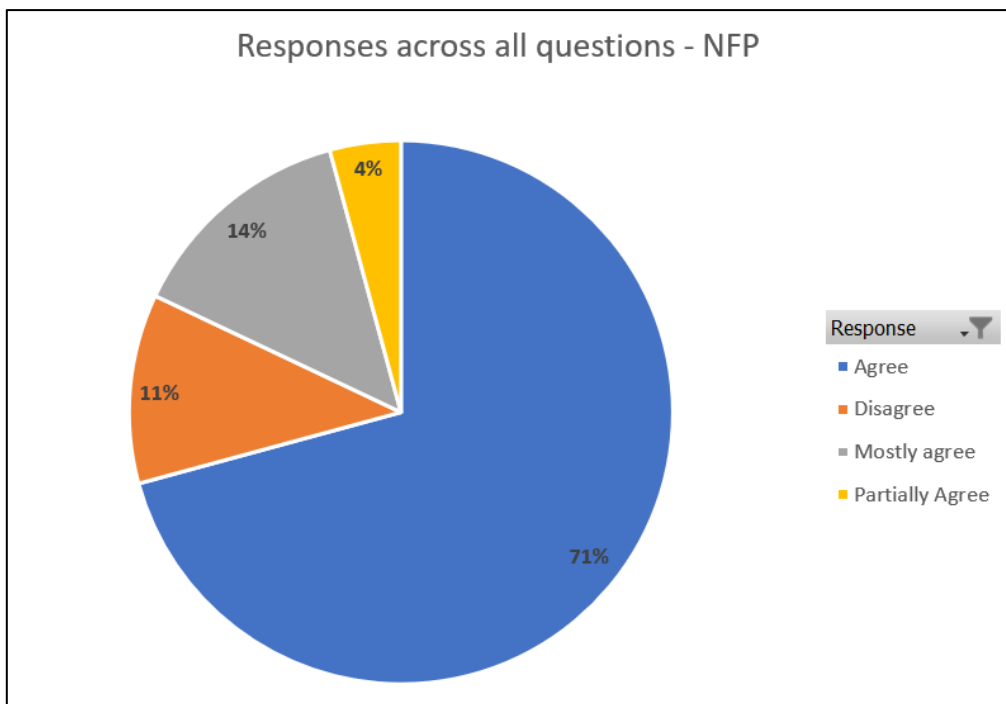
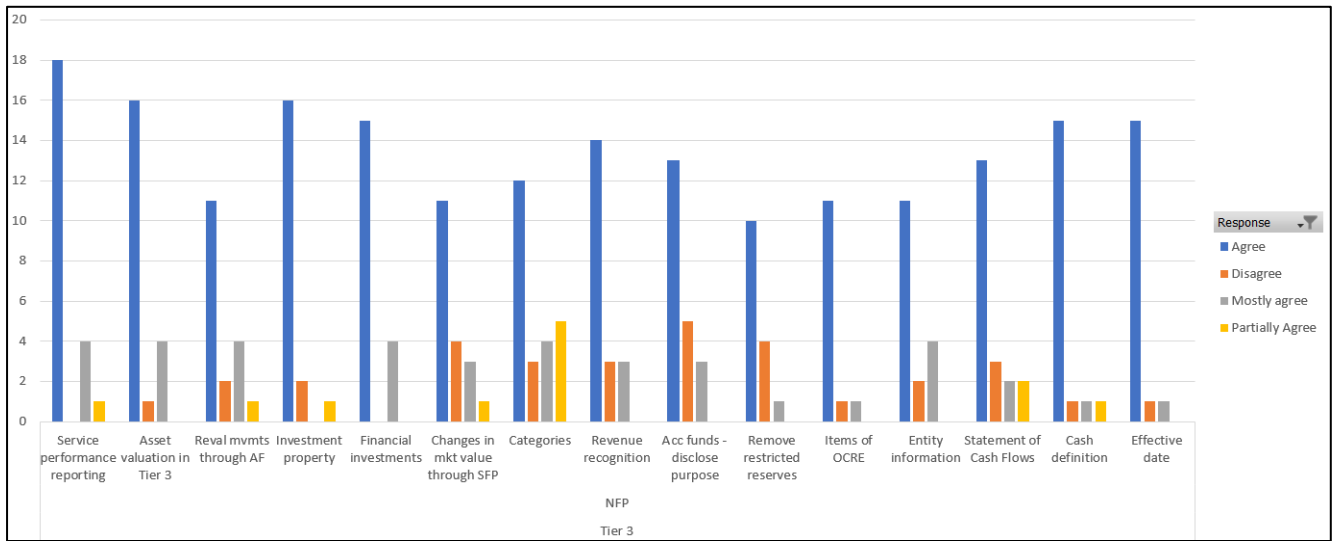
11. The remaining sections in this memo are:
- (a) Summary of submissions
 - (b) Snapshot of high-level respondent feedback
 - (c) Summary of key staff recommendations in response to feedback
 - (d) Next steps
 - (e) Part A: Staff approach to analysis of feedback and developing recommendations
 - (f) Part B: Analysis of feedback
 - Service performance reporting
 - Asset valuation
 - Revenue recognition
 - Required categories
 - Accumulated funds
 - Other proposed amendments
 - Effective date
 - Other issues

Summary of submissions

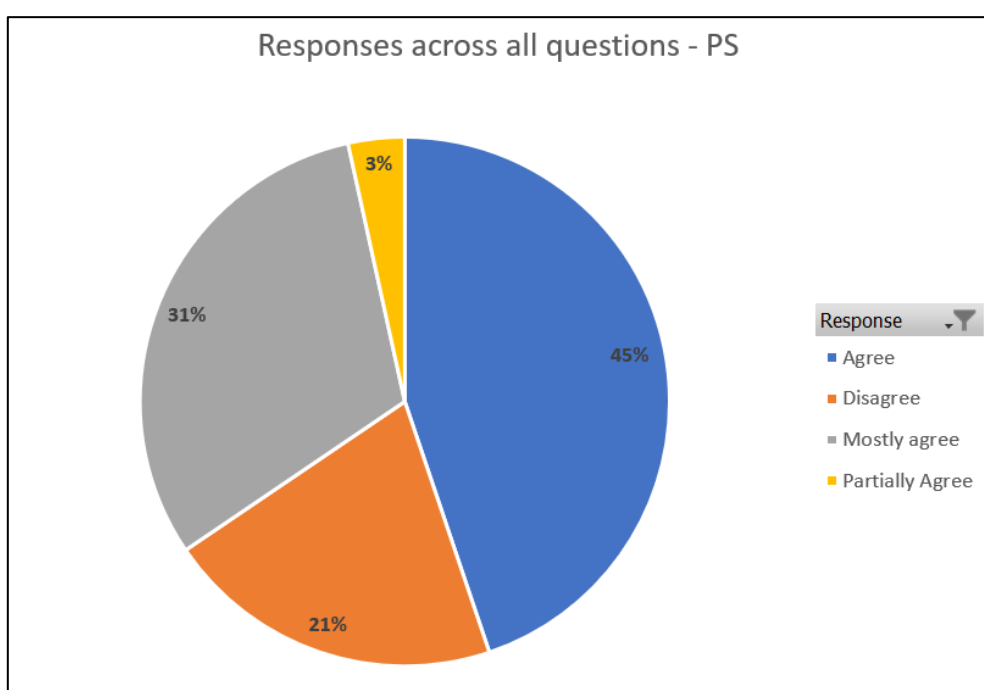
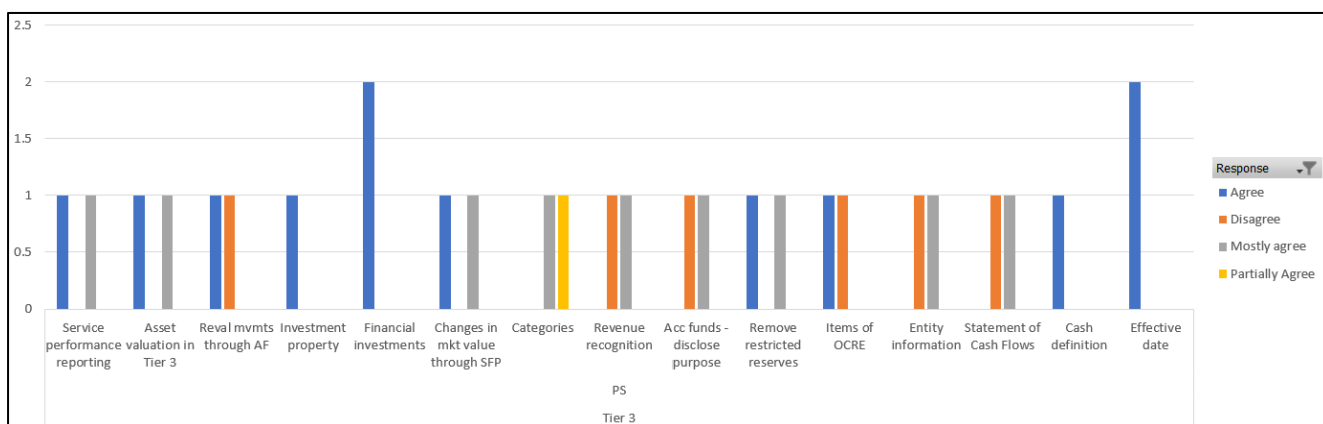
12. We received 63 submissions on the proposed amendments to the Tier 3 and Tier 4 Standards. This total includes formal submissions, email comments, and comments provided through the feedback forms on the XRB website.
13. Of the 63 submissions received, 31 provided comments on the Tier 3 Standards. Copies of all the Tier 3 submissions received are included in agenda item 4.2.

Snapshot of high-level respondent feedback

High-level feedback on the Tier 3 (NFP) ED proposals



High-level feedback on the Tier 3 (PS) ED proposals



14. Our approach to analysing the feedback received is set out in [Part A](#) of this memo.

Summary of key staff recommendations in response to feedback

15. The most significant changes we recommend from the proposals in the EDs are summarised below.

- (a) **Align the accounting treatment of revaluation gains for property, plant and equipment and financial investments** – this recommendation is in response to feedback that the differing accounting treatments (as proposed in the Tier 3 EDs) could be confusing for users. Our recommendation is to recognise all revaluation gains directly in accumulated funds, with separate revaluation reserves for property, plant and equipment and financial investments.
- (b) **Updating the required categories of revenue and expense** –these updates were made in response to feedback received as well as to be consistent with the changes made to the Tier 4 Standards.

- (c) ***Restoring the requirements for restricted reserves (but making them optional) and converting the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves*** – this recommendation is in response to feedback that suggests optional disclosure is more appropriate than removing the requirements entirely.
 - (d) ***Explicitly not allowing aggregation of individually insignificant donations, grants and bequests for the purposes of applying the new revenue recognition approach*** – this recommendation is in response to feedback that it is not clear what to do in situations where donations, grants and bequests are individually insignificant but are significant in aggregate. The recommendation is intended to keep the revenue recognition requirements simple without a loss of significant information for users.
 - (e) ***Remove the requirement for a Tier 3 public sector entity to disclose a general description of its objectives and significant activities, in circumstances where the entity is not required to prepare a statement of service performance*** – this recommendation is in response to feedback that this disclosure requirement is more onerous than what Tier 2 entities are required to disclose.
16. The responses to each consultation question in the Tier 3 EDs, and our staff recommendations, are set out in [Part B](#) of this memo.
17. Based on the staff recommendations, the draft Standards have been updated for Board review and approval – refer to agenda items 4.3 and 4.4. To maintain consistency between the two Standards, wherever we have updated the Tier 3 (NFP) Standard we have made an equivalent update to the Tier 3 (PS) Standard and vice versa (unless the update is specific to only one of the two Standards). The draft Standards have also been updated for any editorial comments from respondents.
18. Before addressing Questions 1 and 2 below, we will first ask for Board responses to our recommendations, as set out in Questions 3 – 20 in Part B.

Questions for the Board

- Q1. Based on staff responses to feedback on Consultation Questions 1 – 9 in Part B, does the Board APPROVE, in principle, the Tier 3 (NFP) Standard? (Agenda Item 4.3)
- Q2. Based on staff responses to feedback on Consultation Questions 1 – 8 in Part B, does the Board APPROVE, in principle, the Tier 3 (PS) Standard? (Agenda Item 4.4)

Next steps

19. We are seeking in-principle approval of the Tier 3 Standards at this meeting. Before seeking final approval to issue the Tier 3 Standards at the April 2023 meeting, we will undertake the following next steps:
 - (a) Address any matters raised by Board Members at this meeting that require changes to the draft Tier 3 Standards.
 - (b) Consider transitional requirements and develop recommendations for Board approval.
 - (c) Update the Tier 3 Template Performance Reports to reflect the changes to the draft Tier 3 Standards (these will be published together with the final pronouncements).
 - (d) Finalise the Basis for Conclusions based on Board deliberations at this meeting (the Board has previously agreed to publish these separately on the website).
 - (e) Prepare the signing memorandum for the XRB Chair, for Board approval.
20. Once we have final approval from the Board, we will complete the necessary steps for gazetting and issue the Tier 3 Standards – this is expected to occur in Q2 2023.

Attachments

- Agenda item 4.2: Submissions received on the Tier 3 Standards
- Agenda item 4.3: Tier 3 (NFP) Standard – Marked-up
- Agenda item 4.4: Tier 3 (PS) Standard – Marked-up
- Agenda item 4.5: Tier 3 (NFP) Standard – Clean (in supporting papers)
- Agenda item 4.6: Tier 3 (PS) Standard – Clean (in supporting papers)

Part A: Staff approach to analysing responses and developing staff recommendations

Approach to analysing responses

1. We used the following categorisation when analysing the responses to the Tier 3 EDs.

Category	Explanation
Agree	Respondent expressed outright agreement with the proposal
Mostly agree	Respondent agreed with the proposal but suggested a change or clarification
Partially agree	Respondent agreed with the principle behind the proposal but otherwise disagreed with how it is expressed
Disagree	Respondent expressed outright disagreement with the proposal

2. The consultation questions are identical between the two Tier 3 Standards.
3. Because the questions asked were analogous and to avoid introducing unnecessary differences between the Tier 3 Standards, in developing our responses the feedback received on both Tier 3 Standards has been analysed together.

Developing staff recommendations

4. Where a respondent did not fully agree with an ED proposal, we considered how best to address the respondent's comments / concerns. The outcome of these considerations is expressed through staff recommendations.
5. We categorised each of our recommendations in one of three ways, as set out below.

Nature of impact on ED proposals	Nature of response
Substantive amendment	<ul style="list-style-type: none"> • Adding or deleting a requirement (or category) • Amendments to a requirement which change the underlying principle
Minor amendment	<ul style="list-style-type: none"> • Redrafting a paragraph to clarify a requirement (including redrafting the name of a required category) • Amendments to a requirement which do not affect the underlying principle • Adding or deleting paragraphs which do not contain requirements (e.g., removing superfluous explanatory paragraphs, adding or removing introductory paragraphs, etc)
No amendment	<ul style="list-style-type: none"> • No changes recommended

Part B: Analysis of feedback

Service performance reporting

Consultation Question

Q1: Do you agree with the proposed amendments relating to service performance reporting?

- There were 23 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	18	78.3%	1	50%
Mostly agree	4	17.4%	1	50%
Partially agree	1	4.3%	-	0%
Disagree	-	0%	-	0%
Total	23	100%	2	100%

- The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	The reference to “quantifies to the extent practicable the significant activities” might be vague and lead to confusion. The proposed amendment could be worded better to make it easier to interpret (e.g., how is “significant” defined from a reporting perspective?)	<p>Minor amendment</p> <p>We recommend that the reference to “practicable” should change to “reasonably possible”. We believe that this change would make the requirement clearer and less confusing and is an appropriate simplification for Tier 3 entities. We recommend making this change wherever the term “practicable” appears in the Tier 3 Standards.</p> <p><i>Note that even where it is not reasonably possible to quantify, the Standard still requires the entity to describe its significant activities.</i></p> <p>There is currently a definition for the term “significant” in Tier 3 Standards. We will consider issuing appropriate guidance material concerning the application of judgement (i.e., deciding what is “significant” for the purposes of including information in the Performance Reports)</p>

		as this is an important concept in the Tier 3 Standards.
	In many instances, the information required in this section is a duplication of other documentation such as the Annual Report. Consider allowing options for entering this information or providing it with other documentation.	No amendment The statement of service performance is an important component of the Performance Report. Not providing this statement may prevent an entity from providing a complete picture of their service performance within the Performance Report.
	There is reference to both “objectives” and “broader aims and objectives” in relation to service performance reporting. Consistent terminology should be used, and the preference is the former as it is simpler and shorter.	Minor amendment For consistency and simplicity, change all references to “objectives”.
	Consistent terminology should be used across all tiers.	No amendment We agree that consistency is important across all tiers but where a simpler term can be used in Tier 3 Standards without differing substantively in principle from Tier 1/Tier 2 then we recommend using the simpler term. Likewise, we do not recommend incorporating all simplifications in terminology from Tier 4 Standards into Tier 3 Standards (e.g., we do not recommend referring to ‘main activities’, as worded in the Tier 4 Standards, because we believe that the concept of “significant” is an important one in the context of the Tier 3 Standards).
Partially agree	Tier 3 entities should have the option of referring users to the prior reporting period’s performance report and detail where to obtain a copy of the prior period’s performance report in those rare circumstances where comparative information is not considered useful to the user (e.g., where the nature of the entity’s objectives has changed, or comparatives are too detailed to replicate economically). The respondent has seen cases where comparative information has	No amendment As noted by the respondent, this would be a rare occurrence. Also, changes to comparative information in the statement of service performance are permitted, but not required by the Tier 3 Standards.

	<p>resulted in an ‘unwieldy’ statement of service performance, due to the complexity of the organisation. Simply pointing users to a prior year’s copy would be sufficient.</p>	
	<p>The Tier 3 Standards should include guidance on the following:</p> <ul style="list-style-type: none"> • What is meant by ‘medium to long-term’ • Page length for the statement of service performance 	<p>No amendment</p> <p>The Tier 3 Standards already state that objectives over the medium to long term are closely related to the entity's mission or purpose (but are just more specific).</p> <p>Regarding page length – the length of the statement of service performance will be highly variable as each entity has its own unique story. Therefore, including guidance on page length would not be particularly helpful for Tier 3 entities.</p>
	<p>Change ‘financial year’ to ‘reporting period’ to allow for more flexibility.</p>	<p>No amendment</p> <p>‘Financial year’ is a simpler term, and most entities will likely prepare the Performance Report for a financial year. Paragraph A7 also notes that a Performance Report may be prepared for a part year under certain circumstances.</p>
	<p>Refer to ‘outputs’ – this would be more suitable and understandable for the audience.</p>	<p>No amendment</p> <p>It was made clear from the PiR that the term ‘output’ is confusing for Tier 3 entities and therefore we proposed the term “significant activities” instead.</p>
Tier 3 (PS) Standard		
<p>Mostly agree</p>	<p>There is reference to both “objectives” and “broader aims and objectives” in relation to service performance reporting. Consistent terminology be used, and the preference is the former as it is simpler and shorter.</p>	<p>Minor amendment</p> <p>For consistency and simplicity, change all references to “objectives”.</p>

Question for the Board

Q3. Does the Board AGREE with our recommendations relating to service performance reporting?

Asset valuation

3. Consultation Questions 2 – 6 are addressed in this section. While the responses to each question are detailed below, during the analysis of responses a common theme arose across the topic of asset valuation generally which we consider is best addressed separately and before considering the other responses.
4. While there was consensus among respondents that the Tier 3 Standard should allow for the optional revaluation of assets, there were mixed views about our proposals on how to treat the resulting revaluation gains. The views expressed by respondents included the following.
 - (a) While respondents agree [with the proposal to recognise revaluation gains on property, plant and equipment assets in accumulated funds and gains on financial investments through the statement of financial performance], they are concerned that users will not understand why there is a different treatment for the two different kinds of assets.
 - (b) Revaluation movements on property, plant and equipment should not be recognised directly in accumulated funds and should instead be recognised in the statement of financial performance as an additional line item below operating surplus/deficit.
 - (c) Revaluation gains on financial investments should not be recognised in the statement of financial performance and should instead be put through a revaluation reserve.
 - (i) Some respondents also commented that more guidance will be needed to clarify for users what the revaluation gains mean, as revaluing financial assets could result in large fluctuations.
 - (d) Revaluation gains on financial investments should be recognised in the statement of financial performance but rather than being included in the main revenue expense categories, should be added as additional line items below operating surplus/deficit.
5. After considering the views expressed, we agree that requiring different treatment of revaluation gains for items of property, plant and equipment and financial investments may introduce unnecessary complexity to the Tier 3 Standards. To ensure the Tier 3 Standards remain simple to apply we recommend that the treatment of revaluation gains on both types of assets is aligned.
6. On the basis that the Board has previously agreed not to introduce the concept of ‘other comprehensive revenue and expense’ to the Tier 3 Standards, we consider there are two options to align the treatment for revaluing all assets.
 - (a) Option A: Recognise all revaluation gains directly in accumulated funds in a revaluation reserve, unless they reverse a revaluation loss recognised in a prior period¹ – with separate revaluation reserves for PP&E assets and financial investments.

¹ And vice versa for revaluation losses which would be recognised in the statement of financial performance unless they reverse a previous revaluation gain recognised directly in accumulated funds through a revaluation reserve.

- (b) Option B: Recognise all revaluation gains (losses) in the statement of financial performance.

7. **We recommend proceeding with option A** because:

- (a) it ensures that all revaluation gains are treated consistently; and
- (b) each reserve will be clearly identified and any revaluation movements for each reserve will be clearly presented as required by paragraphs A148 and A196 of the Tier 3 (NFP) Standard and paragraphs A150 and A198 of the Tier 3 (PS) Standard.

Question for the Board

Q4. Does the Board AGREE with our recommendation to recognise revaluation gains on both property, plant and equipment and financial investments directly in accumulated funds through separate revaluation reserves unless they reverse a revaluation loss recognised in a prior period?

Consultation Question – revaluation of property, plant and equipment

Q2: Do you agree with the proposal to include requirements for the revaluation of property, plant and equipment within the Tier 3 Standards, rather than require an entity to opt-up to Tier 2?

High-level analysis of responses

- 8. There were 21 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	16	76%	1	50%
Mostly agree	4	19%	1	50%
Partially agree	-	0%	-	0%
Disagree	1	5%	-	0%
Total	21	100%	2	100%

Detailed analysis of responses

- 9. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	The approach is appropriate as long as there is clear guidance.	No amendment

		We will consider developing further guidance as the need arises.
	The standard is unclear about whether Heritage and revalued assets need to be depreciated. We should be more explicit about this.	No amendment The Tier 3 Standard already states that heritage assets are to be accounted for in the same manner as other items of PPE. We consider that this is sufficiently clear. The Tier 3 Standard also already states that revalued assets are to be depreciated.
	Some entities close to the Tier 2 threshold could be unprepared to transition to IPSAS 17 without the rateable value concession and the process may be too time consuming for them.	No amendment We do not consider that a lack of entity preparedness for possibly moving up to Tier 2 represents an issue with the Tier 3 standard. If entities express concerns with moving up to IPSAS 17 in the future, this could be addressed through staff guidance.
Disagree	The option to revalue PPE based on an independent valuation should not be allowed without the rigour of IPSAS 17 because independent valuations can be highly judgemental and for various purposes.	No amendment This concern was only raised by one respondent. We consider that the current requirements remain appropriate for Tier 3 entities.
Tier 3 (PS) Standard		
Mostly agree	Think the revaluation requirements could be made less onerous by requiring entities to revalue on a fixed cycle - such as three-yearly.	No amendment Where an entity is using rateable value, they are only required to revalue when that value is updated. If an entity is using an independent valuation, we consider that the current requirement for revaluations to “be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date” remains appropriate.

Question for the Board

Q5. Does the Board AGREE with our recommendations relating to the revaluation of property, plant and equipment?

Consultation Question – recognition of revaluation movements on property, plant and equipment

Q3: Do you agree with the proposal to require revaluation movements on property, plant and equipment to be recognised directly in accumulated funds through a revaluation reserve?

High-level analysis of responses

10. There were 18 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	11	61%	1	50%
Mostly agree	4	22%	-	0%
Partially agree	1	6%	-	0%
Disagree	2	11%	1	50%
Total	18	100%	2	100%

Detailed analysis of responses

11. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	Need for clear guidance to ensure that the process is not too time consuming.	No amendment We will consider developing further guidance as the need arises.
	Agree but concerned users will not understand why investments go through the statement of financial performance and PPE goes straight to equity.	Substantive amendment We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.
Disagree	Revaluation movements should not be recognised directly in accumulated funds and should instead be put through the statement of financial performance - either through other revenue/expenses or below the operating surplus deficit line.	As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.

Tier 3 (PS) Standard		
Disagree	Revaluation movements should not be recognised directly in accumulated funds and should instead be put through the statement of financial performance - either through other revenue/expenses or below the operating surplus deficit line.	<p>Substantive amendment</p> <p>We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.</p> <p>As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.</p>

Question for the Board

Q6. Does the Board AGREE with our recommendations relating to recognition of the revaluation movements on property, plant and equipment?

Consultation Question – accounting for investment property

Q4: Do you agree with the proposal that investment property should be accounted for in the same manner as property, plant and equipment?

High-level analysis of responses

12. There were 19 respondents who answered this question in relation to the Tier 3 (NFP) Standard and one respondent who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	16	84%	1	100%
Mostly agree	-	0%	-	0%
Partially agree	1	5%	-	0%
Disagree	2	11%	-	0%
Total	19	100%	1	100%

Detailed analysis of responses

13. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Partially agree	The requirement to split investment property should be made optional as it may be confusing for some preparers and could present issues if they need to move assets from property, plant, and equipment to investment property.	Minor amendment We will amend the wording in the Standard to clarify that an entity "may" report investment property as a separate class of PPE.
Disagree	This adds complexity to the standard which is particularly concerning where property is not purchased with the intention of being investment property or has a mixed use.	No amendment Because the proposal is for investment property to be accounted for in the same manner as other items of PPE, whether a property is mixed use should have no impact on the accounting treatment.

Question for the Board

Q7. Does the Board AGREE with our recommendations relating to the accounting for investment property?

Consultation Question – measurement of publicly traded financial investments

Q5: Do you agree with the proposal to allow publicly traded financial investments to be measured at market value?

High-level analysis of responses

14. There were 19 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	15	79%	2	100%
Mostly agree	4	21%	-	0%
Partially agree	-	0%	-	0%
Disagree	-	0%	-	0%
Total	19	100%	2	100%

Detailed analysis of responses

15. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	The different risk profiles relating to different investments should be required to be disclosed.	<p>No amendment</p> <p>We consider that requiring Tier 3 entities to disclose the risk profiles of different investments would be excessive and overly complex.</p> <p>Further, because the ability to revalue financial investments only applies to those investments which are publicly traded, we consider that the general risk profile of each investment should be easy to determine without additional disclosures.</p>
	Due to the range of capabilities in the charitable sector there is a risk that this could skew sector level data if done incorrectly.	<p>No amendment</p> <p>While we acknowledge the diverse range of capabilities in the sector, we consider the current proposal to revalue publicly traded financial investments based on easily accessible market data is appropriate.</p> <p>Further, we note that revaluing publicly traded financial investments is optional. Therefore, entities who do not feel capable of applying the revaluation requirements may elect to continue reporting all financial investments at cost.</p>
	Entities should be allowed to choose between cost, realisable, and market value which is supported by clear and explicit accounting policy disclosure.	<p>No amendment</p> <p>Revaluation of publicly traded financial investments is already optional.</p> <p>Further, we note that where the realisable value of an asset (including financial investments) falls below its carrying value, the Tier 3 Standard already requires them to be impaired.</p>

Question for the Board

- Q8. Does the Board AGREE with our recommendations relating to the measurement of publicly traded financial investments?

Consultation Question – recognition of market value of investments

Q6: Do you agree with the proposal to require changes in the market value of investments to be recognised as revenue or expenses in the statement of financial performance?

High-level analysis of responses

16. There were 19 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	11	58%	1	50%
Mostly agree	3	16%	1	50%
Partially agree	1	5%	-	0%
Disagree	4	21%	-	0%
Total	19	100%	2	100%

Detailed analysis of responses

17. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	Revaluation movements should go through the statement of financial performance but should be put below the operating surplus/deficit line and incorporated into the alternative format of the statement of financial performance.	<p>Substantive amendment</p> <p>We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.</p> <p>As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.</p>
	Some thought should be given to the risk of users being concerned about large fluctuations in the value of investments and how this could be mitigated.	<p>No amendment</p> <p>We do not consider that users being concerned by large fluctuations in the value of investments represents an issue with the requirements in the Standard.</p>

	More guidance needed on where in the statement of financial performance the revaluation movements will be recognised.	<p>No amendment</p> <p>Our recommendation to align the treatment of revaluation gains for PPE and financial investments would eliminate the need to make this clarification. See paragraphs 3 – 7 above.</p>
Disagree	Revaluation gains should not be recognised until the investments are sold.	<p>Substantive amendment</p> <p>We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.</p> <p>As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.</p>
	Because revaluation gains should go through a revaluation reserve instead.	
Tier 3 (PS) Standard		
Mostly agree	Revaluation movements should go through the statement of financial performance but should be put below the operating surplus/deficit line and incorporated into the alternative format of the statement of financial performance.	<p>Substantive amendment</p> <p>We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.</p> <p>As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.</p>

Question for the Board

Q9. Does the Board AGREE with our recommendations relating to the recognition of the market value of investments?

Required categories

Consultation Question	
Q7:	Do you agree with the proposals to amend the required revenue and expense categories?

18. There were 24 respondents who answered this question in relation the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard. The general views expressed are summarised below.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	12	50%	-	0%
Mostly agree	4	16.7%	1	50%
Partially agree	5	20.8%	1	50%
Disagree	3	12.5%	-	0%
Total	24	100%	2	100%

19. To assist the Board, we have included in the table below the categories proposed in the ED along with the final categories proposed after considering feedback from respondents. Categories which have not been amended are shaded in grey.

Category as per exposure draft	Final proposed category
Revenue	
Donations, koha, bequests and other general fundraising activities	Donations, koha, bequests and other general fundraising activities
Grants (excluding service delivery grants/contracts and capital grants)	General grants and other revenue from service delivery
Capital grants and donations	Capital grants and donations
Funding from government service delivery grants/contracts	Government service delivery grants/contracts
Funding from non-government service delivery grants/contracts	Non-government service delivery grants/contracts
Membership fees and subscriptions	Membership fees and subscriptions
Revenue from commercial activities (i.e., sale of goods or services)	Revenue from commercial activities
Interest, dividends and other investment revenue	Interest, dividends and other investment revenue

Other revenue	Other revenue
Expenses	
Expenses related to public fundraising	Expenses related to public fundraising
Employee remuneration	Employee remuneration and other related expenses
Volunteer and other employee related expenses	Volunteer related expenses
Expenses related to commercial activities (i.e., sale of goods or services)	Expenses related to commercial activities
Other expenses related to the delivery of entity objectives	Other expenses related to service delivery
Grants and donations made	Grants and donations made
Other expenses	Other expenses

20. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Recommendation
Tier 3 (NFP) Standard		
Mostly agree	<p>The categories are appropriate, but the following terminology needs to be further defined, and/or used consistently.</p> <ul style="list-style-type: none"> • Government vs non-government • Commercial activities <ul style="list-style-type: none"> ○ Where to account for sales for fundraising ○ How to account for primary purpose trading. • Employee costs <ul style="list-style-type: none"> ○ Whether the category includes independent contractor costs. 	<p>Minor amendment</p> <p>We have reviewed terminology to ensure that it is used consistently within and across the Standards and that the definitions are sufficiently clear.</p> <p>We consider that the definition of commercial activities is appropriate and the distinction between commercial activities and fundraising activities remains appropriate.</p> <p>However, we agree more guidance is needed for trading activities which fulfil the entity’s purpose in themselves. We have:</p> <ul style="list-style-type: none"> • amended the category “Grants (excluding service delivery grants/contracts and capital grants)” to “General grants and revenue from non-commercial activities”; and

		<ul style="list-style-type: none"> updated the related guidance in the standard. <p>We have added a brief comment that independent contractor costs should be included in other applicable categories based on the nature of the work.</p>
	<p>Some of the labels are too long and need to be abbreviated or alternative labelling would be more appropriate.</p> <p>Suggestions</p> <ul style="list-style-type: none"> Sales of goods and services (commercial activities) <ul style="list-style-type: none"> The phrase ‘commercial activities’ may sound contrary to not-for-profit entities. More guidance needed on trading activities which fulfil the entities purposes. E.g., an entity which provides counselling services at a heavily discounted rate. "Expenses related to commercial activities (i.e. sale of goods or services)" <ul style="list-style-type: none"> suggested "Expenses related to commercial activities" instead. "Other expenses related to the delivery of entity objectives" <ul style="list-style-type: none"> suggested "Other expenses related to service delivery" Government should be referenced as "central/local government" for clarity 	<p>Minor amendment</p> <p>We have considered options to reduce the length of the category labels and agree with several of the suggestions made. We have made the following changes based on this feedback.</p> <p><u>Revenue</u></p> <ul style="list-style-type: none"> Changed category to "General grants and revenue from non-commercial activities". <ul style="list-style-type: none"> Incorporated discounted counselling services example in the description. Changed category to "Government service delivery grants/contracts" Changed category to "Non-government service delivery grants/contracts" Changed category to "Revenue from commercial activities" <p><u>Expenses</u></p> <ul style="list-style-type: none"> Changed category to "Expenses related to commercial activities". Changed category to "Other expenses related to service delivery".
	<p>Splitting member and non-member income should still be allowed on an optional basis. This will future proof the standards for adoption by incorporated societies.</p>	<p>No amendment</p> <p>We are retaining the category for membership fees and subscriptions.</p> <p>The requirement to split transactions included in other categories between members and non-members was removed in response to feedback received during the PiR. If entities wish to analyse revenue between members and non-members they may continue to do so in the notes.</p>

	<p>Allowing relabelling of the categories might make it difficult to compare entities.</p>	<p>No amendment</p> <p>While the categories can be renamed, they must be retained in substance.</p> <p>We consider this is sufficient to ensure entities are comparable.</p>
<p>Partially agree</p>	<p>Grants should not be split into multiple categories on the face of the financial statements because:</p> <ul style="list-style-type: none"> • it is unnecessary; and • there is no way to align the grant revenue with the costs associated with those grants. 	<p>No amendment</p> <p>The splitting of grant income in the statement of financial performance was introduced in response to feedback received on the PiR.</p> <p>Regarding alignment of grant revenue with the costs associated with those grants – To allow for "matching", various categories would need to be adjusted. While it is not mandatory, we note that entities can still provide an analysis of grant revenue and the associated costs in the notes to the performance report if they so choose.</p>
	<p>Using the term “commercial activities” is inappropriate because it:</p> <ul style="list-style-type: none"> • is sensitive terminology and alternatives should be considered or "Revenue from providing goods and services" should be retained as the category label; • could inadvertently result in a lot of "other revenue" because an activity doesn't clearly fit into commercial activities or fundraising activities; and • introduces a lot of judgement and complexity for preparers and the distinction between what is commercial (and what is not) isn't sufficiently clear. 	<p>Minor amendment</p> <p>We consider that separation of revenue from commercial activities provides useful information.</p> <p>However, as noted above, we have added more guidance to clarify the treatment of trading activities which fulfil the entity’s purpose in themselves.</p>
	<p>Do not think employee remuneration, other employee costs, volunteer costs should all be separated in the statement of financial performance. Instead, we should either:</p> <ul style="list-style-type: none"> • keep all items combined into a single category; or 	<p>Substantive amendment</p> <p>We recommend combining employee remuneration and other employee costs together while retaining volunteer costs as a separate category.</p> <p><i>Note; this is consistent with the changes made to the Tier 4 Standard.</i></p>

	<ul style="list-style-type: none"> combine all employee costs and only keep volunteer costs separate. 	
	<p>What needs to be taken into account when considering the inclusion of new compulsory categories (this goes to all of the categories on the face of the Statement of Financial Performance and the notes) is the significance of the item in comparison to other expense categories. Preparers must be given the freedom to use their judgement as to the current and proposed categories in light of the activities of the entity. The use of “required categories” moves away from the freedom to do this.</p> <p>Another aspect that we would ask the XRB to consider is what these changes will mean for Incorporated Societies when they are required to report using this this standard.</p>	<p>No amendment</p> <p>The removal of the ability disaggregate was in response to feedback on the PIR that preparers were not applying judgement appropriately.</p> <p>We note that entities may still omit categories which do not apply.</p> <p>Our view is that appropriateness for incorporated societies is better addressed separately in the future. However, in general we currently feel the categories will also work well for incorporated societies.</p> <p>It is important to note that if an entity wants further disaggregation or more “freedom” the Tier 3 Standard provides this flexibility through the information they choose to present through the notes.</p>
<p>Disagree</p>	<p>Our recommended categories would include:</p> <ul style="list-style-type: none"> Donations and koha. Grants (we would prefer other revenue source splits above separation of grants into capital and operational). Bequests. Sponsorship (we assume that this is not able to include gifts in kind but would value any move to make this visible). Other fundraising (including events, merchandising and other GSTable fundraising transaction activity). Membership fees. 	<p>No amendment</p> <p>We do not consider there is sufficient benefit in separating the Donations, koha, bequests and other general fundraising category further in the statement of financial performance. Additional breakdowns of the categories may still be provided in the notes if an entity wishes.</p> <p>The grants category was separated in response to feedback and supports the optional format of the statement of financial position.</p> <p>While we have not used the exact terminology suggested, we already have a separate category for “membership fees and subscriptions”.</p>
	<p>The category “expenses relating to public fundraising” fails to identify the true costs of fundraising undertaken.</p> <p>The use of the word “public” is likely confusing. Many charities</p>	<p>Minor amendment</p> <p>We consider that the costs directly attributable to fundraising activities is important and we therefore recommend retaining the category. However, we have removed the word “public” to reinforce</p>

	<p>don't report costs under this heading for any fundraising undertaken that is directed at their known donors and supporters on the basis that those people are identifiable stakeholders and therefore not 'public' by comparison.</p> <p>The information supplied within this category is effectively useless as it is currently defined. Having said that, we question the purpose of the category.</p>	<p>that all fundraising income belongs in the associated category.</p> <p>We have not received widespread feedback that there are issues in practice with this category.</p>
	<p>Recommend the following.</p> <ul style="list-style-type: none"> • Separating government grants from private donations, grants, and bequests – this allows us to understand non-government giving patterns and trends. • Bequests should be its own category because they are a carefully managed form of giving within charities and form a significant income stream. • Need to distinguish external donations from the transfer of donations from national charity bodies to their branches/subsidiaries, given this can result in double-counting of donations and impact the accuracy of giving estimates. 	<p>No amendment</p> <p>We expect that the most significant government grants are likely to be service delivery grants which are already separated between government and non-government. Entities may provide further breakdowns in the notes.</p> <p>We do not consider there is sufficient benefit in separating bequests on the statement of financial performance. Further, we consider disclosures about restrictions on bequests will be more appropriate as part of accumulated funds.</p> <p>If a donation is being made in the context of a true parent/subsidiary relationship, we note that these would be captured as part of related party transactions for the subsidiary. Further, these transactions would also already be eliminated on consolidation.</p>
	<p>A separate category for volunteer and employee related costs remains a fundamental flaw in the standard. This creates confusion when entities primarily wish to understand their total costs by activity and would be better captured by requiring specific note disclosure only.</p>	<p>Substantive amendment</p> <p>Employee costs were separated from volunteer costs in response to feedback received on the PIR. However, we recommend combining all employee costs together as noted above.</p> <p>We do not recommend any changes to allow for activity-based analysis as this would require substantial revision of all the categories. Further, activity-based analysis can still be provided as additional information in the notes if an entity so chooses.</p>
<p>Tier 3 (PS) Standard</p>		

<p>Mostly agree</p>	<p>The categories are appropriate, but the following terminology needs to be further defined, and/or used consistently.</p> <ul style="list-style-type: none"> • Government vs non-government • Employee costs <ul style="list-style-type: none"> ○ Specifically which category independent contractor costs should be included in. • Commercial activities <ul style="list-style-type: none"> ○ Specifically, where to account for sales for fundraising and sales in a commercial capacity. <p>How to account for primary purpose trading.</p>	<p>Substantive amendment</p> <p>We have reviewed terminology to ensure that it is used consistently within and across standards and that the definitions are sufficiently clear.</p> <p>We recommend removing the category for commercial activities from the public sector version of the Tier 3 Standard.</p> <p><i>Note: this is consistent with the changes made to the Tier 4 Standard.</i></p>
<p>Partially agree</p>	<ul style="list-style-type: none"> • Flexibility to further disaggregate should not be removed. • There should not be a category for commercial activities in the public sector. • All employee costs should be combined as they could be too difficult to separate. 	<p>Substantive amendment</p> <ul style="list-style-type: none"> • We recommend adding back the option to disaggregate further in the public sector version of the Tier 3 Standard. • We recommend removing the commercial activities category. • We recommend combining all employee costs into a single category. <p><i>Note: this is consistent with the changes made to the Tier 4 Standard.</i></p>
	<p>Recommended the following amendments to Table 1 in Tier 3 (PS) Standard.</p> <ul style="list-style-type: none"> • Update the Funding from government (non-government) service delivery grants/contracts with the text from the “Revenue from the provision of services” category (which should be deleted). • Need to align the wording for similar categories and recommend combining the explanations for identical items if possible. 	<p>Substantive amendment</p> <p>We have reviewed and updated the table based on the feedback raised.</p> <p>The following changes have been made.</p> <ul style="list-style-type: none"> • Updated and combined the “Funding from government (non-government) service delivery grants/ contracts” as suggested • Updated “other fees and charges” to clarify that the treatment applies to fees and charges which do not require the <i>provision</i> of ongoing benefits • Removed reference to public or non-government from the “Donations,

	<ul style="list-style-type: none"> • Clarify “on-going benefits” for registration fees. We expect the key factor is whether there is an obligation to provide on-going benefits. • It is unnecessary for the “Donations, koha...” category to refer to “public or non-government organisations”. Accounting would be the same if a government entity was involved. • Guidance is needed on funding received from government that has expectations over use. • Ensure the terms “funding” and “cash” are used consistently and appropriately. • Combining the explanations for government and non-government general grants • Revenue from commercial activities. • Disagree with a separate revenue category for commercial activities in the public sector. 	<p>koha, bequests and other fundraising revenue” category</p> <ul style="list-style-type: none"> • Combined “general funding received from central or local governments” with the “grants from non-government and capital grants” sections in the table. • Removed the commercial activities section of the table. <p>We have not added a general “provision of services” section of the table as we consider that this belongs within the “service delivery grants/contracts” category.</p>
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Question for the Board

Q10. Does the Board AGREE with our recommendations relating to the required categories?

Revenue recognition

Consultation Question

Q8: Do you agree with the proposals to amend the revenue recognition requirements for grant, donation, bequest and pledge funding?

21. There were 20 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	14	70%	-	0%
Mostly agree	3	15%	1	50%
Partially agree	-	0%	-	0%
Disagree	3	15%	1	50%
Total	20	100%	2	100%

22. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	There are concerns from some preparers over the judgement involved in applying the definition of “significant”. The XRB should consider developing and providing additional guidance to assist with application.	No amendment What is “significant” is entity-specific and therefore requires judgement. No further guidance to be added to the Tier 3 Standards themselves, but we will consider what type of guidance we can issue to assist Tier 3 entities with application.
	The term “pledge” is used repeatedly, but inconsistently, in the Tier 3 (NFP) Standard but does not form part of the minimum revenue categories. Also, such pre-commitments (pledges) may not be legally enforceable. Therefore, the term should be removed from the Tier 3 Standards entirely.	Minor amendment We recommend including paragraph A51.1 in the Tier 3 Standards, stating that pledges are not recognised until the donations are received (and making it clear that these donations are accounted for in the same way as other donations). Therefore, we also recommend removing the explicit reference to “pledges” from the “expectations over use” recognition model.
	It should be made clear that capital grants are included as part of the proposed amendments to revenue	Minor amendment Table 1 in the Tier 3 (NFP) Standard makes it clear that capital grants are

	<p>recognition and can be deferred, and that revenue is recognised as and when the asset is acquired or constructed, instead of upon receipt.</p>	<p>included as part of the proposed amendments. However, for emphasis, we recommend including capital grants as an example of a grant in paragraphs A65 and A65.2.</p>
	<p>We are unsure whether "expectations over use" is a simpler term or concept than "use or return". The use of flowcharts and examples may make this easier to understand.</p>	<p>No amendment</p> <p>There are a few examples included in paragraph A65.9 along with a flowchart in paragraph A67. We will consider whether further guidance can be issued to support the new amendments.</p>
	<p>The record keeping by funder for some entities is likely to be problematic.</p>	<p>No amendment</p> <p>We will emphasise in our outreach on the new amendments that record keeping is important.</p>
<p>Disagree</p>	<p>This is a major change from the established method of revenue recognition for NFPs. There are a number of potential issues with the proposed revenue recognition approach.</p> <ul style="list-style-type: none"> • Many funders will still require a “use or return” methodology (e.g. as a result of Covid-19 lockdowns), meaning that there will be potential differences in recognition at balance date between what the Standard requires and what funders require. • How will auditors measure the appropriate use of a grant/contract funding if it is not matched against actual spend? • In the case of many Central and Local Government contracts, the contract funding may not be fully applied against expenses in the contract period. However, this allows for a ‘bridge’ in funding for a programme until further funding can be secured. In most cases Central and Local Government contract funding has a delayed payment, so ‘ringfencing’ funding remaining from a previous period is vital for the work to be able to continue smoothly. 	<p>No amendment</p> <p>Current requirements do not necessarily allow actual spending to be “matched” against the funding recognised as revenue. The proposed requirements would be more likely to do this, and are simpler to apply and provide more flexibility in recognising revenue as or when expectations over use are met.</p> <p><i>It is important to keep in mind that over 70% of respondents agreed with the proposals.</i></p>

	<p>If the 'leftover' funding from one period is recognised as revenue in that period then it will likely be used for overheads or in other programmes, which was not the intention of the funders. This could lead to relationship issues, especially if a funder requires an audit in a future period, as is allowed for in Central Government contract terms.</p>	
	<p>Trying to distinguish insignificant vs significant revenue may lead to confusion and disagreements as to an item's significance. The Tier 3 (NFP) Standard should not have this distinction.</p>	<p>No amendment</p> <p>The distinction between insignificant and significant revenue is intended to reduce the costs to the entity of keeping track of unfulfilled expectations. We will consider issuing additional guidance on the application of the concept of "significant" to assist entities with applying this concept.</p>
	<p>The current "use or return" method of distinguishing whether an item is revenue or can be recorded in advance, is easy to understand and simple. It is easy for auditors to check if a grant has a use or return component. Under the proposed amendments, if there are vaguely written grant notices/contracts, there may be scope for an entity to shift revenue more easily between periods – allowing entities to meet profit targets or manipulate revenue to a break-even position. This could lead to disagreements with the auditors. The status quo works well.</p>	<p>No amendment</p> <p>Although we agree that the "use or return method" was simpler, it did not allow entities enough flexibility to explain how its funding is spent on advancing an entity's objectives. An expectation is required to be clear enough for the entity to be able to reliably demonstrate to the funder when the expectation has been met (even if the funder does not monitor use of the funds). Therefore, an unclear/poorly worded expectation would lead to immediate revenue recognition upon receipt of the funds.</p>
	<p>Revenue recognition methods in Table 1 for pledges and bequests, entrance fees and subscriptions to a series of events are useful and should not be removed.</p>	<p>No amendment</p> <p>Except for pledges (which we recommend removing as a separate source of revenue) these methods remain in Table 1, they have just been moved to another section. For example, instead of rows in the table specific to "entrance fees" or "subscriptions to a series of events", instead, there are revenue recognition methods for "other fees and subscriptions" and "fees and subscriptions in exchange for goods or services".</p>

Tier 3 (PS) Standard		
Mostly agree	<p>There are concerns from some preparers over the judgement involved in applying the definition of ‘significant’. The XRB should consider developing and providing additional guidance to assist with application.</p>	<p>No amendment</p> <p>What is “significant” is entity-specific and therefore requires judgement. As noted above for the Tier 3 (NFP) Standard, no further guidance will be added to the Tier 3 Standards themselves, but we will consider what type of guidance we can issue to assist Tier 3 entities with application.</p>
	<p>It should be made clear that capital grants are included as part of the proposed amendments to revenue recognition and can be deferred, and that revenue is recognised as and when the asset is acquired or constructed, instead of upon receipt. Also, there is no mention of capital grants in Table 1 in paragraph A64. Capital grants should also be specifically referenced in paragraph A64 for the avoidance of doubt.</p>	<p>Minor amendment</p> <p>We recommend including capital grants as an example of a grant in paragraphs A67 and A67.2.</p>
	<p>The term “pledge” is only mentioned once in the Tier 3 (PS) Standard but does not form part of the minimum revenue categories. Also, such pre-commitments (pledges) may not be legally enforceable. Therefore, the term should be removed from the Tier 3 Standards entirely.</p>	<p>Minor amendment</p> <p>The reference to “pledges” in the Tier 3 (PS) Standard was a drafting error (pledges do not commonly occur within the public sector). This has been corrected in the latest version of the draft Standard.</p>
Disagree	<p>The default accounting for revenue, including all the examples included in Table 1, should be accruals based as the Tier 3 Standard is an accruals standard. This is consistent with the Tier 3 basis of preparation in paragraph A177 which states that “All transactions are reported using the accrual basis of accounting”.</p> <p>Some of the examples in Table 1 are not consistent with the accrual-based principle as they state revenue is recognised on receipt, or when funding or cash is received. For example, this is the case for general funding from government and grants from non-government organisations. This implies cash accounting.</p>	<p>No amendment</p> <p>As discussed at the September 2021 Board meeting, the Board decided not to change the requirements in relation to timing of receipt of donations and grants to require recognition when receivable. The Board's view was that, although such recognition is appropriate from an accrual perspective, it is much simpler and involves less judgement to recognise revenue from sources such as grants and donations upon receipt.</p> <p>This decision was made before the new revenue recognition approach was developed, but the Board's view applies to grant and donation funding which</p>

		<p>have no expectations attached, as well as to insignificant grants and donations.</p> <p>The Board's view would logically extend to other similar types of revenue, such as general funding from governments. The Basis for Conclusions will explain the Board's rationale for its view.</p>
	<p>The Standard is unclear on how you assess whether donations, grants and bequests are significant or insignificant. For example, an entity may have many insignificant donations, grants and bequests with expectations over use, but they are significant in the aggregate. In this case, how should the individually insignificant items be accounted for.</p>	<p>Substantive amendment</p> <p>In Table 1, in the relevant sections, we recommend adding in a comment to state that entities shall not aggregate individually insignificant donations, grants and bequests for the purposes of applying the new revenue recognition approach. From a cost-benefit perspective, our recommended approach is simple for Tier 3 entities to apply without a loss of significant information for users.</p>
	<p>A virtual meeting for which there is a recording is not satisfactory for evidencing a documented agreement. It may be impracticable for entities and auditors to transfer these large electronic files via e-mail, and significant time could be spent locating the discussed agreement within the recording file. An e-mail should be the minimum acceptable evidence for a documented agreement, and it should not be onerous to follow up a meeting with an e-mail to confirm the decisions or agreement made.</p>	<p>Minor amendment</p> <p>We recommend removing the example of using a recording from a virtual meeting, as we agree that:</p> <ul style="list-style-type: none"> • it could be time-consuming to find the relevant part of the recording; and • sending an email with a summary of what was discussed during the meeting would not be onerous.
	<p>The difference in revenue recognition for Example 1, Scenarios 2 and 3 are unclear.</p> <p>Additionally, Scenario 3 says revenue is accounted for when the fees are received. This is not consistent with paragraph A64 where other fees and charges are recorded as revenue when the fee is due to be received.</p>	<p>Minor amendment</p> <p>Additional wording will be added to Scenarios 2 and 3 to better explain the difference between the two. We will also amend Scenario 3 to reflect the correct timing of revenue recognition.</p>

Question for the Board

Q11. Does the Board AGREE with our recommendations relating to revenue recognition?

Accumulated funds

23. Consultation Questions 9 – 10 are addressed in this section. While the responses to each question are detailed below, during the analysis of responses a common theme arose across the topic of accumulated funds generally which we consider is best addressed separately and before considering the other responses.
24. While there was general consensus among respondents that requiring additional disclosures of the purpose for which accumulated funds are held was appropriate, some respondents highlighted concerns with the proposal, specifically:
- (a) The requirement should only apply to amounts of accumulated funds represented by cash and investments.
 - (b) There should be an option for entities to include disclosures around portions of accumulated funds that are subject to restrictions imposed by external funders.
 - (c) There is a risk that this requirement will likely have unintended behavioural effects such as charities inappropriately spending their accumulated funds due to concerns about public or regulatory perception.
 - (d) It is likely the disclosures will be ineffectual because they will either become a generic, templated sentence or will be a repetition of the entity information section.
25. In addition, some respondents also expressed concerns about the proposal to remove the requirement to disclose information about restricted reserves. These respondents noted the following.
- (a) While it makes sense to remove the requirement due to the ability to defer revenue in a wider set of circumstances, they would prefer the requirement to be optional instead.
 - (b) Removing this requirement is inappropriate because it is excessive simplification of the requirements for Tier 3 and the information is still useful for both users and preparers as it covers funds subject to restrictions which are insufficient to create a liability (such as bequests).
 - (c) The requirement should not be removed entirely because doing so will mean that any entities currently reporting restricted reserves will need to reverse this accounting.
26. After considering the views expressed, we agree that there may be risk of unintended consequences of requiring additional disclosures about accumulated funds in general. We also agree that some entities could be adversely impacted by removing the ability to disclose restricted reserves entirely.
27. However, it does appear that despite the concerns raised by respondents across Consultation Questions 9 and 10, there is a general consensus that some subset of accumulated funds should be subject to enhanced disclosures (i.e., amounts represented by cash or investments, amounts subject to restrictions from funders, bequests with restrictions). We also note that greater transparency over the reasons charities accumulate funds is part of the policy objectives for the Charities Amendment Bill.

28. Based on the views expressed across both questions we consider there are three options.
- (a) Option A: Remove the requirement for additional disclosures around accumulated funds.
 - (b) Option B: Remove the requirement for additional disclosures around accumulated funds and restore the requirements for restricted reserves as an optional disclosure.
 - (c) Option C: Restore the requirements for restricted reserves as an optional disclosure and convert the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves instead.
29. **We recommend proceeding with Option C** because:
- (a) we consider it reduces the risk of unintended consequences from requiring disclosures for accumulated funds generally;
 - (b) it will still enhance disclosures about portions of accumulated funds over which entities have some discretion and will make it easier to provide specific rather than generic disclosures;
 - (c) it will ensure entities receiving bequests or other funds with restrictions (that do not meet the requirements to defer) have a clear location in the performance report where they can be identified and disclosed; and
 - (d) it avoids forcing entities which already make use of the restricted reserves requirements to change their accounting approach.
30. The amended requirements recommended by staff can be found in paragraphs A139 – A148 and A196.1 – A196.4 of the marked-up NFP Tier 3 Standard and paragraphs A141 – A150 and A198.1 – A198.4 of the marked-up PS Tier 3 Standard.
31. At a high level this means that our final proposals would amend the requirements from those in the current version of the Tier 3 Standard as follows.
- (a) Introduce a new requirement for an entity to “disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies, and processes for managing its reserves.
 - (b) Introduce enhanced disclosure requirements for:
 - (i) restricted reserves – which require an entity to describe the purpose of the reserve, and the nature and terms of the related restriction on the reserve; and
 - (ii) discretionary reserves – which require an entity to describe the purpose of the reserve, the entity’s plans for applying the reserve towards its stated purposes, and when the entity expects the reserve will be applied.
 - (c) Create a new class of revaluation reserve within which an entity may recognise the effect of revaluations of property, plant and equipment and publicly traded financial investments.

- (d) Create a new class of other reserves within which an entity may present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard.

Question for the Board

Q12. Does the Board AGREE with our recommendation to restore the requirements for restricted reserves as an optional disclosure and convert the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves?

Consultation Question – enhanced note disclosure

Q9: Do you agree with the proposals to require an entity to provide enhanced note disclosure that explains the purpose for which accumulated funds are held?

- 32. There were 21 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	13	62%	-	0%
Mostly agree	3	14%	1	50%
Partially agree	-	0%	-	0%
Disagree	5	24%	1	50%
Total	21	100%	2	100%

- 33. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	Agree with the underlying objective of the disclosures and the overall approach for most entities but there is a concern that they may not be appropriate for grant-making entities.	No amendment We consider the wording is sufficiently principles-based to be appropriate for grant-making entities.
	The requirement should instead only require disclosure of the amounts of accumulated funds represented by cash and investments.	Substantive amendment As discussed in paragraphs 22-28 above, we recommend restoring the requirements for restricted reserves as an optional disclosure and converting the requirements for enhanced accumulated funds
	Disclosure should be enhanced by adding an option for entities to include disclosures around portions of	

	accumulated funds that are subject to restrictions imposed by external funders.	disclosures to be applicable to restricted and discretionary reserves instead.
Disagree	Introducing these disclosures will likely have unintended behavioural effects because charities will be concerned about public or regulatory perception of their accumulated funds. It may result in charities inappropriately spending their accumulated funds and becoming more unstable.	
	<ul style="list-style-type: none"> The disclosures will be ineffectual because they will either: Result in just a generic sentence that provides not useful information Repeat the entity information section to a large extent. 	
Tier 3 (PS) Standard		
Mostly agree	Disclosure should be enhanced by adding an option for entities to include disclosures around portions of accumulated funds that are subject to restrictions imposed by external funders.	<p>Substantive amendment</p> <p>As discussed in paragraphs 22-28 above, we recommend restoring the requirements for restricted reserves as an optional disclosure and converting the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves instead.</p>

Question for the Board

Q13. Does the Board AGREE with our recommendations relating to enhanced note disclosure for accumulated funds?

Consultation Question – restricted reserves

Q10: Do you agree with the proposals to remove the requirements related to restricted reserves?

34. There were 15 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	10	66%	1	50%
Mostly agree	1	7%	1	50%

Partially agree	-	0%	-	0%
Disagree	4	27%	-	0%
Total	15	100%	2	100%

35. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	Suggest including an option to disclose information around restricted reserves, but support the proposals to remove the requirement related to restricted reserves on the basis that revenue is allowed to be deferred in a wider set of circumstances.	<p>Substantive amendment</p> <p>As discussed in paragraphs 22-28 above, we recommend restoring the requirements for restricted reserves as an optional disclosure and converting the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves instead.</p>
Disagree	Removing this requirement is excessive simplification and the information is useful for both users and preparers. It also fills the gap for those funds subject to some restrictions, but which do not meet the definition of a liability (such as funds from bequests). It is not clear what the benefit of removing this section entirely is.	
	Some entities are currently reporting restricted reserves and removing this requirement will mean that these entities will need to reverse these reserves.	
Tier 3 (PS) Standard		
Mostly agree	Suggest including an option to disclose information around restricted reserves, but support the proposals to remove the requirement related to restricted reserves on the basis that revenue is allowed to be deferred in a wider set of circumstances.	<p>Substantive amendment</p> <p>As discussed in paragraphs 22-28 above, we recommend restoring the requirements for restricted reserves as an optional disclosure and converting the requirements for enhanced accumulated funds disclosures to be applicable to restricted and discretionary reserves instead.</p>

Opting up

36. Consultation Questions 11 – 12 are addressed in this section.

Consultation Question – accounting for items of other comprehensive revenue and expense

Q11: Do you agree with the proposed accounting for items of other comprehensive revenue and expense?

37. The Tier 3 EDs proposed that an entity shall recognise the effects of transactions directly in accumulated funds, where there is a requirement in Tier 2 PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. This applies to transactions where an entity elects to apply (or "opt up" to) the requirements of Tier 2 PBE Standards.

38. There were 13 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	11	84.62%	1	50%
Mostly agree	1	7.69%	-	0%
Partially agree	-	0%	-	0%
Disagree	1	7.69%	1	50%
Total	13	100%	2	100%

39. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	We support clearer information on the opting up requirements, given the proposed changes. The use of the word "shall" could be clarified because it is not clear whether this a requirement or an option. If this is a requirement, the word "must" is more appropriate and unambiguous.	No amendment The word "shall" is consistent with other parts of the Standard where the entity must comply with a requirement.
Disagree	The effect of such transactions be recognised as revenue or expenses in the statement of financial performance, albeit below 'operating surplus/deficit'. In addition, such transactions should also be incorporated in the alternative format of the statement of financial performance in paragraph A48,	Substantive amendment We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.

	included below 'operating surplus/(deficit)'. This would enable an entity to present these transactions separately from other revenue and expenses.	As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.
Tier 3 (PS) Standard		
Disagree	The effect of such transactions be recognised as revenue or expenses in the statement of financial performance, albeit below 'operating surplus/deficit'. In addition, such transactions should also be incorporated in the alternative format of the statement of financial performance in paragraph A48, included below 'operating surplus/(deficit)'. This would enable an entity to present these transactions separately from other revenue and expenses.	<p>Substantive amendment</p> <p>We recommend an amendment to align the treatment of revaluation gains for PPE and financial investments. See paragraphs 3 – 7 above.</p> <p>As the Board has previously agreed not to introduce the concept of other comprehensive revenue and expense to the Tier 3 Standard, we do not recommend adding other lines below the operating surplus/deficit line.</p>

Question for the Board

Q14. Does the Board AGREE with our recommendations relating to the accounting for items of other comprehensive revenue and expense?

Consultation Question – comments on the new Appendix C

Q12: Do you have any comments on the new Appendix C?

40. The table below sets out the comments that respondents made on the new Appendix C. There were no comments on the new Appendix C in the Tier 3 (PS) Standard.

Issue	Staff recommendation
Tier 3 (NFP) Standard	
<p>The NZASB should continue to develop additions to the Tier 3 Standards, so no Tier 3 entity needs to opt-up to Tier 2. Allowance should be made into this current draft for additional extra standards to be developed in future.</p> <p>Opting up has added additional unnecessary complexity and complex disclosure requirements. Stand-alone</p>	<p>No amendment</p> <p>The most common "opting up" scenarios have been addressed in the proposed amendments (i.e., including simple asset revaluation requirements in Tier 3).</p> <p>If Tier 3 entities still find themselves opting up to Tier 2 requirements on a frequent basis, then it is likely that reporting under Tier 2 reporting standards is more appropriate.</p>

<p>standards can sit along the main Tier 3 Standards, which only need to be adopted by those to whom they apply – for example a Tier 3 standard on consolidations.</p>	<p>In the Feedback Statement for the PiR, we noted that we would consider additional education and awareness raising activities around consolidation for Tier 3 entities. At this stage, consolidation issues are not widespread enough to consider standard-setting activity.</p>
<p>It should be noted that the Tier 1 and 2 reporting standards also refer to exchange and non-exchange transactions so opting up to a standard which requires a type of transaction to be recorded as a non-exchange transaction has a similar effect as other comprehensive income in my view.</p> <p>Each of the Tier 1 and 2 reporting standards needs to be judged and dealt with to see if the classification systems used in those standards does not require a similar type of concession.</p>	<p>No amendment</p> <p>The most common “opting up” scenarios have been addressed in the proposed amendments (i.e. including simple asset revaluation requirements in Tier 3).</p> <p>If Tier 3 entities still find themselves opting up on a frequent basis, then it is likely that reporting under Tier 2 standards is more appropriate.</p>
<p>Suggest reformatting paragraphs C6, C7, C8 and C9 as bullet points, as they all start with the same sentence.</p>	<p>Minor amendment</p> <p>Reformatted the relevant paragraphs, except for paragraphs C6 and C9 (now paragraph C8).</p>

Question for the Board

Q15. Does the Board AGREE with our recommendations relating to Appendix C?

Other proposed amendments

41. Consultation Questions 13 – 15 are addressed in this section.

Consultation Question – Entity Information section

Q13: Do you agree with the proposed amendments to Section 3 Entity Information?

42. There were 17 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	11	64.71%	-	0%
Mostly agree	4	23.53%	1	50%
Partially agree	-	0%	-	0%
Disagree	2	11.76%	1	50%
Total	17	100%	2	100%

43. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	<p>Any cross-referenced annual reports or other documents should be:</p> <ul style="list-style-type: none"> available to the auditor in the same way that the current entity information section is publicly and freely available in an accessible format for report readers, and required to be uploaded to Charities Services with the other reports. 	<p>Minor amendment</p> <p>The proposed amendment states that <i>the information required...may be incorporated by cross-reference...to some other statement or report that is available to users...at the same time.</i></p> <p>We recommend specifying that the cross-referenced information must be publicly available. It is not necessary to specify that the information should be 'freely' available in an 'accessible' format, since it is commonly understood that publicly available information should be easily available at no charge.</p> <p>Regarding availability to auditors - we consider that paragraph A37.1 allows for this (since if the information is available to users, then it should be available to auditors as well). Regarding uploading to Charities Services – this is outside our remit (but in any case, if the information is publicly and freely available then this may not be necessary).</p>

	<p>Any amendments to the Entity Information section should be carried over into Tier 1 and 2 reporting requirements as well.</p>	<p>No amendment</p> <p>Changes to Tier 1 and 2 reporting requirements are not within the remit of this project. Requirements for Tier 3 entities are considered in light of what information is useful for the users of Tier 3 Performance Reports.</p>
<p>Disagree</p>	<p>Cross-referencing to other documents could create confusion and / or unintended consequences. It is easy enough to fill in the entity information section.</p>	<p>No amendment</p> <p>The option to cross-reference reduces unnecessary duplication in the performance report.</p>
	<p>Entities should describe who the intended users of their performance report are. This allows the reader to understand who the entity has written this performance report for (similar to how audit reports are addressed to certain users). It would also help auditors ensure that the statement of service performance and disclosures are aligned to the readers.</p>	<p>No amendment</p> <p>This would require Tier 3 entities to disclose more information than that required by Tier 2 entities.</p>
	<p>Entities should be allowed the flexibility to include additional information. We see charities add their contact details, website, and social media details in this section – which should be encouraged rather than stopped.</p> <p>Entities should also be required to disclose the following information in the Entity Information section:</p> <ul style="list-style-type: none"> • Legal name and trading name • Registration number (if applicable) • For each entity controlled by the entity disclose the legal name and trading name, registration number, type of entity and legal basis 	<p>No amendment</p> <p>Our intention is to limit the type of information disclosed in the Entity Information section. Also, some of this information will already be available in other documents (such as annual returns) or should be disclosed elsewhere in the Performance Report (e.g., if the entity’s structure or name has changed in the post-balance date period).</p>

	<ul style="list-style-type: none"> Where the entity's structure or name has changed between balance date, and the date of signing the performance report, this information should be disclosed 	
	<p>The following guidance should be included in the Entity Information section:</p> <ul style="list-style-type: none"> Comparatives are not required for entity information. Intended users could include those defined in paragraphs A4 and A5. 	<p>No amendment</p> <p>We consider that it is self-evident that comparative information would not be required for entity information. No amendment recommended concerning intended users, as discussed above.</p>
Tier 3 (PS) Standard		
Mostly agree	<p>Any cross-referenced annual reports or other documents should be publicly and freely available.</p>	<p>Minor amendment</p> <p>The proposed amendment states that <i>the information required...may be incorporated by cross-reference...to some other statement or report that is available to users...at the same time</i></p> <p>We recommend specifying that the cross-referenced information must be publicly available. It is not necessary to specify that the information should be “freely” available, since it is commonly understood that publicly available information should be easily available at no charge.</p>
Disagree	<p>A Tier 3 public sector entity that does not produce a statement of service performance should not have to disclose information on the significant activities it has undertaken during the financial year to achieve its objectives (paragraph A40(b)). This is requiring information to be disclosed that a Tier 2 public sector entity is not required to disclose (if it does not prepare a statement of service performance).</p> <p>The most similar disclosure requirement we could find in</p>	<p>Substantive amendment</p> <p>Remove the requirement in paragraph A40, because:</p> <ul style="list-style-type: none"> Tier 3 entities already have to disclose their purpose or mission in the Entity Information section. If a statement of service performance is not required then the information in the entity information section should be sufficient; and Providing a general description of the entity’s significant activities is not required for Tier 2 entities (and therefore requiring a Tier 3 entity to disclose this information, in the absence of a compelling reason, is unnecessarily onerous).

	<p>the Tier 1 and 2 Standards is PBE IPSAS 1.150(b) which requires a description of the entity’s operations and principal activities. However, Tier 2 entities are not required to disclose this information due to there being a disclosure concession.</p>	
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Question for the Board

Q16. Does the Board AGREE with our recommendations relating to Section 3 Entity Information?

Consultation Question – Statement of Cash Flows

Q14: Do you agree with the proposed amendments to the statement of cash flows?

44. There were 20 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	13	65%	0	0%
Mostly agree	2	10%	1	50%
Partially agree	2	10%	1	50%
Disagree	3	15%	-	0%
Total	20	100%	2	100%

45. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	<p>We support aligning the categories within the statement of cash flows with the categories of revenue and expense in the statement of financial performance. It would be helpful if the categories within the statement of cash flows were presented in the same order in the Tier 3 Standards as the categories of revenue and expense in the statement of financial performance.</p>	<p>Minor amendment</p> <p>We have ensured the categories in the statement of cash flows are appropriately aligned with those in the statement of financial performance, including in templates and guidance material.</p>

Partially agree	We agree with the proposed updates (including separating payments to employees from other supplier payments and the updated wording around describing of cash) except that categories (c), (f), (g), (j) and (l) need some tweaking.	Minor amendment We have reviewed the categories to ensure the labels as easy to understand as possible.
	<p>Respondents were concerned that the proposed amendments to the statement of cash flows would make it more difficult.</p> <p>One respondent also noted that a key part of this is that it was already difficult to configure software packages to produce a statements of cash flows. Having more categories would make this configuration more complex.</p>	<p>No amendment</p> <p>We have ensured that the categories are appropriately aligned across the statement of financial performance and the statement of cash flows.</p> <p>We do not consider the difficulty faced in preparing a statement of cash flows in particular software packages can be addressed by the requirements of the Tier 3 Standard.</p>
Disagree	No, this will add more confusion, as templates need to change. If we must have a SOCF, there is nothing wrong with the current headings. Changing them will reduce comparability between years and with those Tier 2 entities.	No amendment We consider it important that the categories across the statement of financial performance and the statement of cash flows are aligned.
	The statement of cash flows is too technically challenging and should either be removed or made optional for Tier 3 entities	No amendment We consider it is important that the requirement to prepare a statement of cash flows is retained in the Tier 3 Standard.
Tier 3 (PS) Standard		
Mostly agree	We support aligning the categories within the statement of cash flows with the categories of revenue and expense in the statement of financial performance. It would be helpful if the categories within the statement of cash flows were presented in the same order in the Tier 3 Standards as the categories of revenue and expense in the statement of financial performance.	Minor amendment We have ensured the categories in the statement of cash flows are appropriately aligned with those in the statement of financial performance, including in templates and guidance material.
Disagree	We agree there should be some consistency between the operating cash flow categories and the revenue and expense categories in the statement of financial performance.	

	<p>However, we do not fully agree with the categories for the cash flows from operating activities. In particular, we do not agree with the reference to commercial activities. We consider there should be an explicit category for government grants received. There could also be a category for interest paid.</p>	
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Question for the Board

Q17. Does the Board AGREE with our recommendations relating to the statement of cash flows?

Consultation Question – definition of “cash”

Q15: Do you agree with the proposed amendments to the definition of cash?

46. There were 18 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents² who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP) Standard		Tier 3 (PS) Standard	
	Number	Percentage	Number	Percentage
Agree	15	83.33%	1	100%
Mostly agree	1	5.56%	-	0%
Partially agree	1	5.56%	-	0%
Disagree	1	5.56%	-	0%
Total	18	100%	1	100%

47. There was also one respondent on the Tier 3 (PS) ED that did not express a definitive view on the proposed amendments, but they did provide a comment which we have included in the table below.

48. The issues raised by respondents who did not agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	The wording of the definition must be self-contained within the Tier 3 Standard, without reference to Tier 2. Any	No amendment We do not reference Tier 2 in the definition of cash nor in any related guidance within

² One of the respondents did not express a view (and therefore they are not included in the table below); however, they did provide a comment which we have included in the table of issues in this section.

	changes to the Tier 2 definition should result in a consequential change to the Tier 3 definition.	the Standards. A change in the Tier 2 Standards would not result in a consequential amendment because we would consider any amendments to the Tier 3 Standards separately (although a change to Tier 2 would have an impact on our assessment).
Partially agree	The definition should be extended to include all term deposits. Term deposit roll-overs lead to entries of purchase and sale of investments in investing activities in the statement of cash flows, when in fact all that has happened is that a term deposit has rolled over.	No amendment Although the impact on the statement of cash flows may not be ideal it would not be conceptually correct to include all term deposits in the cash definition.
Disagree	Term deposits should not be included as 'cash' regardless of maturity (unnecessary administrative task to determine maturity, could lead to people arguing that other types of term deposits should be included, most term deposits are reinvested anyway).	No amendment We do not believe it is onerous to determine the length of maturity, and we have been clear in the Standard that only certain types of term deposits are included in the definition.
Tier 3 (PS) Standard		
Did not express a view	Note that there is an alternative view that the amendments will unnecessarily complicate the preparation of the statement of cash flows for those entities that are not part of a group and have had term deposits during the financial year with differing durations.	No amendment We note this alternative view, but we consider that the benefits of aligning this section of the Standard with Tier 2 Standards outweigh this potential complication.

Question for the Board

Q18. Does the Board AGREE with our recommendations relating to the definition of cash?

Effective date

Consultation Question

Q16: Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted?

49. There were 17 respondents who answered this question in relation to the Tier 3 (NFP) Standard and two respondents who answered in relation to the Tier 3 (PS) Standard.

View	Tier 3 (NFP)		Tier 3 (PS)	
	Number	Percentage	Number	Percentage
Agree	15	88%	2	100%
Mostly agree	1	6%	-	0%
Partially agree	-	0%	-	0%
Disagree	1	6%	-	0%
Total	17	100%	2	100%

50. The issues raised by respondents who did not fully agree along with our recommended response have been summarised below.

View	Issue	Staff recommendation
Tier 3 (NFP) Standard		
Mostly agree	The sector must be given at least 12 months to prepare as all entities affected by the final changes will need to change their comparative information to comply which, for those entities currently being audited by or reviewed by an external assurance provider will mean extra costs, both internally to make the changes and externally for the audit. It may be better if there is no restatement of comparatives.	<i>We will develop recommendations for transitional arrangements for the Board's consideration at its April 2023 meeting.</i>
Disagree	The Tier 3 Standards should not be published until there is an auditing and a review standard that allows assurance to be provided over both the Statement of Service Performance AND Entity Information.	No amendment We cannot wait for the assurance framework to be updated, as we would like to publish the amendments to Tier 3 Standards as soon as possible to help Tier 3 entities with their reporting.

Question for the Board

Q19. Does the Board AGREE with our recommendations relating to the effective date of the Tier 3 Standards, including allowing for earlier application?

Other issues

Consultation Question
Q17: Do you have any other comments on the proposals to amend the reporting requirements for Tier 3 entities?

51. The table below sets out the comments that respondents made on those areas of the Tier 3 Standards not directly addressed by one of the other consultation questions.³

Issue	Staff recommendation
Tier 3 (NFP) Standard	
Please change the word “aggregated” to be “totalled” in several places (for example A54, A61, A72). This was also in the original Tier 3 standard. This update would be easier to understand by many of our clients and accountants.	Minor amendment We recommend using the word “totalled” alongside the word “aggregate” when it appears for the first time in both the revenue and expense sections of the Standard.
The term “cash” used in A62 and in Table 1 needs to be defined here or in the Glossary. While accountants understand the term “cash” to include deposits into bank accounts many charity personnel do not and think of it as the notes and coins received at the fundraising etc	Minor amendment We recommend changing the line item "Bank Accounts, cash and short-term deposits" to "Cash and short-term deposits". We can then add a Glossary definition for cash, which would be "Cash on hand and bank account balances (i.e. cheque and savings accounts)". The Glossary definition is important because we refer to 'cash' in other sections of the Standard (i.e. in Table 1).
I note that Appendix B for transitional arrangements has not been updated. Here will obviously need to be some thought put into how to move from the old Standard to the new one, especially in terms of revenue recognition changes, category changes and assets previously valued using Tier 2 Standards.	We will develop recommendations for transitional arrangements for the Board’s consideration at its April 2023 meeting.

³ The table does not contain a full list of responses to this question. We have excluded those comments which are positive and do not contain any recommendations for improvement. We have also excluded those comments which pertain to areas that fall outside of the NZASB’s mandate (e.g. relating to legislative thresholds or assurance requirements).

<p>Paragraph A138 of Appendix A states that <i>“Accumulated funds represents the owners’ financial interest in the entity and/or the net assets available to the entity to fulfil its objectives in the future.”</i> This reference to “financial interest” is inconsistent with the definition of a PBE, i.e., <i>“no financial return to equity holders”</i>. It would be more appropriate if the explanation given in paragraph A138 does not refer to a “financial interest”.</p>	<p>Minor amendment</p> <p>We recommend removing the wording "financial interest" from the definition. This wording was unintentionally left in the Tier 3 NFP ED – the equivalent paragraph in the Tier 3 PS ED does not contain this wording.</p>
<p>For any changes, it will be important to use plain language explanations and clear examples of the changes. Many staff and volunteers in charge of Tier 3 accounting processes do not have formal accounting training or they are new to non-profit accounting.</p>	<p>Minor amendment</p> <p>We will simplify where possible but not to the extent that we did for Tier 4.</p>
<p>Paragraph A53 states that <i>“Some NFP entities have owners who contribute capital”</i>. The statement should read <i>“In rare circumstances a NFP entity may have owners or settlors who contribute capital (often occurring at start-up) ...”</i> and change the terminology to <i>“funds contributed by owners or settlors”</i> Often when a trust is being set up, settlors would contribute funds. Therefore, allowance should be given in the Standard to record this type of transaction in equity.</p>	<p>No amendment</p> <p>The Board previously considered introducing analogous terminology and agreed that no change was required. No additional new reasoning was provided which we consider would change this conclusion.</p>
<p><u>Suggested tax-related disclosures</u></p> <ul style="list-style-type: none"> • A Tax note (including a reconciliation of the tax expense). • Disclosure of items such as imputation credits, losses carried forward, tax asset, or tax liability should also be required. This will future proof the standard for when incorporated societies start using them. • Tax receivables should be included as an example of a Debtors asset. • It would be useful to have a required disclosure on the tax status of the entity, and the legal reasons for any exemption. 	<p>No amendment</p> <p>This was not a widely raised issue and has limited applicability in the NFP sector. While we accept that these issues may be of more relevance to incorporated societies, our view is that these are better addressed separately in the future as part of ensuring the Tier 3 and Tier 4 Standards a fit for incorporated societies.</p>
<p>The Tier 3 Standard should include requirements for the accounting for intangible assets (such as software, website, trademarks).</p>	<p>No amendment</p> <p>The board has previously agreed not to introduce requirements for intangible assets to the Tier 3 Standard. No reasoning which provides a basis for reassessing this decision was given.</p>

<p>Include a provision/allowance for doubtful debts, not just a bad debt expense. Therefore, if there is some unlikelihood of collection within the next 12 months, but the entity is still pursuing it, a provision can be recorded.</p>	<p>No amendment</p> <p>We note that the requirement to assess collectability of receivables is already included in the standard. We do not consider the benefit of introducing an additional provision into the standard is sufficient to justify the increased complexity.</p>
<p>Please provide examples of what ‘other assets’ could be, as there is currently some confusion as to what these could be.</p>	<p>No amendment</p> <p>The Board previously agreed not to introduce discussions of additional assets to the Tier 3 Standard.</p>
<p>I have yet to see an entity that fully complies with para A16 (c) which requires the level of rounding displayed at the top of each page of the performance report. It would be more suitable to move this requirement below para A174. Some entities disclose that the figures are stated in New Zealand dollars – although not required, this can be useful to overseas readers.</p>	<p>Minor amendment</p> <p>We recommend including a requirement in Tier 3 Standards (in paragraph A16) to disclose the currency used in the presentation of the Performance Report.</p> <p>No amendment is recommended regarding the location of the requirement to disclose the level of rounding – we believe that the current location is more appropriate.</p>
<p>Paragraph A22 states the circumstances under which entities may change the way they present information or the categories of disclosure. Sometimes entities may need to reclassify disclosures for reasons other than a significant change in operations (e.g., moving the comparative GST from debtors to liabilities, for ease of comparability). It would be useful to have more flexibility with the requirement.</p> <p>Within the accounting policies, I encourage clients to state “Comparative figures have been restated to align with the current year’s presentation”.</p>	<p>Minor amendment</p> <p>In line with PBE IPSAS 1.42(a), which states that <i>"the presentation and classification of items in the financial report shall be retained from one period to the next unless it is apparent, following...a review of its financial report, that another presentation or classification would be more appropriate..."</i> we recommend an amendment to paragraph A22. Specifically, A22(b) should read <i>"The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A10(b) for guidance on the qualitative characteristics that information should have to make it useful for users)"</i></p>
<p>Paragraph A17 should also state that comparative information for subsequent events is not required.</p>	<p>No amendment</p>

	<p>Events after balance date are not mentioned in this paragraph and paragraph A209 already explicitly states that comparatives are not required.</p>
<p><u>Commitments</u> The current disclosure is unclear and has resulted in varying different ways of disclosure, reducing the comparability between charities. It would be useful to at least have entities report their commitments between current and non-current commitments.</p>	<p>No amendment This has not been identified as a widespread issue through the ED consultation nor through the PiR.</p>
<p><u>Related party transactions</u> There should be exclusion of related party transactions classified as employee expenditure which are on arms-length terms, as this has resulted in some privacy concerns. Donations or grants (not on a use-or return-basis) received should also be excluded from related parties, as this has also seen privacy issues as well. An individual’s right to privacy should always trump any financial reporting disclosure.</p>	<p>No amendment We consider related party transactions are important disclosures regardless of whether the transactions are on arms-length terms. Our view is that privacy concerns about related party disclosures are best considered on a case-by-case basis and we note there are already mechanisms in place to address these concerns with regulators which, to our knowledge, are functioning well.</p>
<p><u>Events after the balance date</u> The current requirements around Events after the Balance Date could prevent useful information from being disclosed (e.g. the requirements in A33 do not apply to an event which is known about prior to balance date but will only occur after the signing of the accounts). It would also be useful to allow entities to include non-adjusting events after balance date as a simple note disclosure – such as those events mentioned in A35, as they give added useful information to a reader.</p>	<p>No amendment This has not been identified as a widespread issue and we do not consider the benefits of amending the requirements to address this concern would justify the increased complexity it would introduce to the Tier 3 Standard.</p>
<p>Para A190 states that opening book value, depreciation and closing book value be stated for each category of fixed asset. Suggest disclosing cost and accumulated depreciation where this information is available as this will give users a better guide of likely replacement cost.</p>	<p>No amendment This has not been raised as a widespread concern.</p>

<p>The Standard could provide some direct and specific guidance on how NFPs should treat and report transactions involving crypto currency / assets (or provide some simple examples), especially if significant. The type of transactions contemplated could be donations of crypto currency / assets received and converted to fiat currency during the year, or held as an investment asset, purchased or traded. This could assist report users to better understand the entity's treatment of the transactions in the report, and to assess risk from disclosure of the extent the entity is engaging with crypto currency / assets.</p>	<p>No amendment</p> <p>This has not raised as a widespread concern and we consider that any requirements in relation to crypto currency assets would be excessively complex for Tier 3 entities.</p>
<p>Te Ao Māori is still not reflected in the Standard. There are just a few simple areas this could be included. For example, under heritage assets, use some Māori examples. Or in the illustrative examples use a marae, otherwise the people who are applying these standards are not going to see themselves reflected in the Standard.</p>	<p>No amendment</p> <p>The XRB's <i>ngā pou o te kawa ora</i> project is currently exploring the specific reporting needs of Māori reporting entities. We will wait for the outcome of this project in order to be consistent with the wider XRB view.</p>
<p>Tier 3 (PS) Standard</p>	
<p><u>Operating commitment disclosures</u></p> <p>Our strong view is the scope of the commitment disclosures of paragraph A200 needs reducing to align with those required by the Tier 2 requirements. At present, the Tier 3 Standard requires commitment disclosures for all significant operating commitments. This is significantly wider and more onerous than the Tier 1 and 2 operating commitment disclosure requirements, which generally only apply to operating leases.</p>	<p>No amendment</p> <p>We have not previously consulted on amendments to the operating commitments requirements which were not identified as a widespread issue during the PIR.</p> <p>While the scope of commitments may be wider, we consider that due to the relatively less complex nature of Tier 3 entities, the current requirements are not likely to be more onerous in practice.</p>
<p><u>Related party transaction disclosures</u></p> <p>Our preference would be for all significant transactions with Board members and their related entities, whether on normal terms and conditions or not, to be disclosed as related party transactions across all reporting tiers. This would align the public sector requirements in this regard with the requirements for not-for-profits.</p>	<p>No amendment</p> <p>We have not previously consulted on amendments to the related party transaction requirements. Further, making these changes would cause the public sector version of the Tier 3 Standard to no longer align with Tier 1 and Tier 2.</p>

<p>Notwithstanding the above we find the current proposals unclear. To provide further clarity on the disclosure expectations for related party transactions, we recommend the second sentence of paragraph A204 that appears to limit related party transactions to those not under normal terms and conditions be a separate paragraph to give it more prominence.</p>	<p>As this project only relates to the Tier 3 Standards, we do not consider it would be appropriate to discuss changes of this nature here.</p>
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Question for the Board

Q20. Does the Board AGREE with our recommendations in response to the other comments raised on the Tier 3 Standards?

Submissions received on the Tier 3 and Tier 4 Standards

Submission number	Respondent name/Organisation	Method of submission
1	Phillip Trounsen – Audit Professionals	Formal
2	Wharenui School PTA (Karen McNaught)	Email
3	Sustainable Whanganui Trust (Graham Pearson)	Email
4	Peter Robinson	Email
5	Cliff Wilson	Email
6	Craig Thompson	Email
7	Jordan Riordan – Waikanae Christian Holiday Park	Website
8	Paul Franken	Email
9	David Preston	Charities Services
10	James Hill	Email
11	Renewal Trust	Website
12	Peninsula Club Residents Association	Website
13	NZ Society of Genealogists (Kilbirnie Branch)	Website
14	Southland Mangaia Club Incorporated	Website
15	Richard Sorrenson – Wallath Trust	Website
16	Don Hargrave	Charities Services
17	Hibiscus Coast Community Patrol Charitable Trust	Formal
18	Patricia Clay – Age Concern Marlborough Inc	Website
19	Fred Dryburgh	Email
20	Allister Campbell	Email
21	Whanganui Creative Space	Website
22	Bayswater SeniorNet	Email
23	Joe Macky	Email
24	Lucy Cook - Waikato Farmers Trust	Email
25	Rosemary Lister	Email
26	Jackie Mathers	Formal
27	Matthew Wall	Website
28	Philip Trounsen	Email
29	Tim Hoyle – Bennet and Associates	Formal
30	Gavin Evans	Website
31	Susan Sonntag – Serac Ski Club	Email
32	Angela Williams	Formal
33	Clive McKegg	Formal
34	Fundraising Institute of New Zealand	Formal
35	CA ANZ / CPA Australia	Formal
36	Charities Services	Formal
37	Sue McCabe – Philanthropy New Zealand	Formal
38	Susan Moyle	Formal
39	WITHOLD	Formal
40	Diane Robinson	Formal
41	WITHOLD	Formal
42	Peter van Hout – Methodist Church	Formal
43	Jane Ashman	Formal
44	Robert Cox – Audit New Zealand	Formal
45	Mike Klemetson – City of Dunedin Pipe Band Incorporated	Feedback Form
46	Amanda Mabon – Patearoa Community Trust	Feedback Form
47	John Henderson – Woodville Gospel Hall	Feedback Form
48	Julia Fink – XRB	Feedback Form
49	Marcus Afghans – Cathy Pelly Memorial Trust	Feedback Form

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50	Angela Oliver – The Taihape District Museum and Historical Society Inc	Feedback Form
51	Fiona Brennan – Auckland North Community and Development Inc	Feedback Form
52	Cameron Fisher – CATAS Limited	Feedback Form
53	Richard Dey – William Buck	Feedback Form
54	Memo Musa – Platform Trust	Feedback Form
55	Christopher Worth - The Otago Phoenix Club	Feedback Form
56	Ann Tod	Feedback Form
57	Catriona McBean – Dsport	Feedback Form
58	Mark Blackie - Multiple Sclerosis Auckland Incorporated	Feedback Form
59	Trevor Thornton	Feedback Form
60	Wendy Rolston - Ihakara Hall Society Incorporated	Feedback Form
61	Heather Browne - Paeroa Baptist Church	Feedback Form
62	Barry Vaughan - New Zealand Faith Community Nursing Association	Feedback Form
63	Rae Wakefield-Jones - Perinatal Wellbeing Canterbury Trust	Feedback Form

Email and website comments received on the Tier 3 and Tier 4 Consultation Documents

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
2	Wharenui School PTA (Karen McNaught)	12 July 2022	<p>Why is the threshold for small Tier 4 organisations so low @ \$10,000?</p> <p>The gap between \$10,001 and \$140,000 is still massive.</p> <p>We as an organisation turning over approx \$20,000 still do ALL our work with volunteers.</p> <p>We are still in a whole different league to those even over \$60,000!</p> <p>At a quick glance I don't think it will make much difference to us at all. Still lots of work and stress.</p> <p>It would be helpful if you wrote the proposed amendments in plain English, please.</p> <p>PS, we also have limited recourses and find it difficult to attract and retain volunteers who understand and have the time to do the Annual Reporting Standards.</p>	Email	August 2022
3	Sustainable Whanganui Trust (Graham Pearson)	12 July 2022	<p>Great to read that Tier 4 being made simpler, accounting language taken out and a special category for small cash groups</p>	Email	August 2022
4	Peter Robinson	12 July 2022	<p>Good afternoon</p> <p>I act for a number of charitable trusts and am a trustee in some.</p> <p>I have looked through the drafts and proposed changes.</p> <p>My comment is I feel the \$10,000.00 figure is outdated and too low as a trigger point. I suggest \$25,000.00 would allow the sort of low-end compliance simplicity that seems appropriate without adversely affecting the underlying intention of having more public transparency.</p> <p>A \$10,000.00 trigger could see one off activities resulting in small charities finding themselves dragged into the higher levels of reporting with all the time, cost and</p>	Email	August 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>responsibilities that involves. Examples would be a fund raiser to assist with travel and uniform costs for a youth sports team to attend a national tournament. Or to buy replacement instruments for a school brass band. Or for some new playground equipment at the local kindergarten. These days you do not get much for \$10,000.00 in these areas.</p>		
5	Cliff Wilson	12 July 2022	<p>As volunteer treasurer for 2 charities, I am happy with the status quo and the changes proposed.</p> <p>I prefer status quo, but amendments are also acceptable.</p>	Email	August 2022
6	Craig Thompson	12 July 2022	<p>Hi XRB</p> <p>Just a quick note :)</p> <p>Oh my... I recently had a look at the reporting requirements and wow... a load of work. I guess someone thinks people running small charities (and accounting firms) sit about twiddling their thumbs, watching day TV soaps and drinking tea all day and launder loads of cash for unsavoury organisations.</p> <p>My partner and I work 7 days a week and are both on "salaries" that are below minimum wage. A large amount of my time is spent applying for little sums of money here and there and then having to account for every cent and report this back to funders... if it's not up to standard we won't get another round of funding. It's bad enough having to deal with funders saying "too many pages in the application" or someone else nitpicking because it was too vague, the budget was too complex, opinions about the viability of projects in the area.... grumpy committee members with hangovers maybe?</p> <p>I have started a review of the reporting and I don't think we could get by with Tier 4... anyway Tier 4 does not seem much different to Tier 3 reporting requirements and we do practice accrual rather than cash for most things... especially with Grant payments arriving after the approval dates and allowing us to use them before rather than later.</p> <p>So given Tier 3 is up to 2 million, I guess these groups have the staff available for full</p>	Email	August 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>time reporting? Unfortunately for smaller groups like us it's just me doing a lot.</p> <p>Why is it that a standard End of Year report from our accountants is not sufficient?7 Thanks for my opportunity for a rant/ramble...</p>		
7	Waikanae Christian Holiday Park	12 July 2022	<p>I find it interesting that the tier levels have not changed in about 7-8 yrs and yet obviously inflation has increased significantly over that time. I don't understand why the levels have not moved up on a scale system like most Govt Departments seem to do. So for us as tier 3 we need expenses under \$2M which is fine except all expenses have gone up significantly. I feel it unfair that it is not adjusted each year and personally I feel our tier 3 expenses should be \$160k- \$2.3M now just based on inflation and cost increases over the past 7-8 yrs.</p> <p>Come on Charities Services, it's time to review this and put a structure in place for the future.</p>	Website	October 2022
8	Paul Franken	13 July 2022	<p>Anything that makes feedback simpler and easier is good for charity such as us, FAB cc38610. The less confusion the better.</p> <p>Just an example is on page 3 of the proposed amendments (At a glance tier 4)" These requirements marked with a square cross symbol are not mandatory". Could at least read: 'those requirements marked with a triangle symbol are not mandatory'. And does that have to be a forbidding red? Green or orange would be more appropriate.</p> <p>Thanks</p>	Email	August 2022
9	David Preston	13 July 2022	<p>Dear Charities Services,</p> <p>You have asked for input on accounting standards for Tier 3 and Tier 4 charities.</p> <p>As someone involved in reporting for a tier 4 charity (a church congregation) I note that a problem is the low level at which tier 4 turns into the more complex tier 3 requirements. Tier 3 requirements are too complex for many people. It becomes a source of worry if your expenditures are approaching the edge of the transition</p>	Charities Services	August 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>from level 4 to level 3. This transition approaches rapidly in a high inflation period like the present.</p> <p>The problem for many small groups such as ours is that they rely on people without accounting qualifications to act as Treasurers. Consequently, the accounting system need to be kept simple (and also at a level the ordinary members can understand). This is mostly about the level and composition of receipts and spending, and the assets and liabilities of the entity.</p> <p>Hence, I would propose</p> <p>1). The level for transition from tier 4 to 3 be set at \$200, 000 operational expenditure.</p> <p>2). It be indexed to the CPI and reviewed annually.</p>		
10	James Hill	13 July 2022	<p>I wish to make a submission regarding the need for a Review or Audit for “expenses” in excess of \$550,000 in any two successive years.</p> <p>Expenses include donations made for charitable purposes and this gives distorted behaviours. We have to load one year and then reduce normal giving for the next year to ensure that we do not incur added costs. Such costs reduce the funds available for charitable purposes. The standard has always been based on poor logic for this reason.</p> <p>Audits and Reviews should not be imposed on the basis of the amount of charitable giving.</p> <p>Our charitable trust does not raise any funds from the public or from any external sources (no government or other such grants etc.).</p>	Email	August 2022
11	Renewal Trust	13 July 2022	<p>Whatever is the final demands by Charities Services on small charities for reporting, I am not at all confident, it should decrease the amount of time needed to do what they want.</p> <p>With no resources, oily rags are the normal.</p>	Website	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			So keep the demands low and the reports short and sweet.		
12	Peninsula Club Residents Association	13 July 2022	It was a very easy process.	Website	October 2022
13	NZ Society of Genealogists (Kilbirnie Branch)	13 July 2022	<p>We are small community organisation which operates from members' annual subs and a small amount of interest on bank accounts. Turnover is much less than \$10,000 pa.</p> <p>Any simplification to our reporting obligations is greatly appreciated, as there is minimal value to other parties from our operations.</p>	Website	October 2022
14	Southland Mangaia Club Incorporated	14 July 2022	It is a good idea	Website	October 2022
15	Wallath Trust	14 July 2022	In regards to "reserves" how are charities meant to distinguish between endowments, where the capital sum and possibly some retained income, are not to be spent so as to provide a steady stream of annual income on into the future, and current funds, which will be spent reasonably quickly?	Website	October 2022
16	Don Hargrave	15 July 2022	<p>As a retired accountant, I prepare 2 x Tier 4 Reports and review or audit two more.</p> <p>While yielding a lot of desirable information, the Performance Reports are incomprehensible to many non-financial people who are involved in operating these entities. I've seen totally inadequate accounts presented and, in fact, minutes of AGM's held with NO financial information presented.</p> <p>Suggestions:</p> <p>1. A set of Financial Statements as presented to and approved by the entity at its Annual General Meeting, and certified as such, be a filing requirement.</p>	Charities Services	August 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>2. A positive Statement signed by all the Committee, Trustees, etc certifying as to all or any benefits received by them, or any associate or relative, from the entity during the period under review.</p> <p>3. Charities Services should do some monitoring. I reckon a blank sheet of paper could be filed and no-one would query it. I've seen Accounts filed with "Suspense" items on the "Balance Sheet".</p> <p>From newspaper reports, there is a lot of money going missing and unaccounted for. Your reporting standards to not highlight this problem.</p>		
18	Age Concern Marlborough Inc	16 July 2022	<p>Agree with removal of outputs and outcomes, that seems to be the biggest confusion for many I talk to.</p> <p>Also agree with proposed separation of grants and contract income as this will provide more clarity to readers of reports. With most entities using accounting packages now, this reporting will not require any additional skill base.</p>	Website	October 2022
19	Fred Dryburgh	19 July 2022	<p>Dear XRB People</p> <p>Overall, I think the suggestions for simplified reporting put forward by XRB make sense and I appreciate the pragmatic approach taken.</p> <p>Certainly, I appreciate that there are many small tier 4 entities in the country with many volunteers having to meet those requirements and achieving a balance in terms of compliance & meaningful standards is difficult</p> <p>So hats off I think the changes are good 🙏</p> <p>Only one thing that challenges my puritanical mind is removing the need for a statement of Resources & Commitments. I think such a statement is useful in providing a picture of the position of the entity. The existing template the XRB supplies is quite straight forward and put in simple easy to follow language.</p> <p>Being a registered Charity should be seen as a privilege or a certain status so having some requirements around reporting does not seem unfair. As acknowledged in your presentation any changes to reporting requirements need to synch in with</p>	Email	August 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>Charities commission annual return requirements to keep the compliance burden as light as possible for this sector</p> <p>By way of disclosure most of my professional life I have worked in accounting so perhaps I underestimate how much burden the requirement for a statement of resources & commitments places on volunteers...</p>		
20	Allister Campbell	20 July 2022	<p>For feedback for the Tier 4 reporting standards. I have found them very thorough and helpful.</p> <p>The only suggestion is that rounding variance be taken into account. The amounts are rounded to the nearest dollar so the calculated amount in R&P 18 could differ by a few dollars from the actual amount in R&P 20 and the check will pick this up. A line for rounding variance could allow for this.</p>	Email	August 2022
21	Whanganui Creative Space	29 July 2022	<p>Just some comments as requested on the Tier 4 proposed reporting amendments. Please be careful when using jargon that it will be intelligible to volunteers such as myself who are running charities. Untangling "Outputs" and "Outcomes" was enough to set the brain spinning, so pleased those terms are going. How about "Performance Report", my brain can't cope with that either, why not simply "End of year report to Charities".</p> <p>Also I have no idea what "cash based standards" are, no one uses cash, are we using cash based standards?? Perhaps you could get a non accountant, elderly charities volunteer to vet the wording in future. When I log in to the site for our Charity, the yearly return is there waiting to be filled in but does not include a page headed Statement of Service Plan. When I queried this I was emailed the whole 5 part return again including the SSSP. Of course this sent the whole return awry as I didn't know how I should add the SSSP to my otherwise completed return. In the end I didn't manage to add it at all and it disappeared completely. Please make the whole return simple for volunteers such as myself who are not necessarily very computer literate.</p>	Website	October 2022
22	Bayswater SeniorNet	31 July 2022	<u>On behalf of Bayswater SeniorNet. (C22747) Tier 4.</u>	Email	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>From a read of the summary of proposed changes, it makes good sense to simplify the reporting commitments of Tier 4 entities - particularly the reduction of reporting for entities with payments less than \$10,000.00 per year.</p> <p>The comment about small Tier 4 entities often having difficulty in sourcing volunteers to complete the reports is very apt.</p> <p>However I personally have become sufficiently familiar with the current Tier 4 requirements that they don't present an issue.</p> <p>Kind Regards, Robert Simmonds. (Committee)</p>		
23	Joe Macky	10 August 2022	<p>Hello,</p> <p>I recently completed the report for the charitable trust I am part of. It's only a small charity consisting of an endowment in favour of the Unitarian Church. The activity is the investing of the principle and consulting with the church to plan how the trust can support it in line with the original intent of the settlor.</p> <p>The changes proposed seem fine to me.</p> <p>My frustration with the report arises because I no longer use a desktop/pc. I only have an iPad which works fine for my other, mostly personal, financial processing. But Tier 4 performance reporting doesn't seem to work on the ipad. I had to do some work arounds. Took a lot of time and was very frustrating.</p> <p>Cheers, Joe Macky 027 220 5650 Joemackyccc@gmail.com</p>	Email	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
24	Waikato Farmers Trust	18 August 2022	<p>Good afternoon,</p> <p>The Waikato Farmers Trust are in support of the proposed changes to the Tier 3 Public Sector reporting requirements.</p> <p>Kind regards,</p> <p>Lucy Cook Executive Assistant</p> <p>WAIKATO FARMERS TRUST</p>	Email	October 2022
25	Rosemary Lister	23 August 2022	<p>Good afternoon,</p> <p>I have just finished my Tier 4 Charities Services Annual Return and Performance Reports. I am always pleased to note that the Annual Return shows the figures for last year for comparison purposes. How happy I would be if the Performance Report could as a first choice be combined so there would be just the ONE entering of figures, thus the previous year's information would be magically there too! It would make life so much more straight forward, rather than the present duplicated system. Second choice would be to still send two reports, but both would have the ability to show the previous year's information. It seems to me that all that is happening is that probably two different people are viewing the same figures, when one could be gainfully occupied on other duties.</p> <p>Sincerely Rosemary Lister</p>	Email	October 2022
27	Matthew Wall	3 September 2022	<p>As a CA specialising in the not for profit/charitable sector, I support the majority of proposed changes.</p> <p>I do have one potential suggestion that might further make things clearer for organisations.</p> <p>I feel the addition of a 'small' tier-4, whilst clearly defined, might lead to unintended</p>	Website	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>confusion.</p> <p>Why not just add a Tier-5?</p> <p>Thanks Matt</p>		
28	Phillip Trounson	7 August 2022	<p>Hi Anthony</p> <p>Could I please one further contribution concerning the <u>Statement of Cash Flows</u>.</p> <p>What concerns me, based on recent experiences with Tier 3 charities, is the time having to spent on presenting a meaningful Statement of Cash Flows. My concern is only the <u>operating activities</u> part of the cash flows. I can see this could become a major issue if the proposed updates in A158 are implemented.</p> <p>Background – unlike the figures in both the Statement of Financial Performance and Statement of Financial Position, the cash flow figures have to be reconstructed. The figures in both the Statement of Financial Performance and Statement of Financial Position come from mapping the balances from the ledgers (or cash book columns) and can be a relative easy task if the proper columns are set up. Xero, MYOB and other accounting packages can ensure that this process runs smoothly and that the classifications of each ledger account balance in to the proper categories occur for the end of year performance report. However, for cash flow figures, although some accounting packages have a mapping process, the figures derived from this process have to be re-done to provide proper disclosure of cash flows. It is this area that, unfortunately, most Chartered Accountants struggle with and the figures cannot be taken simply from totals already in the accounting records.</p> <p>The proposed expansion of the operating receipts and operating payments in A158 is going to make this exercise harder. Instead of splitting grant funding receipts into separate categories and splitting payments to suppliers, volunteers and employees into separate categories, I am wondering if this area can be left as it is under the existing Tier 3 standard. The extra time effort in splitting the operating receipts and payments further will, I believe, not be worth the potential benefit by providing the</p>	Email	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>additional information. This is especially so since the revenue and expense figures under the required categories already provide the key information to readers in the Statement of Financial Performance.</p> <p>To illustrate the point, I use an example. Typically, to calculate <u>operating payments</u> for <u>payments to suppliers, volunteers and employees</u> it currently involves starting with total expenses shown in the Statement of Financial Performance. From this figure, depreciation is deducted and any other non cash expenses, then deduct any items disclosed separately in the cash flows, adjusting for opening and closing creditors and accruals, prepayments and stock on hand. GST impacts on both opening and closing creditors etc and any creditors that were for asset purchases (investing activities) need to also be factored in. This is already quite an exercise for many charities. The recommendation to split further by showing payments related to volunteers and employees and payments for commercial activities from other payments related to service delivery is going to involve having to analyse components of creditors (at both the beginning of the year and the end of the year) in considerable detail to split them into the appropriate categories. While materiality levels still apply to the cash flow figures, this will be a major exercise for many charities simply to derive the figures. I have to question whether such an effort will be worthwhile.</p> <p>I would be grateful if this matter could also be considered along with our earlier submission.</p> <p>Many thanks</p>		
30	Gavin Evans	7 September 2022	I may be tired as I am currently organising our biggest event on the calendar year - but the proposed new standard and template I looked at seem no different from what I currently use to report?	Website	October 2022
31	Susan Sonntag	22 September 2022	I made a submission using the form, but thought of something I had missed.	Email	October 2022

#	Respondent Name	Date received	Feedback	Form of submission	NZASB meeting where logged
			<p>In one of the forums I attended there was mention of separating out Capital Grants. I note that there is a separate line proposed for Capital Grants in Statement of Financial Performance.</p> <p>The issue we have is that a grant for a capital project increases revenue to the extent that it will look like a surplus for the year, when in fact there is an operating loss.</p> <p>Serac Ski club is very grateful to Pub Charity for the grant to replace the aging roof on our Whakapapa ski lodge. Due to the very warm winter we have had, we will have quite an operating loss this year, but the \$40k grant will mean we have a surplus in Statement of Financial Performance. While a financial analyst would readily spot that deducting the capital grant would turn the reported surplus into a deficit, and I will certainly point this out in my commentary, none the less, a person looking at the reported bottom line will still see a surplus.</p> <p>Taking a Capital Grant directly to a separate line in the Accumulated Funds section of the Statement of Financial Position would get around this issue.</p> <p><i>After asking about alternative Statement of Financial Performance Format</i> Hi Jamie</p> <p>Yes – that would be perfect. It would enable the operating surplus to be distinguished from the overall surplus in a simple manner. Most readers of our financial statements are not financial analysts.</p> <p>I shall watch progress on the proposals with interest. I may be an early adopter.</p>		



~~NZASB ED 2022-5~~ Tier 3 (NFP) Standard ~~Exposure Draft~~

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

TIER 3 (NFP) STANDARD

Issued November 2013 and incorporates amendments to **[Month, Year]**

This Standard was issued by the New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board pursuant to section 1224(1)(a) of the Financial Reporting Act 2013~~1993~~.

This Standard is ~~a disallowable instrument~~ secondary legislation for the purposes of the Legislation Act 2019~~2~~.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

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Reporting Requirements for Tier 3 Not-for-profit Entities (Tier 3 (NFP) Standard) is set out in paragraphs 1–16 and Appendices A, B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 (NFP) Standard should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 Application of the Accounting Standards Framework.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Objective

1. The objective of this Standard is to facilitate financial reporting by not-for-profit public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for not-for-profit entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

Scope

2. This Standard applies to not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. A not-for-profit public benefit entity is eligible to apply this Standard if it:
 - (a) Has total expenses less than or equal to \$2 million; and
 - (b) Does not have public accountability for financial reporting purposes.

Please refer to the Glossary for further information about how “not-for-profit public benefit entity”, “total expenses” and “public accountability” are defined for financial reporting purposes.

Standard

3. Not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard.
- 3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.
4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.
 - 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity’s interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.
 - 4.2 [Deleted]
 - 4.3 [Deleted]
 - 4.4 [Deleted]
 - 4.5 [Deleted]
 - 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.
5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (*Explanatory Guide A5 Optional Template and Associated Guidance Notes for Reporting Requirements for Tier 3 Not-for-profit Entities*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.
6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

- (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and
- (b) The definitions and concepts in the [PBE Conceptual Framework](#) to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Standards dealing with the same, similar or related transactions or events.

- 7. [Deleted]
- 8. [Deleted]
- 9. [Deleted]

Effective Date

- 10. A not-for-profit public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 April 2015. Earlier application is permitted.
- 11. *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A not-for-profit public benefit entity shall apply these amendments for periods beginning on or after 1 April 2015. Earlier application is permitted.
- 12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6-9, A1, A175(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.
- 13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017, amended paragraphs 4.1–4.6 and the Glossary. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
- 14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
- 15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.
- 16. **[Draft]** *Amendments to Tier 3 (NFP) Standard*, issued in **[Month, Year]** amended paragraphs **[x]**. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after 1 April 2024. Earlier application is permitted.

Appendix A: Specific Requirements

This Appendix contains the requirements for entities applying Reporting Requirements for Tier 3 Not-for-profit Entities. It is an integral part of the Standard.

Section 1: Introduction

- A1. This part of the Standard¹ sets out the requirements for the preparation of a simple format report known as the “Performance Report”. The Standard may be applied by eligible not-for-profit (NFP) public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of [XRB A1 Application of the Accounting Standards Framework](#).
- A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.
- A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

¹ This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Not-for-profit Entities abbreviated as Tier 3 (NFP) Standard.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Section 2: Objective of Reporting and Overview of Reporting Requirements**Users and Their Needs**

- A4. The performance report for a NFP PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:
- (a) Providers of resources to the entity; and
 - (b) Recipients of services from the entity.
- A5. Examples of these users are:
- (a) Donors, who contribute to a shelter for the homeless which relies on grants and donations from the community (resource providers); and
 - (b) Service recipients who benefit from the meals and short-term accommodation provided at the shelter.

Objective of Reporting

- A6. An entity should prepare a performance report that addresses the following questions:
- (a) “Who are we?” – an overview of the entity;
 - (b) “Why do we exist?” – why the entity was established and what it seeks to achieve;
 - (c) “What did we do?” – what the entity did during the year in providing goods or services;
 - (d) “What did it cost?” – what it cost to provide the goods or services, and to run the entity;
 - (e) “How was it funded?” – the sources of revenue used to pay for its activities in providing goods or services;
 - (f) “When did we do it?” – the period covered by the report, and a comparison of information with previous reporting periods;
 - (g) “How did we do our accounting?” – the accounting policies applied; and
 - (h) “What do we need to continue operating?” – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.
- A7. The performance report is usually prepared for a financial year (which **is a twelve-month period that ends on the entity's** “balance date”). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. **The performance report** may be prepared for a part year, but this is unusual and **most likely** occurs **only** when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

Required Components of the Performance Report

- A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:
- (a) Entity information which explains what the entity is and why it exists (section 3);
 - (b) A statement of service performance which explains what the entity was seeking to achieve and what it did (section 4);
 - (c) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);
 - (d) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

- (e) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);
 - (f) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and
 - (g) Notes to the performance report explaining some of the amounts shown in the statements in (b)–(e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).
- A9. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

Presentation of the Entity's Performance

- A10. The performance report shall fairly present the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:
- (a) Select and apply appropriate accounting policies (section 8);
 - (b) Present information in the best way to achieve the following goals:
 - (i) **Relevance:** the information can be used to assess the entity's performance.
 - (ii) **Faithful representation:** the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.
 - (iii) **Understandability:** information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this.
 - (iv) **Timeliness:** The performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some not-for-profit PBEs legislation² defines the period by which the annual performance report must be completed.
 - (v) **Comparability:** users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.
 - (vi) **Verifiability:** the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.
- A11. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.
- A12. [Deleted]
- A13. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

² The Charities Act 2005 requires that the financial statements must accompany the annual return that must be filed within 6 months of the end of the financial year.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

General Information

- A14. Each component in the performance report specified in paragraph A8 shall be clearly identified.
- A15. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units. Identifying the branches or other operating units within the entity is relatively straight forward where the entity has legal form. For unincorporated entities, the entity will need to look at factors such as whether those branches or other operating units are acting as part of the entity, for example, by using the entity's registration number on the Charities Register.
- A16. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:
- (a) The name of the entity that is preparing the performance report;
 - ~~(b)~~ (b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate; ~~and~~
 - ~~(b)~~(c) The currency used in the presentation of the performance report; and
 - ~~(c)~~(d) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

Comparative Information

- A17. Although the performance report focuses on the current financial~~is~~ year's information, comparative information for the previous financial year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.
- A18. An entity may, but is not required to, report budgets or plans as an additional column alongside its actual results as further comparative information.

Consistency of Presentation

- A19. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.
- A20. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.
- A21. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:
- (a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
 - (b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.
- A22. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:
- (a) There has been a significant change in the entity's operations;
 - ~~(a)~~(b) The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A10(b) for guidance on those characteristics that information should have to make it useful for users); or

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

~~(b)~~(c) This Standard requires that the presentation or a category of disclosure is changed.

- A23. Any changes to presentation or categories of disclosure due to the application of paragraph A22 also require similar changes to the comparative amounts, unless it is not reasonably possible ~~impracticable~~ to do so.

No Offsetting of Amounts

- A24. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:
- (a) Assets and liabilities shall not be offset against each other; and
 - (b) Revenue and expenses shall not be offset against each other.
- A25. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

Significant Items

- A26. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.
- A27. Significance applies to both financial and non-financial information.

Correction of Errors

- A28. Significant errors shall be corrected as soon as ~~practicable~~reasonably possible. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A212).

Changes in Accounting Estimates

- A29. The use of estimates is an essential part of preparing the performance report on an accrual basis. For example, estimates may be required of:
- (a) Revenue earned to date under a contract;
 - (b) Bad debts arising from uncollected receivables;
 - (c) The current value of old inventory; and
 - (d) The useful lives of items or categories of property, plant and equipment.
- A30. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.
- A31. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.
- A32. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

Events After the Balance Date

- A33. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is

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the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

- A34. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:
- (a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.
 - (b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:
 - (i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
 - (ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.
 - (c) The discovery of fraud or errors that show that the performance report is incorrect.
- A35. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:
- (a) The entity decides after the balance date, to make further grants to the community;
 - (b) Purchases and disposals of assets that occur after balance date;
 - (c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and
 - (d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

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Section 3: Entity Information**Purpose and Value to Users**

A36. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

Required Information

A37. The entity information shall provide general descriptive information about the entity. This information shall comprise:

- (a) The entity's name, type of entity and legal basis (if any);
- (b) The entity's purpose or mission³ (the key difference the entity is trying to make);
- (c) The entity structure (i.e. whether it includes separate operating units, divisions or branches);
- (d) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity);
- (e) The names of any entities controlled by the entity for financial reporting purposes; and
- (f) The entity's reliance on volunteers and donated goods or services.
- (g) [Deleted]

A37.1. The information required by paragraph A37 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is publicly available to users of the performance report at the same time.

A38. The amount of detail will depend on the size of the entity and the complexity of its operations.

³ Also called vision, strategic goals, or outcome goals.

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Section 4: Statement of Service Performance**Purpose and Value to Users**

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

A40. 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)
- (b) The significant activities the entity has undertaken during the financial year in working towards its ~~broader aims and~~ objectives, as described in (a) above; and
- (c) Its significant achievements during the financial year.

Required Information

A41. The statement of service performance shall:

- (a) Describe what the entity is seeking to achieve over the medium to long term; and
- (b) Describe, and quantify ~~as far as reasonably possible to the extent practicable, information about~~ the significant activities the entity has undertaken, and what it has achieved, during the financial year.

A41.1. The information required by paragraph A40(a) is likely to be closely related to the entity's mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A41(a) should be more specific, focused on what the entity is seeking to achieve over the medium to long term.

A42. The information disclosed in the statement of service performance should be what the entity considers important for a user's overall understanding of its service performance (i.e. its significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A42.1. To meet the requirements in paragraphs A40(b) and A40(c), the entity shall provide users with an appropriate and meaningful mix of measures and/or descriptions of activities and achievements in the financial year. The measures and/or descriptions used by an entity may be:

- (a) Quantitative measures – e.g. quantity of goods and services, time taken to provide goods and services, etc.
- (b) Qualitative measures – e.g. compliance or non-compliance with a quality standard, ratings such as high, medium or low, etc; or
- (c) Qualitative descriptions – e.g. those based on participant observations.

A42.2. The most appropriate and meaningful measures and/or descriptions are those that measure or describe aspects of performance that are of particular value or importance to users for accountability or decision making purposes. Refer to paragraph A10(b) for guidance on the qualitative characteristics that information should have to make it useful for users.

A42.3. Entities ~~can choose to~~ shall present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's significant activities and achievements. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using:

- (a) Graphs;
- (b) Tables; or
- (c) Images or infographics showing the entity's activities and achievements during the financial year.

A42.4. Service performance information shall be reported consistently from year to year. If the entity changes what it reports or how it reports its service performance information, it shall explain the

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nature of those changes, the effect of those changes on the current period’s service performance information, and the reason those changes were made. Possible reasons for a change in what is reported and how it is reported include changes in:

- (a) The nature of the entity’s activities from the prior period or from what was planned;
- (b) The descriptions of goods and services or the way in which they are aggregated; or
- (c) The measures and/or descriptions used.

Changes to comparative information are permitted, but not required. If an entity chooses to restate comparatives it shall disclose the effect of the changes on that comparative information.

Optional Information

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

- (a) [Deleted]
- (b) Comments on those factors which affect the achievement of the entity’s objectives. 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; and
- (c) The entity’s plans for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity; and
- (d) [Deleted]

A44. [Deleted]

Section 5: Statement of Financial Performance

Purpose and Value to Users

A45. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity’s financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

Format of Statement of Financial Performance

Required Information

A46. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

A47. If the entity pays income tax, this shall be shown as a separate line item after surplus or deficit, with a further total called Surplus/(Deficit) after Tax also reported.

Alternative Format

A48. Where the making of grants and donations is a major activity of the entity, and/or where the entity receives significant grants for capital purposes an entity may elect to present these items separately from other revenue and expenses, in accordance with the following format:

Revenue (by category)	xx
Less expenses (by category)	xx
Operating surplus/(deficit)	xx
Revenue from capital grants and donations	xx
Less grants and donations made	xx

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Surplus/(Deficit)

XX

A49. [Deleted]

Revenue

A50. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A53)⁴.

A51. Revenue can come from various sources. Examples include public donations, grants from philanthropic trusts, donations and fees from members, funding for the provision of goods or services (including government contracts) and proceeds from the sales of goods or services (including trading revenue from commercial activities).

A51.1. A pledge is a promise made by a donor to contribute funds, goods or services, or other assets to the entity in the future. Revenue is not recorded until the funding, goods or services, or other assets are received, in which case it is accounted for in the same way as other donation revenue.

A51-A52. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A83–A86).

A52-A53. Some NFP entities have owners who contribute capital⁵ (often occurring at start up). Contributions to the entity by these owners (other than membership fees, donations and fees for services) are classified as funds contributed by owners in the statement of financial position, and not as revenue (see also paragraphs A140–A141).

Required Information

A53-A54. In order to make information understandable to users, revenue shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Donations, koha, bequests and other general fundraising activities;
- (b) General Grants and other revenue from service delivery (excluding service delivery grants/contracts and capital grants);
- (c) Capital grants and donations;
- (d) Funding from Government service delivery grants/contracts;
- (e) Funding from Non-government service delivery grants/contracts;
- (f) Membership fees and subscriptions;
- (g) Revenue from commercial activities (i.e. sale of goods or services);
- (h) Interest, dividends and other investment revenue; and
- (i) Other revenue.

A54-A55. Category (a) above includes donations, koha and bequests received from the public or other organisations, for example, central or local government, charitable trusts, foundations and other philanthropic agencies. It also includes any revenue from fundraising activities.

A55.1. Category (b) above includes any grants received which provide general funding for the entity. It also includes revenue from sales of goods or services which directly, in themselves, contribute to the achievement of an entity's stated purposes and are not related to a service delivery grants/contract. For example, an entity with the objective to improve mental health in the

⁴ See the Glossary for a more detailed definition of revenue.

⁵ This is analogous to a for-profit entity where the shareholders contribute share capital.

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community which provides counselling services at a heavily discounted rate with the ability to do so being supported by donations or general grants.

- A55.2. Category (c) includes any grants and donations received with an external expectation from the resource provider that the funding is used to purchase or construct a significant asset. A grant which has an expectation over its final use but which is not in substance a contract for delivery of goods or services would be included in category (b) or category (c) depending on the nature of the expectation.
- A55.3. Grants received from the government or other agencies that are in substance a contract for delivery of goods or services would be included in category (d) or (e) above depending on their source.
- A55.4. Category (g) includes any revenue received by the entity from the sale of goods or services in a commercial capacity. In this context, commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).
- A55.5. Any revenue from members received in exchange for their membership to the entity would be included in category (f).

~~A55:A56.~~ Entities only need to report against a category specified in paragraph A54 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

~~A56:A57.~~ The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A54, provided that the separate categories are still maintained.

~~A57:A58.~~ If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~A58:A59.~~ [Deleted].

~~A59:A60.~~ [Deleted]

~~A60:A61.~~ Further breakdowns (or "disaggregation") of the categories in paragraph A54 may be provided in the notes to the performance report. For example, donations, koha, bequests and other general fundraising activities may be further disaggregated by fundraising campaign or type, such as by street collection, postal appeal, raffles or charity auction. The entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Revenue

~~A61:A62.~~ Revenue shall be recorded on the occurrence of a recognition event. This is generally 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.

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Table 1: Recording of Specific Types of Revenues

Source	When to Record	Comments
Donations, koha, bequests and other general fundraising activities		
Fundraising – cash	Record as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services (excluding sale of goods or services as a commercial activity).
Fundraising – other	If the entity receives an asset refer to section on “donated assets” below. If the entity receives goods or services refer to section on “donated goods or services (other than donated assets)” below.	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
Insignificant donations and , bequests, and pledges	Record as revenue when cash received.	<u>Revenue recognition shall not be deferred even if insignificant donations and bequests with expectations over use are significant in the aggregate.</u>
Significant donations and , bequests, and pledges received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.
Significant donations and , bequests, and pledges received with expectations over use	On receipt of the donation or , bequest or pledge record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met, the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied. Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
Donated assets (other than cash)	<i>Significant donated assets with useful lives of 12 months or more:</i> Record on receipt at readily obtainable current values (such as local council rateable value for land and buildings) <i>Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:</i> Do not record the asset or any revenue from the donation. <i>Other donated assets:</i> Do not record the asset or any revenue from the donation.	<i>Significant donated assets that are recorded:</i> Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A190–A191). <i>Significant donated asset not recorded:</i> Details are disclosed in the notes to the performance report (see paragraph A192).
Donated goods or services (other than donated assets)	Do not record (for example cleaning services provide by members)	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A68).

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Source	When to Record	Comments
Grants and capital grants		
Insignificant grants received	Record as revenue when cash received.	<u>Revenue recognition shall not be deferred even if insignificant grants with expectations over use are significant in the aggregate.</u>
Significant grants, received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funds received on related expenditures in future periods.
Significant grants received with expectations over use	On receipt of grant, record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met, the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied. Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
Funding from government service delivery grants/contracts		
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the services at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Funding from non-government service delivery grants/contracts		
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Membership fees and subscriptions		
Fees and subscriptions in exchange for goods or services or to purchase goods or services at prices lower than those charged to non-members	<i>If the goods or services are of similar value in each time period (for example, a monthly magazine or monthly access to members' facilities):</i> Record as revenue evenly over the period in which the items are provided to the members. <i>If the goods or services vary in value from period to period:</i> Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the subscription.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.
Other fees and subscriptions	Record as revenue when cash received.	Any fees or subscriptions received in advance of the period to which they relate should be recorded as a liability.

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Source	When to Record	Comments
Revenue from commercial activities		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received by the purchaser).	If the purchaser pays before they receive their goods, the entity records a liability. If the purchaser does not pay on receipt of the goods, the entity records a debtor.
Provision of services	Record as revenue by reference to the stage of completion of the service at balance date, based on the actual service provided as a percentage of the total service to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Interest, dividends and other investment revenue		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment. If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
Other revenue		
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment. If the lessee pays after the leased asset is used, the entity (as lessor) records as an asset any amount owed to the entity.
Licence fees and royalties	Record as revenue as they are earned in accordance with the substance of the relevant agreement.	As a practical matter, this may be on a straight-line basis over the term of the agreement.
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

Insignificant Donations, Grants ~~and~~, Bequests ~~and Pledges~~

A62.1. Revenue from insignificant donations, grants ~~and~~, bequests ~~and pledges~~ is recorded when the funding is received.

Significant Donations, Grants ~~and~~, Bequests ~~and Pledges~~ With No Expectations Over Use

A63. Where there are no expectations communicated from the resource provider about how the funds will be used, revenue from significant donations, grants ~~and~~, bequests ~~and pledges~~ is recorded when the funding is received.

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Significant Donations, Grants ~~and~~, Bequests ~~and Pledges~~ With Expectations Over Use

A64. [Deleted]

A65. Where there are documented expectations (identified in accordance with paragraph A65.1) about how or when the funds received from significant donations, grants (including capital grants) and, bequests ~~and pledges~~ will be used, the reporting entity shall record the funds as deferred revenue. As or when the expectations over use are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.

Identifying Expectations

A65.1. An expectation over how or when the funding received from significant donations, grants and, bequests ~~and pledges~~ will be used, for the purpose of paragraph A65 arises when:

- (a) the expectation is documented and agreed by both parties — being the resource provider (the funder) and the reporting entity (who receives the transfer of resources from the resource provider, typically in the form of a transfer of cash); and
- (b) the expectation as documented is specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied (regardless of whether the resource provider monitors the use of the funding provided or not).

A65.2. Examples of specific expectations include obligations to acquire or build a specific asset or assets (e.g. construct a building under the terms of a capital grant); or expectations that the funding will be used for the provision of specific goods or services to third-party beneficiaries, to cover general operating costs over a specified time period, or to support the delivery of specific programmes or activities.

A65.3. An expectation to use funds from significant donations, grants and, bequests ~~, and pledges~~ to support the general operating costs of the reporting entity over an unspecified period of time is not specific enough to allow for funding received to be recognised as deferred revenue. In these circumstances, revenue is recognised immediately when the funding is received.

A65.4. Internal expectations or decisions by those charged with governance about how or when the reporting entity expects to use funds received from donations, grants and, bequests ~~and pledges~~ are not relevant when identifying expectations in accordance with paragraph A65.1.

A65.5. The expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). For an expectation to be both documented and agreed between the parties:

- (a) The resource provider has communicated the expectation to the entity within, for example, a formal contract, memo, letter or, email, ~~virtual meeting (for which there is a recording)~~; and
- (b) The entity has communicated acceptance of the expectation to the resource provider by, for example, signing the formal contract, memo or letter; or agreeing to the expectation via email, ~~or verbal agreement on a recorded virtual meeting.~~

A65.6. Where an application for funding sets out how or when the reporting entity expects to use the funds, then approval of the application by the resource provider is sufficient to demonstrate that there is agreement between both parties concerning the expectation over use.

Timing of Revenue Recognition

A65.7. The timing of revenue recognition is dependent on the nature of the documented expectation over use. An expectation over use (identified in accordance with paragraph A65.1) will either be satisfied by the reporting entity at a point in time or over a period of time.

A65.8. The unit of account for the recognition of significant donations, grants and, bequests ~~, and pledges~~ with documented expectations over use, is each separate expectation identified. There may be multiple expectations attached to the funding, which will need to be accounted for separately when reducing the deferred revenue balance and recognising revenue.

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A65.9. Judgement will be required to determine an appropriate revenue recognition approach for determining the point in time at which, or the period over which, the documented expectation is satisfied. The following are examples of expectations over the use of funds from significant donations, grants and, bequests, ~~and pledges~~, and the different revenue recognition approaches that may be used.

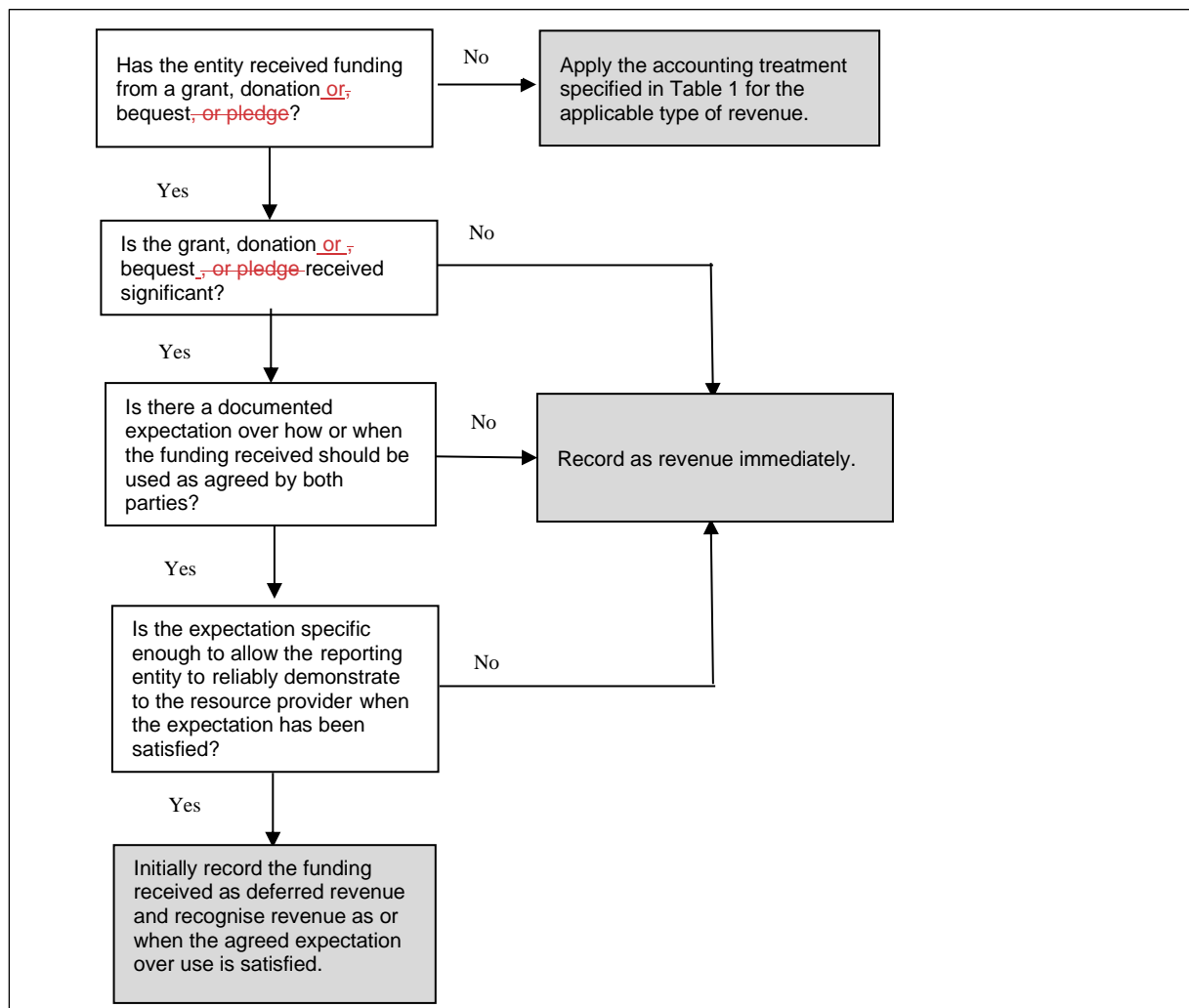
- (a) Deliver specified goods or services to beneficiaries (e.g. to deliver 1,000 school lunches) – revenue could be recognised as the specified goods or services are delivered.
- (b) Purchase an asset (e.g. a vehicle) – revenue could be recognised at the time the asset is purchased.
- (c) Construct an asset (e.g. building) – revenue could be recognised over the construction period (e.g. on a stage of completion basis).
- (d) Support general operating costs (over a specified time period, e.g., three years) – revenue could be recognised on a straight-line basis over the three-year period.
- (e) Host an event or deliver a specific programme or activity – revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specified programme or activity are incurred.

A66. [Deleted]

A67. Figure 1 provides an overview of the revenue recognition approach for donation, grant and, bequest, ~~and pledge~~ funding received.

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Figure 1: Decision Tree: Accounting for Grant, Donation *and*, Bequest *and* Pledge Revenue



Goods or Services in Kind

A68. Entities shall not record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A111). However, entities shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A189).

Expenses

A69. Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A147)⁶.

A70. Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

A71. Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A83-A86).

⁶ See the Glossary for a more detailed definition of expenses.

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Required Information

- A72. In order to make information understandable to users, expenses shall be totalled (i.e., aggregated) and separately presented in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:
- (a) Expenses related to public fundraising;
 - (b) Employee remuneration and other related expenses;
 - (c) Volunteer and other employee-related expenses;
 - (d) Expenses related to commercial activities (~~i.e., sale of goods or services~~);
 - (e) Other expenses related to the service delivery of entity objectives;
 - (f) Grants and donations made; and
 - (g) Other expenses.
- A73. Entities only need to report against a category specified in paragraph A72 when the category is applicable to the entity. If a category is not applicable the entity may omit that category from its performance report.
- A74. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A72, provided that the separate categories are still maintained.
- A75. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A76. Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses. For example, reimbursing an airfare for an employee to attend a conference. This is recorded in the appropriate category of expenses (for example, other expenses related to the delivery of entity objectives if that was the reason the travel took place).
- A76.1. Category (b) in paragraph A72 above includes all remuneration paid to employees of the entity and all other costs directly related to their employment. Costs incurred for independent contractors are not included in category (b), they should instead be allocated to category (a), (d), (e), or (g) depending on the nature of the work carried out.
- A76.2. Category (e) in paragraph A72 above includes all costs attributable to providing goods and services, or carrying out the activities ~~carried out by the entity~~ in pursuit of ~~their~~ the entity's stated purposes or objectives (excluding expenditure allocated to other categories).
- A76.3. Category (d) in paragraph A72 above includes all expenses attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases these expenses would instead be considered fundraising expenses and therefore be included in category (a).

Optional Information

- A77. [Deleted]
- A78. [Deleted]
- A79. Further breakdowns or disaggregation of the categories in paragraph A72 may be provided in the notes to the performance report. For example, employee remuneration and volunteer and other employee expenses could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other expenses relating to employees (for example,

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ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Expenses

A80. Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is “incurred”). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	When to Record	Comments
Expenses related to public fundraising		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or <u>public</u> donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
Employee remuneration		
Wages and salaries <u>and</u> annual leave	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities. Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related bonuses	Record the expense when the employee is notified that the bonus has been granted.	
Volunteer and other employee expenses		
Honoraria	Record the expense when the honoraria are paid.	The payment of honoraria is usually discretionary so there is no obligation on the entity prior to payment.
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities.
Vouchers provided to volunteers (such as petrol vouchers)	Record the expense when the voucher is purchased.	
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.
Other expenses related to the delivery of entity objectives		
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	

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Source	When to Record	Comments
Purchase of inventory for sale or distribution	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Expenses related to <u>commercial activities</u>		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Grants and donations made		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Other expenses		
Affiliation fees	Record the expense when the fees are due to be paid.	
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period which relates to borrowings. Includes any interest amount owing but not yet paid.

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Source	When to Record	Comments
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A107.1 and A107.2)	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges relate mostly to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.
Tax expense	Record the expense in the financial year to which the tax payable relates.	If a tax return is filed, record the tax payable at the amount in the tax return. Otherwise, record at an estimated amount.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

Other Information**Required Information**

A81. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.

Optional Information

A82. An entity may include the entity's budgets or plans for the current financial year if they are available.

Amounts Payable or Receivable on Behalf of Others

A83. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the "principal". Where the entity is acting as an "agent" for another party (for example, the Government⁷, another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.

A84. An entity is a principal (that is, acting on its own behalf) when:

- (a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;
- (b) The entity establishes the prices, either directly or indirectly, for those goods or services; and
- (c) The entity bears the customer's credit risk for any amount receivable from the customer.

A85. An example of the entity as principal is when the entity organises a conference for a group of NFP entities, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.

A86. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that

⁷ For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

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the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Section 6: Statement of Financial Position

Purpose and Value to Users

A87. The purpose of the statement of financial position is to provide a snapshot of the entity’s assets liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled in future periods.

Format of Statement of Financial Position

Required Information

A88. The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

A89. [Deleted]

A90. [Deleted]

Assets

A91. Assets are resources of the entity that are expected to provide benefits to the entity in the future⁸.

Required Information

A92. In order to make information understandable to users, assets shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A102):

- (a) Cash and short-term deposits; Bank accounts, cash and short-term deposits;
- (b) Debtors and prepayments;
- (c) Inventory;
- (d) Property, plant and equipment; and
- (e) Investments.

A93. ~~Bank Accounts, C~~cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date purchased.

A94. Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

A95. Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

A96. Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include food, clothing or goods held for distribution, stocks held in charity shops, information brochures printed for the entity but not yet distributed, goods purchased for resale, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress, such as educational/training course materials under development.

⁸ See the Glossary for a more detailed definition of assets.

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- A97. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.
- A98. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), bonds, units in unit trusts, or similar instruments held by the entity.
- A99. Entities only need to report the categories specified in paragraph A92 separately when the category is applicable and significant to the entity.
- A100. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A92, provided that the separate categories are still maintained.
- A101. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.
- A102. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

Optional Information

- A103. [Deleted].
- A104. [Deleted]
- A105. Additional categories to those in paragraph A92 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.
- A106. Breakdowns or disaggregation of the categories in paragraph A92 may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Assets

- A107. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

Bank Accounts, Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
Debtors	
When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future. Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.

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When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A108). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
Prepayments	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
Inventories	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	<i>Goods for sale:</i> Write-down to lower of cost and selling price. <i>Goods for use or distribution:</i> Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.
Property, Plant and Equipment (including Heritage Assets)	
When to record	When purchased or donated.
Initial measurement	<i>Purchased:</i> Cost (cash price equivalent). <i>Donated:</i> Current value (such as <u>local council rateable value</u>).
When to record impairment	<i>Asset to be sold:</i> If the market price for an equivalent asset falls below the carrying amount of the asset. <i>Asset to be used:</i> If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	<i>Record depreciation:</i> spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated. <i>For classes of asset that the entity elects to revalue:</i> record revaluation gains/losses
When to no longer record	When sold, otherwise disposed of or written off.
Investments	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.

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Change measurement at balance date	If the current market price falls below cost. <u>For publicly traded investments the entity elects to measure at current value: record increases/decreases in current value.</u>
When to no longer record	When sold, otherwise disposed of, or written off.
Other Assets	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably ^(a) .
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A107.1 If there is any indication that an impairment charge recorded in prior periods for an asset:

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A107.2 The reversal of the impairment charge shall:

- (a) In the case of inventories, be limited to the amount of the original write-down;
- (b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

Calculating Debtors

A108. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

- (a) Financial difficulty of the other party;
- (b) A breach of contract by the other party, such as a default in interest or principal payments;
- (c) The entity granting to the other party a concession relating to debt payment; or
- (d) Other information indicating that the receivable may not be collected.

Heritage Assets

A109. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

A110. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement

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of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Donated Assets

A111. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values (such as local council rateable value for land and buildings), where it is practicable reasonably possible to obtain such current values.

A112. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Revaluation of Property, Plant and Equipment

A113. As specified in Table 3, purchased property, plant and equipment is generally measured on a cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset is expected to increase over that asset's life.

A113.1. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets within that class of property, plant, and equipment.

A113.2. A class of property, plant, and equipment is a grouping of assets of a similar nature or function. Possible classes of property, plant and equipment are:

- (a) Land;
- (b) Buildings;
- (c) Motor vehicles;
- (d) Furniture and fixtures;
- (e) Office equipment;
- (f) Computers (including software); and
- (g) Machinery.

A114. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A114.1. When a revaluation approach is applied, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable value may be used.

A114.2. Where an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.

A115. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset, is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

A115.1. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A115.2. Where an entity elects to revalue its land and buildings based on a local council rateable value it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report, that the local council rateable value may not reflect current market value.

A116. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may

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choose to disclose that current value, and the basis (valuation by an independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.

A116.1. If an entity elects to revalue a class of assets it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);
- (b) Recognise revaluation gains for the class as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through a [separate revaluation reserve](#), unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A107.1 and A107.2);
- (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of property, plant and equipment” directly in accumulated funds through [the associated](#) revaluation reserve; and
- (d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of property, plant and equipment”.

A116.2. For the purpose of applying paragraph A116.1 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different classes.

A116.3. Some or all of the revaluation gains included in net assets/accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A116.4. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

- (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value);
- (b) The date of the valuation; and
- (c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

Investment property

A116.5. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity's ordinary activities.

A116.6. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A113 – A116.4). This means that an entity can choose to account for investment property on a cost or revaluation basis. [An entity may elect to present investment property as a separate class of property, plant and equipment.](#)

Investments

A116.7. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure that class of investment at its current market value.

[A116.8.](#) If an entity elects to measure publicly traded investments at current market value, it shall: ~~recognise the change in current market value in revenue or expenses in the statement of financial performance.~~

- (a) [Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report \(see paragraph A143\);](#)

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- (b) Recognise revaluation gains for the investments as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A107.1 and A107.2);
- (c) Recognise revaluation losses for the investment as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the associated revaluation reserve; and
- ~~(a)~~(d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of publicly traded investments”.

~~A116.8~~-A116.9. If investments are reported at current market value an entity shall disclose:

- (a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).
- (b) In the notes to the performance report, an analysis of investments by class reconciling the opening and closing carrying amounts of each class of investment held, with those held at current market value being identified separately from those held at cost less impairment.

Assets Held on Behalf of Others

A117. Assets held as an agent on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A83 – A86 for a discussion on principals and agents).

Liabilities

A118. Liabilities are the amounts owed by the entity at balance date⁹.

Required Information

A119. In order to make information understandable to users, liabilities shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A128):

- (a) Bank overdraft;
- (b) Creditors and accrued expenses;
- (c) Employee costs payable;
- (d) Deferred revenue; and
- (e) Loans.

A120. Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity’s operations. GST payable to Inland Revenue is also part of creditors.

A121. Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid, water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

A122. Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees’ remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

⁹ See the Glossary for a more detailed definition of liabilities.

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A123. [Deleted]

A124. Loans are amounts borrowed by the entity.

A125. Entities need report only the categories specified in paragraph A119 separately when the category is applicable and significant to the entity.

A126. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A119, provided that the separate categories are still maintained.

A127. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A128. In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as “current liabilities”. The remaining liabilities shall then be classified as “non-current liabilities”.

A128.1. The balance of deferred revenue with respect to unsatisfied resource provider expectations over significant donation, grant ~~and~~, bequest ~~and pledge~~ funding at balance date shall be reported as a category of liabilities in the statement of financial position.

Optional Information

A129. [Deleted]

A130. Additional categories to those in paragraph A119 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A131. Breakdowns or disaggregation of the categories in paragraph A119 may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Liabilities

A132. Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

Table 4: Recording of Specific Types of Liability

Bank Overdraft	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).
Creditors and Accrued Expenses	
When to record	When transaction occurs that creates the payment obligation, for example on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
Employee Costs Payable	
When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.

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Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
Deferred Revenue	
When to record	When a significant donation, grant or , bequest or pledge with expectations over use is received.
Initial measurement	At the amount of the donation, grant or , bequest or pledge received.
Change measurement at balance date	Assess whether (or to what extent) expectations over use have been satisfied. If expectations have not been fully satisfied, assess the amount of the donation, grant or , bequest or pledge that relates to expectations which have not yet been satisfied.
When to no longer record	When the expectations over use are satisfied.
Provisions	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
Loans	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.
When to no longer record	When all principal and interest has been paid.

Provisions

A133. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

A134. A provision shall be recorded as a liability when:

- (a) The entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that the entity will have to settle the obligation; and
- (c) The entity can make a reliable estimate of the amount of the obligation.

A135. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

Possible Future Liabilities

A136. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For

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example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

Contingent Liabilities

A137. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A199–A201).

Accumulated Funds

A138. The accumulated funds balance is the difference between the assets and liabilities of the entity. It is therefore the component that balances the statement of financial position. The accumulated funds balance ~~Accumulated Funds~~ represents the net assets available owners' financial interest into the entity ~~and/or the net assets available to the entity~~ to fulfil its objectives in the future. In the for-profit sector the equivalent term is equity.

A138.1. Movements in accumulated funds include the surplus or deficit for the year, revaluation reserve movements, and other transactions directly with owners in their capacity as owners. In general, transactions with owners (described as capital contributed by owners in paragraph A140 below) are uncommon for not-for-profit entities and most transactions are recorded through the statement of financial performance rather than directly through the Accumulated Funds balance.

A138.2. For the purposes of applying the requirements in this Standard, the term "owners" specifically refers to those who have made capital contributions as described in paragraph A140 below. The term "owners" can include individuals or other entities.

Required Information

A139. In order to make information understandable to users, the balance of accumulated funds shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately, where they are applicable to the entity:

- (a) Capital contributed by owners (if any);
- (b) Accumulated surpluses or deficits;
- (c) Reserves:

(i) Restricted reserves;

~~(i)~~ (ii) Discretionary reserves;

~~(ii)~~ (iii) Revaluation reserves; and

~~(iii)~~ (iv) Other reserves.

A139.1. When an entity elects to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard, it may be required to present additional categories of accumulated funds balances based on the requirements of the Tier 2 PBE Standard applied.

A140. The capital contributed by owners category represents contributions to the entity by owners in their capacity as owners that:

- (a) Convey 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) Give the owner a voice in the management of the entity as an owner; and/or
- (c) Can be sold, exchanged, transferred, or redeemed.

A141. [Deleted]

A142. The accumulated surpluses or deficits category represents the total of all the surpluses and deficits from the commencement of the entity, excluding any transactions with owners in their capacity as owners/ (if any), and amounts transferred to other reserves.

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A143. Reserves are of ~~three~~ four 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, and must not be able to be satisfied (if the condition can be satisfied, it is likely the funds will meet the criteria for recognition as deferred revenue, see paragraphs A65 – A67) for example:~~[Deleted]~~
 - (i) A bequest which specifies that the funds received may only be invested and that any investment returns may be used as the entity sees fit.
 - (ii) ~~[Deleted]~~
 - ~~(iii) [Deleted]~~
- (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as an internal 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.
- (c) Revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).
- (d) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

A144. Entities need report only the minimum categories specified in paragraph A139 separately when the category is applicable to the entity.

A145. The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A139, provided that the separate categories are still maintained.

Accounting for Accumulated Funds

A146. Capital contributed by owners shall be recorded at the amount received or paid to owners in their capacity as owners.

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, plus any transfers to/from reserves.

A148. Reserves shall be recorded as follows:

- (a) Restricted and Discretionary reserves shall be recorded at the opening balance of the reserve plus/minus transfers to/from accumulated surpluses or deficits.
- (b) Revaluation reserves shall be recorded at the opening balance of the reserve plus/minus the increase/decrease in value of each class of property, plant and equipment required to be recognised directly in accumulated funds (where an entity has elected to measure such items at revalued amounts).
- (c) Other reserves shall be recorded at the opening balance of the reserve plus/minus any amounts required to be recognised directly in accumulated funds as a result of an entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

Approval and Issue of Performance Report

A148.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

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Required Information

A148.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

Other Information

Required Information

A149. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

Optional Information

A150. An entity may include the entity's budgets or plans for the current financial year if they are available.

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Section 7: Statement of Cash Flows

Purpose and Value to Users

A151. The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received, and how the cash was used during the year. An understanding of an entity’s cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity’s objectives.

A152. [Deleted]

Format of Statement of Cash Flows

Required Information

A153. The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

A154. [Deleted]

A155. Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

A156. Operating activities are the activities of the entity that are carried out as part of its normal operations, for example, the funding received and the costs paid in delivery of the entity’s objectives

A157. The statement of cash flows does not include:

- (a) Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A83–A86). For example, rent collected on behalf of, and paid over to, the owners of properties; and
- (b) Transactions not involving cash, for example depreciation and donated goods or services.

Cash Flows from Operating Activities

Required Information

A158. In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

Cash Received:

- (a) Donations, koha, bequests and other general fundraising activities ;
- (b) General grants and other receipts from service delivery;
- ~~(b)(c) Capital grants and donations; Membership fees and subscriptions;~~
- (d) Government service delivery grants/contracts;
- (e) Non-government service delivery grants/contracts;
- (f) Membership fees and subscriptions;
- ~~(e)(g)~~ Gross sales from commercial activities;

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Interest, dividends and other investment receipts; and

Grants received;

~~(d)(h)~~ Funding received from government service delivery grants/contracts;

~~(e)~~ Funding received from non-government service delivery grants/contracts; and

~~(f)(i)~~ Other cash received.

Cash Payments:

~~(g)(j)~~ Payments related to public fundraising;

~~(h)(k)~~ Payments—Employee remuneration and other related payments; to volunteers and employees

(l) Volunteer related payments;

~~(i)(m)~~ Payments related to commercial activities;

~~(j)(n)~~ Other payments related to delivery of the entity objectives;

~~(k)(o)~~ Grants and donations paid; and

~~(l)(p)~~ Other payments.

A159. Entities only need to report against a category specified in paragraph A158 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A160. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A158, provided that the separate categories are still maintained.

A161. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A162. [Deleted]

A163. [Deleted]

A164. Further breakdowns or disaggregation of the categories in paragraph A158 may be provided in the notes to the performance report, for example, a breakdown of cash payments related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Cash Flows from Other Activities

Required Information

A165. In order to make information understandable to users, cash flows from other activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

Cash Received:

- (a) Sale of property, plant and equipment;
- (b) Sale of investments;
- (c) Cash drawn down from loans borrowed from other parties;
- (d) Cash received from owners (capital contributions); and
- (e) Capital grants

Cash Payments:

- (f) Payments to acquire property, plant and equipment;
- (g) Payments to purchase investments;

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- (h) Repayments of loans borrowed from other parties; and
- (i) Capital distributed to owners.

A166. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include loans made to other entities.

A167. Entities only need to report against a category specified in paragraph A165 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

A168. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A165, provided that the separate categories are still maintained.

A169. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

Cash Balances

Required Information

A170. Cash balances is the same amount reported as "~~bank accounts~~, cash and short-term deposits" less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, at call deposits with banks or term deposits with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A93).

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Section 8: Statement of Accounting Policies**Purpose and Value to Users**

A171. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

Format of Statement of Accounting Policies**Required Information**

A172. The statement of accounting policies shall comprise two components:

- (a) Accounting policies applied; and
- (b) Changes in accounting policies.

Accounting Policies Applied

A173. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

Required Information

A174. As a **minimum**, the following shall be included in the statement of accounting policies.

Basis of Preparation

A175. The statement of accounting policies shall disclose that:

- (a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;
- (b) All transactions are reported using the accrual basis of accounting; and
- (c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A176).

A176. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A210). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

Goods and Services Tax (GST)

A177. The statement of accounting policies shall disclose:

- (a) Whether the entity is registered for GST; and
- (b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

Specific Accounting Policies

A178. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A179. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

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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 [Appendix C](#)), the PBE Standard applied shall be disclosed.

Changes in Accounting Policies

A181. A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

A182. An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

Required Information

A183. When an entity changes its accounting policy an entity shall disclose:

- (a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and
- (b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

A184. Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

Accounting for Changes in Accounting Policies

A185. Changes in accounting policies shall be applied from the beginning of the current reporting period.

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Section 9: Notes to the Performance Report**Purpose and Value to Users**

A186. The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

Required Information

A187. The following matters shall be included in the notes to the performance report.

A188. [Deleted]

Deferred Revenue: Unused Significant Donations, Grants or, Bequests ~~and Pledges~~ with Expectations over Use

188.1. ~~A187.1~~ Where the entity has received a significant donation, grant or, bequest ~~or pledge~~ for which revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

- (a) The purpose and nature of the expectations over future use; and
- (b) When the entity expects to satisfy the remaining expectations over use.

Goods or Services in Kind Provided to the Entity

A189. An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required.

Property, Plant and Equipment

A190. For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

- (a) A description of the asset class (for example, equipment, furniture);
- (b) The carrying amount of the asset class at the beginning of the financial year;
- (c) The depreciation and/or impairment expense recorded for the asset class for the financial year;
- (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and
- (e) The carrying amount of the asset class at the end of the financial year.

A191. The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A113–A116.4).

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Investments

A191.1. Where the entity has elected to measure a class of investments at its current market value (see paragraphs A116.7 – A116.9) the entity shall disclose for each class of investment in the notes to the performance report:

- (a) A description of the asset class (for example, shares, bonds);
- (b) Whether the asset class is held at current market value or cost less impairment;
- (c) The carrying amount of the asset class at the beginning of the financial year;
- (d) The amount of any revenue/expense recognised in the statement of financial performance due to changes in the market value of the asset class for the financial year; and
- (e) The carrying amount of the asset class at the end of the financial year.

A191.2. For each class of investment held at current market value the entity shall also disclose the source and date of the valuation (for example, NZX-quoted price at the balance date).

Significant Donated Assets not Recorded

A192. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

Significant Heritage Assets not Recorded

A193. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A110), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

Assets Used as Security for Liabilities

A194. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

- (a) The nature and amount of the loan that is secured; and
- (b) The nature and amount of the asset(s) used as security.

Assets Held on Behalf of Others

A195. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

- (a) A description of the assets which it holds in this capacity; and
- (b) The name of the entity on whose behalf the assets are held.

Changes in Accumulated Funds

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

A196.1. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its reserves accumulated funds.

A196.2. In meeting the requirements of paragraph A196.1 for restricted reserves, an entity shall disclose a description of the purpose of the reserve and the nature of the restriction on the reserve.

A196.1-A196.3. In meeting ~~the~~ is requirements of paragraph A196.1 for discretionary reserves, an entity shall disclose a brief description of the purpose of the reserve, the entity's general plans for applying ~~its the reserve accumulated funds~~ towards its stated purposes, and when the entity expects the reserve will be applied.

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~~A196.2-A196.4.~~ Information which an entity may consider disclosing ~~for this in meeting the requirements of paragraphs A196.2 and A196.3 purpose~~ includes:

- (a) Whether the entity intends to begin any specific projects to which ~~its the accumulated funds reserve~~ will be applied;
- (b) To what extent the ~~entity's accumulated funds reserve~~ represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or
- (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

Commitments

A197. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

A198. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

- (a) Commitments to lease or rent assets;
- (b) Commitments to purchase property, plant and equipment; and
- (c) Commitments to provide loans or grants.

Contingent Liabilities

A199. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

A200. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

- (a) A brief description of the nature of the contingent liability;
- (b) A best estimate of the amount of the contingent liability (where this can be estimated);
- (c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and
- (d) The possibility of any reimbursement.

A201. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

- (a) The nature of the guarantee;
- (b) The maximum amount of any guarantees provided to others; and
- (c) The likelihood of the entity being required to make payment under the guarantee.

Related Party Transactions

Explanation

A202. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. This includes normal business transactions as well as transactions below market price (including the provision of free goods or services).

A203. Related parties comprise:

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- (a) People that have significant influence over the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and
 - (b) Other entities that have significant influence over the entity.
- A204. Related party relationships exist throughout the NFP sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:
- (a) Related party relationships can influence the way in which an entity operates with other entities;
 - (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and
 - (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.
- A205. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:
- (a) The sale of a significant resource (such as a building) to the spouse of a member of the governing body of the entity;
 - (b) The provision of preferential access to services provided by the entity to the child of the president of the entity;
 - (c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party; and
 - (d) A member of the governing body providing professional services (for example, accounting or legal services) to the entity at no cost.

Requirements

- A206. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if:
- (a) The transaction is significant to the entity (individually or in aggregate with similar transactions); or
 - (b) The transaction (either significant or insignificant) is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.
- A207. For each disclosed transaction the following shall be reported:
- (a) A description of the related party relationship;
 - (b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and
 - (c) Any amounts due from or to related parties at balance date.

Events After the Balance Date

- A208. Where events after balance date occur (see paragraphs A33–A35), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:
- (a) The nature of the event; and
 - (b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and
 - (c) The effect, if any, on the entity's ability to continue operating.

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A209. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

Ability to Continue Operating

A210. Where the entity plans to stop operating within 12 months from balance date (see paragraph A176), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

- (a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;
- (b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and
- (c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

A211. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

Correction of Errors

A212. When an entity corrects a significant prior period error (see paragraph A28), it shall report in the notes to the performance report:

- (a) A description of the error and how it was corrected; and
- (b) The line items and amounts that have been corrected.

Additional Information

A213. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

Optional Information

A214. An entity may include in the notes to the performance report:

- (a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;
- (b) Additional information about donations, fundraising and other similar revenue including a list of donors; and
- (c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

1. Revenue Earned

Scenario 1

A charity that provides health services (the reporting entity) has a government contract where it invoices the government after the services have been provided.

Treatment: The reporting entity records revenue in the statement of financial performance (as revenue from providing goods or services) when the health services have been delivered. In practice this will normally be when the invoice is issued to the government (if issued on a monthly basis or something similar). Any amounts invoiced but not yet received at balance date are recorded as a debtor in the statement of financial position.

Scenario 2

A charity that provides health services (the reporting entity) has a government contract where the government bulk funds the charity at the beginning of each quarter in advance of the services having been delivered.

Treatment: The reporting entity records:

- (a) The bulk funding received in advance as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue in the statement of financial performance (revenue from providing goods or services) as the health services are delivered; and reduces the liability for the funding received in advance by the same amount at the same time.

2. Donations, Grants ~~and~~, Bequests ~~and Pledges~~ with and Without Expectations Over Use

Scenario 1 – Donation from a private individual with no documented expectation over use

A charity that delivers social services (the reporting entity) receives a significant donation from a private individual to support its activities. The reporting entity expects to use the donation to fund a particular project; however, the donor has not specifically communicated any expectations over use of the donation to the reporting entity.

Treatment: As the donor did not communicate any expectations over the use of the grant to the reporting entity, the reporting entity records the donation as revenue in the statement of financial performance (as revenue from donations, koha, bequests, and other fundraising activities) upon receipt of the donation.

Optional Information: The reporting entity may include information about the donor in any list of donors and their contributions included in the notes to the performance report (see paragraph A61).

Scenario 2 – Grant with a time-specified expectation

A charity that delivers social services (the reporting entity) receives a grant to support its general operating activities at the beginning of its financial year. The grantor specifies in writing that the charity must use the grant over the next two years.

Treatment: There is a documented expectation over the use of the grant from the grantor, which is time specified (i.e. funds to be used over a two-year period). Therefore, the reporting entity:

- (a) Records the grant as deferred revenue upon receipt of the funds;
- (b) Records the grant as revenue in the statement of financial performance (as grant revenue) on a straight-line basis (i.e. records half the grant as grant revenue at the end of the financial year in which the grant was received);
- (c) Records a corresponding reduction in the deferred revenue balance; and

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- (d) Provides information in the notes to the performance report outlining the total amount of the grant, the amount of the grant unused, the fact that the grant is to be used over a period of two years, and when the reporting entity expects to fulfil the grantor's expectations in full (see paragraph A188.1).

Optional Information: The reporting entity may include information about the grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A61).

Note: for a time-specified expectation, revenue is recognised on a straight-line basis over the specified period, regardless of how much of the funding has actually been spent as at balance date.

Scenario 3 – Bequest to be used to fund the construction of an asset

A charity receives a bequest for the purposes of building new premises. This expectation has been documented and agreed between the charity and a representative of the donor's deceased estate.

Treatment: There is a documented expectation over the use of the bequest, which relates to the construction of an asset. Therefore, the reporting entity:

- (a) Records the bequest as deferred revenue upon receipt of the funds;
- (b) Records the bequest in the statement of financial performance (as revenue from capital grants and donations) on a stage of completion basis (i.e. recognise a percentage of the bequest as revenue, based on the percentage of total expected expenditure incurred to date), with a corresponding reduction in the deferred revenue balance; and
- (c) Provides information in the notes to the performance report outlining the total amount of the bequest, the amount of the bequest unused, the fact that the bequest is to be used to fund the construction of the new premises, and when the reporting entity expects to fulfil the resource provider's expectations in full (see paragraph A188.1).

3. Donated Assets

The family of a deceased person (who is not a related person) donates a house, some artefacts and other miscellaneous items from the estate to a charity (the reporting entity). The house has a local council rateable valuation, is considered to be significant, and will have a useful life of 12 months or more. The artefacts are considered significant and will have an indefinite useful life of 12 months or more. However, the value of the artifacts is not readily obtainable. The other miscellaneous items are considered insignificant.

Treatment: When the donated assets are received, the reporting entity:

- (a) Records:
 - (i) The house as an asset in the statement of financial position (as property, plant and equipment) at the government valuation (see paragraph A111);
 - (ii) Revenue in the statement of financial performance (as donations, fundraising and other similar revenue) at the same amount as the house was recorded at in the statement of financial position; and
 - (iii) The basis and date of the valuation, and the information required for property, plant and equipment, in the notes to the performance report (see paragraph A190);
- (b) Does not record the artefacts (because their value is not readily obtainable) but discloses in the notes to the performance report details of the artefacts received (see paragraph A192); and
- (c) Does not record the other miscellaneous items (because their value is insignificant).

Optional Information: The reporting entity may include in the notes to the performance report a list of donations received including these donated assets.

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4. Donated Goods or Services

A charity (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the charity. The value of the free services is significant to the charity.

Treatment: The reporting entity does not record the donated services (see paragraph A68). However, the donated service is disclosed in the notes to the performance report (see paragraph A189).

5. Pledges

A local radio station conducts a fundraising appeal for a charity (the reporting entity). Listeners send in pledges, promising to send donations of specified amounts of money. At the conclusion of the appeal, a significant amount has been pledged. The pledged donations are not binding on those making the pledge.

Treatment: The reporting entity does not record any amount in respect of the pledges until it receives the funds pledged.

Optional Information: The reporting entity may wish to record in the notes to the performance report the result of the fundraising appeal.

6. Volunteer Services

The reporting entity is a charity shop run by volunteers.

Treatment: The entity information section reports that the entity is reliant on volunteers' donation of time, and the donation of goods for sale, for the operation of the charity shop (see paragraph A37(f)).

Optional Information: In its statement of service performance the entity may provide a quantification of the contributions from volunteers in terms of numbers of volunteers, number of volunteer hours or full-time staff equivalents involved in running the shop (see paragraph A43(a)(iv)).

7. Loans and Revenue from Loan Forgiveness**Scenario 1**

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are required to begin immediately.

Treatment: When the loan is received it is recorded as a liability (a loan) in the statement of financial position. Repayments are recorded as a reduction in the loan in the statement of financial position (so that the amount at balance date reflects the loan principal outstanding).

Scenario 2

A church (the reporting entity) is lent money by a parishioner (who is not a related party) to fund the repair of the church organ. Repayments on the loan are not required to begin for five years. After four years, the parishioner decides not to require repayment of the loan.

Treatment: When the loan is received it is recorded as a liability (a loan) in the statement of financial position. When the loan is forgiven, the amount of the loan is recorded as revenue in the statement of financial performance (as donations, fundraising and other similar revenue), and the liability (loan) is removed from the statement of financial position.

Optional Information: The reporting entity may wish to record in the notes to the performance report the donation and the reason that it no longer has the loan recorded in the statement of financial position.

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8. Grants and Donations Expense**Scenario 1**

A philanthropic trust (the reporting entity) makes grants to worthy organisations. The Trust's policy is that all grants are discretionary and it does not advise organisations receiving a grant in advance of paying the grant.

Treatment: The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when the grants are paid.

Scenario 2

A philanthropic trust (the reporting entity) makes grants to worthy organisations. After each Trust meeting the Trust advises organisations that have been approved for a grant of that fact in writing. The grants are typically paid out two months after the written notification.

Treatment: The reporting entity records the grants as an expense (as grants and donations made) in the statement of financial performance when it notifies the organisations in writing. It also records a liability (as a creditor) in the statement of financial position.

9. Liabilities and Contingent Liabilities

At its annual charity gala, a charity (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the reporting entity disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Treatment: In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

10. Related Parties**Scenario 1**

The reporting entity has total operating payments of \$200,000. A few of these payments (\$50,000) are made to the spouse of the chairperson for office administration duties of the entity. The payments are made on normal terms and conditions.

Scenario 2

The reporting entity has total operating payments of \$200,000. A few of these payments (\$500) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at the same hourly rate as the office administrator receives.

Treatment: In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A203).

In scenario 1 the transactions with the related party are significant to the entity (see paragraph A206(a)) and therefore the entity reports in the notes to the performance report the information set out in paragraph A207(a)–(c).

In scenario 2 the transactions with the related party are not significant to the entity and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

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Section 11: Glossary

This Glossary contains all terms defined in this Standard.

Accounting policies	The specific policies and practices used by the entity when preparing the performance report.
Accumulated funds	<u>Represents the net assets available to the entity to fulfil its objectives in the future. The owners' financial interest in the entity. It comprises capital contributed by owners, accumulated surpluses or deficits, and reserves.</u> —It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
Assets	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
Associate	An entity over which the investor has significant influence.
Bad debt	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
Balance date	The date to which the performance report is prepared. It is usually an end of month date, for example, 31 March 20XX.
Carrying amount	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
<u>Cash</u>	<u>Cash on hand and bank account balances (e.g., cheque and savings accounts)</u>
Commitments	Contracts or similar arrangements entered into by the entity to pay money in the future.
Consolidated performance report	The performance report of an economic entity ¹⁰ presented as that of a single entity.
Contingent liability	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because: (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
Control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
Controlled entity	An entity that is controlled by another entity.
Controlling entity	An entity that controls one or more entities.
Deficit	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
Depreciation	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
Economic entity	A controlling entity and its controlled entities.

¹⁰ Note the term group is sometimes used to refer to the economic entity.

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Entity	An entity is an organisation which may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
Expenses	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners(in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
Fair value	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
Financial year	A twelve-month period ending on the entity's balance date.
Impairment	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
Intangible assets	Assets without a physical presence (for example, trademarks, patents).
Inventory	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, the goods for sale in a charity shop.
Joint arrangement	An arrangement of which two or more parties have joint control.
Joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
Measurement	Quantification of activities in terms of money, being New Zealand dollars.
Not-for-profit public benefit entity (NFP PBE)	A public benefit entity that is not a public sector public benefit entity.
Notes to the performance report	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
Performance report	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and

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	notes to the performance report prepared in accordance with this Standard.
Public accountability	<p>While NFP PBEs are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in XRB A1.</p>
Public benefit entity	Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
Recording	Including <u>a</u> revenue, expense, asset or liability <u>item</u> in the statements of the performance report (also referred to as recognition).
Recognition event	<p>An event that brings about the legal obligation for the entity to:</p> <p>(a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or</p> <p>(b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash.</p> <p>This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).</p>
Related parties	People or entities that have significant influence over the reporting entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment, it is an organisation that is required by law, or elects to apply, standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a NFP entity.
Revenue	All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.
Significant	An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user’s understanding of the entity’s overall performance. For the purposes of this Standard it has the same meaning as material.
Significant influence	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.
Statement of cash flows	A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.

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Statement of financial performance	A statement that shows an entity's revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.
Statement of financial position	A statement that reports a picture of the entity's position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
Statement of service performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. It is particularly useful in the not-for-profit sector when the focus is on achieving objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
Surplus	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
Total expenses	<p>For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance.</p> <p>Where revenue and expense are offset as required or permitted, any net expense is included in total expenses.</p> <p>Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.</p>

Appendix B: Transitional Arrangements

This Appendix contains the requirements for entities to transition to Reporting Requirements for Tier 3 Not-for-profit Entities. It is an integral part of the Standard.

Objective

- B1. This part of the Standard¹¹ is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

Transitional Groups

- B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those that have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

General Provisions

- B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.
- B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared, for example, if the performance report is being prepared in accordance with these general provisions for the year ended 31 March 2016, the beginning of the earliest comparative period would be 1 April 2014.
- B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.
- (a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.
 - (b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.
 - (c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.
- B6. Separate disclosure of significant restatements is encouraged, but is not required.

¹¹ This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Not-for-profit Entities abbreviated as Tier 3 (NFP) Standard.

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Special Provisions**Group 1: New Entities**

- B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

Group 2: Entities Previously Applying Tier 4 Accounting Requirements

- B8. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
 - (b) Apply the general provisions of this Standard.

Group 3: Entities Previously Applying Tier 2 Accounting Requirements

- B9. Entities in this Group shall follow one of the following two options:
- (a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with Tier 2 PBE Accounting Requirements; or
 - (b) Apply the general provisions of this Standard.

Group 4: Other Entities

- B10. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
 - (b) Apply the general provisions of this Standard.

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Appendix C: Application of PBE Standards

This Appendix contains the requirements for entities when applying a PBE Standard and is an integral part of the Standard.

Interests in Other Entities

- C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:
- (a) PBE IPSAS 35 *Consolidated Financial Statements*
 - (b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*
 - (c) PBE IPSAS 37 *Joint Arrangements*
- C2. If an entity controls another entity, it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.
- C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.
- C4. If an entity has an interest in a joint arrangement, it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 and PBE IPSAS 38.
- C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession, it shall comply with any RDR paragraphs associated with that concession.

Other Applications of PBE Standards

- C6. 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 Standards 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 27 *Agriculture* so that it can measure its biological assets and agricultural produce at fair value less costs to sell, or an entity may decide to opt up to PBE IPSAS 25 *Employee Benefits* to account for long-term employee benefits.
- C7. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, the entity ~~shall:~~
- ~~(a) — Shall disclose this in the statement of accounting policies; and.~~
 - ~~(a) _____~~
 - ~~(b) C8. — If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard 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).~~
- C89. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:

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- (a) Recognise the effect of that transaction directly in accumulated funds; and
- (b) Present the cumulative effect of similar transactions as a separate reserve within Accumulated Funds.

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Basis for Conclusions

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Not-For-Profit) Standard (PBE SFR-A (NFP)).

Background

BC2. The Accounting Standards Framework includes four reporting tiers for not-for-profit entities. PBE SFR-A (NFP) contains requirements for the third tier and may be applied by entities that do not have “public accountability” (as defined in standard XRB A1 (FP Entities + PS PBEs + NFPs Update)) and that have annual expenses less than, or equal, to \$2 million.

Objective

BC3. PBE SFR-A (NFP) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (NFP) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 NFP financial reporting as are applied by entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

Approach

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 not-for-profit preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (NFP).

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

- (a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (NFP);
- (b) Contains simplified measurement of transactions where, taking the not-for-profit sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;
- (c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and
- (d) Contains simplified presentation and disclosure requirements.

Omitted Transactions

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

- (a) Financial instruments other than payables, receivables and term deposits; and
- (b) Complex transactions such as service concession arrangements and insurance contracts.

Simplifications

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

- (a) *Whether grants or donations are recorded:* Goods or services (and other non-cash assets) received in kind are not required to be recorded;

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- (b) *Timing of recognition:* Bequests of cash or significant assets are recorded on receipt rather than when the definition of an asset is met (which might be earlier than receipt); and
 - (c) *Treatment of donation/grant revenue:* Donations and grants (and other fundraising revenue) are recorded as revenue when received unless there is a “use or return” condition attached to the revenue. In this Standard the key element that drives recognition of a liability relating to the donation/grant received is the “use or return” condition.
- BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.
- BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (NFP) requires disclosure of significant donations in kind in the notes to the performance report.
- BC11. In relation to the simplification set out in BC8(c) the NZASB chose not to fully apply to grants and donations the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (NFP) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a “use or return” condition before a liability is recorded.
- BC12. The NZASB made a number of other simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:
- (a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;
 - (b) Any foreign currency transactions are to be translated using the rate at the transaction date or at the balance sheet date for monetary assets and liabilities;
 - (c) Tax expense (where relevant) is based on income tax payable without any allowance for deferred tax assets or deferred tax liabilities;
 - (d) Basing the statement of cash flows on ‘cash’ rather than cash equivalents; and
 - (e) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

Option to Apply the Requirements in Tier 2 PBE Accounting Standards

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of a Tier 2 PBE Accounting Standard for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

Financial Information

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Non-Financial Information

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

- (a) Disclosure of information about the entity's structure and objectives, together with disclosure of the entity's reliance on donations, including services donated by volunteers; and
- (b) The preparation of a statement of service performance.

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance.

Group Accounting

BC17. At the stage that PBE SFR-A (NFP) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-3 *Interests in Other Entities* (Amendments to PBE SFR-A (NFP)) in April 2014 (ED NZASB 2014-3). The NZASB noted that PBE SFR-A (NFP) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 not-for-profit entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 not-for-profit entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (NFP) the NZASB noted that:

- (a) Some Tier 3 not-for-profit entities would be expected to have interests in controlled entities, associates or joint ventures;
- (b) Some Tier 3 not-for-profit entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and
- (c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 not-for-profit standard, thereby detracting from the usefulness of the standard for most not-for-profit entities.

BC17.4 The NZASB agreed to require Tier 3 not-for-profit entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 not-for-profit standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

Related Parties

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions), or the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

Transition

BC20. The NZASB was aware that a wide range of pre-existing accounting policies were applied by entities that are now required by law to follow standards issued by the XRB. The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (NFP) permits entities to:

- (a) Apply PBE SFR-A (NFP) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and
- (b) Record only pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (NFP).

Post-implementation review

BC21. The NZASB completed a post-implementation review of the Tier 3 (NFP) Standard in 2021 to assess whether the Standard was working as intended and achieving its original objectives. Over 100 submissions were received in response to the post-implementation review, which have been considered as the basis for developing proposed amendments to the Standard.

BC22. Many respondents to the post-implementation review considered that, in general, the Standard was working well. However, there were some key issues raised in the feedback which highlighted areas where the Standard could be improved. In response, the NZASB issued ED NZASB 2022-4 Amendments to Tier 3 (NFP) Standard in [Month, Year] which proposed amendments to the following specific areas of the Standard.

Service Performance Reporting (Section 4)

BC23. The NZASB noted that the statement of service performance requirements in the Tier 3 (NFP) Standard were developed before PBE FRS 48 Service Performance Reporting (PBE FRS 48) was developed and issued. The NZASB decided to re-express the requirements for Tier 3 not-for-profit entities so that they were more in line with the requirements 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”.

BC24. Therefore, the NZASB decided to remove the language around “outcomes” and “outputs” but retain the requirement for a Tier 3 not-for-profit entity to report on what it is seeking to achieve over the medium to long term (i.e. its ‘objectives’) and the significant activities undertaken during the reporting period to achieve these objectives.

BC25. The NZASB also decided to add requirements and/or guidance on:

- (a) how to select appropriate and meaningful measures and/or descriptions;
- (b) what is meant by a “significant activity”; and
- (c) the need for consistency of service performance reporting from year to year (including possible reasons for changes to what an entity reports and how it is reported).

The additional requirements/guidance is aligned with PBE FRS 48.

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Asset Valuation (Section 6)

BC26. The Tier 3 (NFP) Standard was originally drafted to require all assets to be measured on a cost basis. If a Tier 3 not-for-profit entity wanted to measure any of its assets on a different basis (such as a revalued amount), it was required to opt up to Tier 2 PBE Standards with the exception that an entity may use rateable or government value rather than fair value when revaluing property, plant and equipment assets. Many respondents to the post-implementation review considered that the Standard should include simple requirements for measuring assets such as property, plant and equipment, investment property and financial investments (such as shares, bonds and units in managed funds) on an alternative basis to cost. Other respondents raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets.

BC27. The NZASB agreed that there is scope to improve and simplify the requirements in the Standard when a Tier 3 not-for-profit entity elects to measure these assets at revalued amounts. Therefore, the NZASB decided to incorporate simplified alternative measurement methods directly in the Tier 3 (NFP) Standard.

BC28. The NZASB agreed to allow property, plant and equipment assets to be revalued with the requirements including the following key features.

- (a) Entities would be permitted to use current council rateable value when revaluing.
- (b) To avoid introducing the concept of other comprehensive income to the Tier 3 (NFP) Standard, revaluation gains would be recognised directly in accumulated funds except to the extent that they reverse a previously recognised impairment charge.
- (c) Revaluation losses would be recognised as an expense in the statement of financial performance except to the extent that they offset a previously recognised revaluation gain.
- (d) Gains on disposal over the carrying amount would be recognised as revenue in the statement of financial performance.
- (e) Revaluation gains and losses are to be offset against each other within a class of revalued assets but must not be offset against gains and losses from another class of revalued assets.
- (f) Entities are still required to recognise depreciation on revalued assets from the date of their most recent revaluation.
- (g) Revaluation gains included in accumulated funds are not to be recycled through the statement of financial performance.

BC29. The NZASB decided to allow investment property assets to be revalued and, in the interest of simplicity, considered it appropriate that investment property be treated in the same manner as property, plant and equipment for this purpose. It was noted that the original drafting of the Tier 3 (NFP) Standard was silent on investment property and so the NZASB also agreed to include a simple definition of investment property in the Standard.

BC30. The NZASB noted that respondents who expressed a desire to revalue their financial investments generally only referred to publicly traded or managed investments. Therefore, the NZASB decided to allow financial investments to be revalued where those investments are publicly traded. Restricting revaluations to only assets of these types was considered to be the most appropriate method to achieve the effect desired by the respondents without introducing the complexity required to allow other types of financial investments to be revalued.

Categories for Presenting Revenue and Expenses (Section 5)

BC31. The Tier 3 (NFP) Standard requires revenue and expenses to be aggregated and reported within a set of categories in order to improve the understandability, consistency and comparability of performance reports. While feedback on the post-implementation review was generally supportive of maintaining minimum categories in principle, many respondents considered that the minimum categories could be improved by introducing additional disaggregation and clarifying the application of existing categories.

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BC32. After considering the views of respondents the NZASB decided to disaggregate the required categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

BC33. The NZASB also decided to separate:

- (a) Revenue and expenses which relate solely to commercial activities from other revenue and expenses. As NFP entities have a primary objective to provide goods or services for community or social benefit the NZASB considered that separating the revenue and expenses incurred in pursuit of this objective from those incurred solely to generate a financial return would provide useful information.
- (b) Revenue from grants that are, in substance, a contract for the delivery of goods or services from general grants (where applicable).
- (c) Revenue from government entities and revenue from non-government entities based on feedback from respondents.
- (d) Employee remuneration and other related costs from volunteer and other employee costs based on feedback from respondents.

BC34. Respondents also noted that the extent of disaggregation and relabelling of the minimum categories permitted by the Tier 3 (NFP) Standard was unclear, resulting in diversity in practice. As the amount of mandatory disaggregation has increased (where applicable), the NZASB decided to remove the option to provide further disaggregation in the statement of financial performance.

Revenue Recognition (Section 5)

BC35. In the original drafting of the Tier 3 (NFP) Standard, donations and grants received with “use or return” conditions were recognised as revenue as the conditions over use were satisfied. A “use or return” condition is one where the entity is required to either use the donation or grant as specified by the resource provider or return the funds. Feedback from many respondents to the post-implementation review highlighted concern about the restrictive nature of the “use or return” revenue recognition approach.

BC36. Respondents noted that “use or return” conditions do not provide for appropriate accounting outcomes in practice and limits their ability to explain how funds received from the public was being spent on advancing the entity’s objectives. It was also noted by respondents that the restrictive nature of this revenue recognition approach was negatively impacting the ability of Tier 3 not-for-profit entities to secure multi-year funding arrangements.

BC37. The NZASB considered the feedback from respondents, various international frameworks, and three key factors (i.e. clarity, meeting user needs and auditability). The NZASB decided to introduce the principle of recognising revenue as or when documented resource provider “expectations” over use are satisfied. The NZASB has not defined the term “expectations” but instead has put criteria in the Standard around what constitutes an expectation for revenue recognition purposes.

- (a) An expectation over use is one which the resource provider has communicated to the reporting entity when the funding is initially transferred.
- (b) The expectation must be both documented and agreed between the resource provider and the entity. An expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). This criterion is important from an assurance perspective.
- (c) Only external expectations (i.e. expectations from the resource provider) should be considered for revenue recognition purposes. Internal expectations (i.e. how the entity expects to use the funds) is not a relevant consideration.
- (d) An expectation should be specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied. However, there is no

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

requirement for the expectation to be enforceable by the resource provider, as the concept of “enforceability” introduces a level of complexity within the Standard that the NZASB does not deem necessary for a Tier 3 entity’s financial reporting.

- BC38. The principle of recognising revenue as (or when) expectations over use are satisfied applies only to significant funds received as a donation, grant ~~or~~, bequest ~~or~~ pledge. These revenue streams are the only ones where there may be a resource provider expectation over use. The NZASB considers it to be a rare occurrence when there is a resource provider expectation attached to general fundraising revenue, and so this revenue stream is not within scope of this revenue recognition principle.
- BC39. The NZASB has made it clear in the Standard that the unit of account for the recognition of significant donations, grants ~~and~~, bequests ~~and~~ pledges with documented expectations over use, is each separate expectation identified.
- BC40. The timing of revenue recognition is dependent on the nature of the documented expectation over use. Some expectations are naturally satisfied at a point in time (e.g. where the expectation is to purchase an item such as a vehicle), whereas other expectations are satisfied over a period of time (e.g. where the expectation is to use the funding to cover a charity worker’s salary for one year – as each month’s salary is paid, more of the expectation is satisfied). For the purposes of providing guidance to preparers the NZASB has put common scenarios and the likely patterns of revenue recognition within the Standard but has also made an explicit statement in the Standard that judgement will be required to determine an appropriate approach to the timing of revenue recognition.

Accumulated Funds (Section 6)

- BC41. Respondents considered that greater disclosure was needed about entities’ plans and policies for applying its accumulated funds towards its stated purposes. In responding to this feedback the NZASB was mindful of the significant diversity in the activities and circumstances of NFP entities and the unintended consequences of requiring disclosures that were too specific in nature.
- BC42. Ultimately, the NZASB agreed to expand the disclosures required in the notes to the performance report in the form of a ~~high-level requirement to disclose additional narrative~~ information to enable users of an entity’s financial statements to evaluate the entity’s objectives’ policies, and processes for managing its ~~accumulated funds reserves~~. This specifically includes a brief description of the entity’s plans for applying its accumulated funds toward its stated purposes. Rather than require further specific disclosures it was agreed to provide further guidance on the types of information an entity may wish to disclose towards this.

Opting up (Appendix C)

- BC43. The Tier 3 (NFP) Standard allows a Tier 3 not-for-profit entity to elect to apply the requirements of Tier 2 PBE Standards to specific types of transactions, as long as it applies the requirements to all transactions of that type. A key piece of feedback from the post-implementation review highlighted a lack of understanding about what to do if the relevant Tier 2 PBE Standard requires revaluation movements to be recognised in other comprehensive revenue and expense.
- BC44. In response to this feedback, the NZASB decided to include a requirement in Appendix C of the Standard to recognise the effects of transactions directly in accumulated funds where there is a requirement in Tier 2 PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. The NZASB decided not to introduce an “other comprehensive revenue and expense” category in the statement of financial performance, to avoid adding unnecessary complexity to the Standard.

Other amendments to the Tier 3 (NFP) Standard

- BC45. The NZASB decided to make the following additional amendments to the Standard, in response to feedback on the post-implementation review.
- (a) Add a paragraph in Section 3 of the Standard (Entity Information), which permits a Tier 3 not-for-profit entity to incorporate the required information in Section 3 by cross-reference to

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

another document, as long as the document is available to users at the same time as the performance report.

- (b) Align the categories within the statement of cash flows with the categories of revenue and expenditure in the statement of financial performance.
- (c) Include short-term deposits in the definition of cash and define them as deposits “with a maturity of three months or less from the date purchased”. This is in response to feedback on the post-implementation review which noted that the definition of cash in the Standard does not align with Tier 1 and Tier 2 PBE Standards, which can make the consolidation of entities reporting under different tiers more challenging. In the interests of limiting complexity the NZASB decided not to add the term “cash equivalents” or related guidance in the Standard.

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

History of Amendments

Reporting Requirements for Tier 3 Not-for-profit Entities (Tier 3 (NFP) Standard) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 (NFP) Standard. The table is based on amendments issued as at 31 **January 2021**.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
<i>Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) (PBE SFR-A (NFP))</i>	Nov 2013	Early application is permitted	1 April 2015
<i>Interests in Other Entities (Amendments to PBE SFR-A (NFP))</i>	Sept 2014	Early application is permitted	1 April 2015
<i>Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1</i>	Dec 2015	Early application is permitted	1 Jan 2016
<i>PBE IPSAS 34 Separate Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 35 Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 36 Interests in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 37 Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 38 Disclosure of Interests in Other Entities</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i>	July 2018	Early application is permitted	1 Jan 2019
<u>Amendments to Tier 3 (NFP) Standard</u>	<u>[Month, Year]</u>	<u>Early application is permitted</u>	<u>1 Jan 2024</u>

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Table of Amended Paragraphs in Tier 3 (NFP) Standard		
Paragraph affected	How affected	By ... [date]
Paragraph 1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 3	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 4	Amended	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 4.1 to 4.6	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7 and the preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 7	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 8	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 9	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 9	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 11	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 12	Added	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Table of Amended Paragraphs in Tier 3 (NFP) Standard		
Paragraph affected	How affected	By ... [date]
Paragraph A1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A10	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A12	Deleted	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 1: <i>Recording of Specific Types of Revenue</i> (follows paragraph A62)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 2: <i>Recording of Specific Types of Expenses</i> (follows paragraph A80)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Table 3: <i>Recording of Specific Types of Assets</i> (follows paragraph A107)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A107.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A107.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A113	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A114	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A115	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A148.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A148.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A175(a)	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A180	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A182	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A202	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	<i>Interests in Other Entities</i> [Sept 2014]

REPORTING REQUIREMENTS FOR TIER 3 NOT-FOR-PROFIT ENTITIES

Table of Amended Paragraphs in <u>Tier 3 (NFP) Standard</u>		
Paragraph affected	How affected	By ... [date]
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, controlled entity, controlling entity, economic entity.	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph B2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
The heading preceding Paragraph B 8 is amended	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph B9 and the preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]



~~NZASB ED 2022-7 - Tier 3 (PS) Standard Exposure Draft~~

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

TIER 3 (PS) STANDARD

Issued November 2013 and incorporates amendments to **[Month, Year]**

This Standard was issued by the New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board pursuant to section 1224(1)(a) of the Financial Reporting Act 2013/1993.

This Standard is a disallowable instrument secondary legislation for the purposes of the Legislation Act 20192.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

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<p><i>Reporting Requirements for Tier 3 Public Sector Entities</i> (Tier 3 (PS) Standard) is set out in paragraphs 1–16 and Appendices A, B and C. All the paragraphs in the Standard and Appendices have equal authority. Tier 3 (PS) Standard should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 <i>Application of the Accounting Standards Framework</i>.</p>

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Objective

1. The objective of this Standard is to facilitate financial reporting by public sector public benefit entities that are eligible for and elect to apply the Tier 3 PBE Accounting Requirements for public sector entities, by improving the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

Scope

2. This Standard applies to public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements. A public sector public benefit entity is eligible to apply this Standard if it:
 - (a) Has total expenses less than or equal to \$2 million; and
 - (b) Does not have public accountability for financial reporting purposes.

Please refer to the Glossary for further information about how "public sector public benefit entity", "total expenses" and "public accountability" are defined for financial reporting purposes.

Standard

3. Public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B of this Standard. The requirement to prepare a performance report exists regardless of the term used in any legislation that defines the reporting obligations of the entity, for example annual financial statements.
 - 3.1. An entity that is eligible to apply this Standard, and elects to do so, may elect to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard.
4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.
 - 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement. Refer to Appendix C for further guidance on how to determine the nature of an entity's interest in another entity, as well as for the requirements that an entity must apply when accounting for an interest in a controlled entity, an associate or joint arrangement.
 - 4.2 [Deleted]
 - 4.3 [Deleted]
 - 4.4 [Deleted]
 - 4.5 [Deleted]
 - 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement, it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.
5. Accompanying this Standard is an explanatory guide containing an optional template and associated guidance notes that illustrate the requirements of this Standard (*Explanatory Guide A3 Optional Template and Associated Guidance Notes for Applying Reporting Requirements for Tier 3 Public Sector Entities*). It is not mandatory to apply the template or guidance notes and they have no legal status. However, when an entity applies the template in the specific circumstances of the entity, the performance report will comply with this Standard.
6. Where this Standard does not provide guidance on a specific type of transaction or event, the entity shall use its judgement to determine an appropriate method of accounting for that

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transaction type that results in the performance report providing relevant and faithfully representative information. The entity shall refer to, and consider the applicability of, the following in descending order:

- (a) The principles and requirements in this Standard dealing with similar and related transactions or events; and
- (b) The definitions and concepts in the [PBE Conceptual Framework](#) to the extent that they do not conflict with this Standard.

In making the judgement described above, the entity might also consider (but is not required to apply) the relevant requirements in the Tier 2 PBE Standards dealing with the same, similar or related transactions or events.

7. [Deleted]
8. [Deleted]
9. [Deleted]

Effective Date

10. A public sector public benefit entity that is eligible to apply this Standard, and elects to do so, shall apply this Standard for periods beginning on or after 1 July 2014. Earlier application is not permitted.
11. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A public sector public benefit entity shall apply these amendments for periods beginning on or after 1 July 2014. Earlier application is not permitted.
12. *Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*, issued in December 2015, amended paragraphs 1–3, 4.5, 6–9, A1, A43, A177(a) B2 and B9 and the headings preceding paragraphs 7, B8 and B9. It made no changes to the requirements contained in this Standard. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2016. Earlier application is permitted.
13. PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38, issued in January 2017 amended paragraphs 4.1–4.6 and the Glossary. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
14. *2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*, issued in July 2018, amended paragraphs 6, 7, 8, 9, A10, A113, A114, A115, A180, A182 and A202, Table 1: *Recording of Specific Types of Revenues* (follows paragraph A62), Table 2: *Recording of Specific Types of Expenses* (follows paragraph A80), Table 3: *Recording of Specific Types of Asset* (follows paragraph A107) and the Glossary, added paragraphs A107.1, A107.2, A148.1, A148.2 and deleted paragraph A12. An entity shall apply those amendments for periods beginning on or after 1 January 2019. Earlier application is permitted.
15. PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraph 7. An entity shall apply those amendments if and when it applies PBE IPSAS 41.
16. *Amendments to Tier 3 (PS) Standard*, issued in [Month, Year] amended paragraphs [x]. A public sector public benefit entity shall apply those amendments for periods beginning on or after 1 April 2024. Earlier application is permitted.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Appendix A: Specific Requirements

This Appendix contains the requirements for Reporting Requirements for Tier 3 Public Sector Entities. It is an integral part of the Standard.

Section 1: Introduction

- A1. This part of the Standard¹ sets out the requirements for the preparation of a simple format report known as the “Performance Report”. The Standard may be applied by eligible public sector public benefit entities (PBEs) that elect to apply this Standard in accordance with the requirements of [XRB A1 Application of the Accounting Standards Framework](#).
- A2. This Standard comprises a number of sections (as shown in the Table of Contents). These refer to specific aspects of reporting. Within each section information is presented in numbered paragraphs to enable cross-referencing within this Standard.
- A3. Terms are defined in the Glossary in section 11 to assist with the understanding of this Standard.

¹ This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to Reporting Requirements for Tier 3 Public Sector Entities abbreviated as Tier 3 (PS) Standard.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Section 2: Objective of Reporting and Overview of Reporting Requirements**Users and Their Needs**

- A4. The performance report for a public sector PBE is designed for those users who cannot require the entity to disclose the information needed for accountability and decision making. Most users fall into two groups:
- (a) Providers of resources to the entity; and
 - (b) Recipients of services from the entity.
- A5. Examples of these users are:
- (a) Taxpayers or ratepayers who provide funding to an entity, persons who pay fees and charges to an entity, and purchasers of goods or services provided by an entity (resource providers); and
 - (b) Service recipients who benefit from the services provided by the entity (such as pupils of a school or their caregivers).

Objective of Reporting

- A6. An entity should prepare a performance report that addresses the following questions:
- (a) “Who are we?” – an overview of the entity;
 - (b) “Why do we exist?” – why the entity was established and what it seeks to achieve;
 - (c) “What did we do?” – what the entity did during the year in providing goods or services;
 - (d) “What did it cost?” – what it cost to provide the goods or services, and to run the entity;
 - (e) “How was it funded?” – the sources of revenue used to pay for its activities in providing goods or services;
 - (f) “When did we do it?” – the period covered by the report, and a comparison of information with previous reporting periods;
 - (g) “How did we do our accounting?” – the accounting policies applied; and
 - (h) “What do we need to continue operating?” – the ability of the entity to continue achieving its objectives and operate in the foreseeable future. This question can be answered by looking at the performance report as a whole.
- A7. The performance report is usually prepared for a financial year (which **is a twelve-month period that ends on the entity's** ~~is~~ “balance date”). The performance report shall identify and reflect the period to which it refers, and contain only the revenue, expenses and cash flows for that period. **The performance report** ~~it~~ may be prepared for a part year, but this is unusual and **most likely** occurs **only** when the entity is formed or ceases to exist during a year, or changes its balance date. If this is the case, the entity will need to check that the revenue, expenses and cash flows are only for that part year, for example, depreciation and rent.

Required Components of the Performance Report

- A8. An entity shall prepare a performance report every financial year with, at a minimum, the following components:
- (a) Entity information which explains what the entity is and why it exists (section 3);
 - (b) A statement of financial performance showing what the entity has generated (revenue) and the cost of running the entity (expenses), over the year, so that users and preparers know whether the entity has made a surplus or a deficit for that financial year (section 5);
 - (c) A statement of financial position showing what the entity owns (assets), what the entity owes (liabilities) and the difference (accumulated funds) at the balance date (section 6);
 - (d) A statement of cash flows showing the cash the entity received, and the cash the entity paid out during the year (section 7);

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- (e) A statement of accounting policies which explains the accounting rules used to prepare the performance report (section 8); and
 - (f) Notes to the performance report explaining some of the amounts shown in the statements in (b) to (e) above, as well as explaining relevant events affecting the financial year including commitments and contingencies (section 9).
- A9. In addition, a statement of service performance, which explains what the entity did (see section 4), shall be prepared by entities that are required by law to prepare this statement (by whatever name called). The statement of service performance is optional for other entities.
- A10. An entity may change the titles of these statements if the entity considers that an alternative title is more suitable for the entity and users of the performance report. For example, the statement of financial position is sometimes referred to as the balance sheet, and the statement of financial performance is sometimes referred to as the operating statement.

Presentation of the Entity's Performance

- A11. The performance report shall "fairly present" the entity's service performance, financial performance and cash flows over the financial year, and its position at balance date, in accordance with this Standard. Fair presentation is achieved by compliance with this Standard, and also requires an entity to:
- (a) Select and apply appropriate accounting policies (section 8);
 - (b) Present information in the best way to achieve the following goals:
 - (i) **Relevance:** the information can be used to assess the entity's performance.
 - (ii) **Faithful representation:** the information represents what has happened in a way that most users would see as a fair representation of the situation. Information is complete, neutral and free from material error.
 - (iii) **Understandability:** information is presented so that users can identify the main points of the entity's performance in that year and ask questions about that. Users should not have to be a qualified accountant to do this
 - (iv) **Timeliness:** the performance report should be provided as soon as possible following the end of the financial year so that the information is useful and relatively current. For some public sector PBEs legislation defines the period by which the annual performance report must be completed.
 - (v) **Comparability:** users are able to compare what the entity did this year with what the entity did last year. Users might also want to see how the entity performed compared to similar entities in the same sector this year.
 - (vi) **Verifiability:** the information reported is capable of being supported by independent means. Verifiability helps assure users with different levels of knowledge that the information in the performance report is without material error or bias.
- A12. Where the requirements of this Standard have been followed but more information about particular events during the year is needed in order to give users a full picture of what happened, additional relevant information shall be provided.
- A13. [Deleted]
- A14. It is important that the performance report is internally consistent. This is done by cross-referencing each line of a statement to any other information that relates to that line item in the rest of the performance report. For example, the total for property, plant and equipment would be referenced to the note containing the property, plant and equipment schedule. It is also important that any non-financial information, for example, information included within the statement of service performance, is consistent with financial information included elsewhere in the performance report.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

General Information

- A15. Each component in the performance report specified in paragraphs A8 and A9 shall be clearly identified.
- A16. An entity's performance report shall incorporate all the activities of the entity. The performance report shall include all branches or other operating units, if the entity is structured into more than one unit. This is done by collating and reporting information from all the branches or operating units and excluding all transactions between those units
- A17. The following information shall be displayed prominently, and repeated at the top of each page of the performance report:
- (a) The name of the entity that is preparing the performance report;
 - ~~(b)~~ (b) The date of the end of the financial year covered by the performance report, or the period to which the performance report applies, as appropriate; ~~and~~
 - ~~(b)~~(c) The currency used in the presentation of the performance report; and
 - ~~(e)~~(d) The level of rounding used in the presentation of the performance report (as a general rule whole dollars – rather than dollars and cents – should be used; rounding to the nearest hundred or thousand may be appropriate for larger entities).

Comparative Information

- A18. Although the performance report focuses on the current financial year's information, comparative information for the previous financial year shall be included in the statement of service performance, statement of financial performance, statement of financial position, statement of cash flows and any associated notes to the performance report unless this Standard specifically allows otherwise. Comparative information shall also be provided for the disclosures about related parties in the notes to the performance report. The performance report may contain further comparative information where it is considered useful for users of the report.
- A19. Entities required by law to publish their budget are required to report budgeted information in an additional column alongside their actual results as further comparative information. Other entities may choose to, but are not required to, report budgeted information (or plans) alongside their actual results.

Consistency of Presentation

- A20. An entity shall select and apply its accounting policies consistently for similar transactions and other events, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.
- A21. An entity may prepare its performance report on either a GST-inclusive or a GST-exclusive basis, provided that GST is reported in a consistent way throughout the performance report.
- A22. All amounts shall be presented in New Zealand dollars. If the entity has transactions or balances that are not in New Zealand dollars, it shall translate amounts to New Zealand dollars as follows:
- (a) Transactions are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
 - (b) Monetary asset and liability balances are to be translated using the exchange rate at balance date.
- A23. An entity shall not change the way the information is presented, or the categories of disclosure, from one period to the next unless:
- (a) There has been a significant change in the entity's operations;
 - ~~(a)~~(b) The change in presentation or category of disclosure would provide more useful information for users (refer to paragraph A11(b) for guidance on those characteristics that information should have to make it useful for users); or
 - ~~(b)~~(c) This Standard requires that the presentation or a category of disclosure is changed.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

- A24. Any changes to presentation or categories of disclosure due to the application of paragraph A23 also require similar changes to the comparative amounts, unless it is not reasonably possible ~~impracticable~~ to do so.

No Offsetting of Amounts

- A25. Users of the performance report should be given as much relevant information as possible about the entity. Therefore, the entity shall report gross amounts for transactions, and not offset (net-off) any associated transactions or balances. This means that:
- (a) Assets and liabilities shall not be offset against each other; and
 - (b) Revenue and expenses shall not be offset against each other.
- A26. Valuation adjustments such as write-downs of inventory or property, plant and equipment provide for the change in value of an entity's assets. Measuring assets net of valuation adjustments is not considered offsetting. Accounting for the net amount of GST owing to or from Inland Revenue is also not considered offsetting.

Significant Items

- A27. Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality
- A28. Significance applies to both financial and non-financial information.

Correction of Errors

- A29. Significant errors shall be corrected as soon as practicable ~~reasonably possible~~. Errors arising during the reporting period shall be corrected before the performance report is finalised. Errors relating to past periods shall be corrected in the current performance report before the report is finalised by adjusting the opening balance of the relevant asset, liability or accumulated funds at the beginning of the financial year. No adjustments to past periods are required (see paragraph A214).

Changes in Accounting Estimates

- A30. The use of estimates is an essential part of preparing the performance report on an accrual basis. For example, estimates may be required of:
- (a) Revenue earned to date under a contract;
 - (b) Bad debts arising from uncollected receivables;
 - (c) The current value of old inventory; and
 - (d) The useful lives of items or categories of property, plant and equipment.
- A31. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The revision of an estimate does not relate to prior periods and is not the correction of an error.
- A32. The effect of a change in an accounting estimate shall be recorded by including it in the statement of financial performance as part of the relevant revenue or expense item in the current period.
- A33. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or accumulated funds, it shall be recorded by adjusting the amount of the related asset, liability, or accumulated funds for the current period.

Events After the Balance Date

- A34. Events after the balance date are those events, both favourable and unfavourable, that occur between the balance date and the date when the performance report is finalised. The balance date is the last day of the financial year to which the statements relate. The date of finalisation is the date on which the statements have received approval from the individual or body with the authority to authorise those statements for issue.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

- A35. An entity shall adjust the amounts recorded in its performance report and update the related disclosures to reflect events after the balance date that provide evidence of conditions that existed at the balance date. The following are examples of events that require an entity to adjust the amounts recorded in its performance report, or to record items that were not previously recorded:
- (a) The settlement after the balance date of a court case that confirms that the entity had a liability at the balance date.
 - (b) The receipt of information after the balance date indicating that an asset was impaired or damaged at the balance date. For example:
 - (i) The bankruptcy of a debtor that occurs after the balance date usually confirms that a loss already existed at the balance date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
 - (ii) The disposal of damaged inventories after the balance date may provide evidence about their net realisable value at the balance date.
 - (c) The discovery of fraud or errors that show that the performance report is incorrect.
- A36. An entity shall not adjust the amounts recorded in its performance report to reflect events after the balance date that are indicative of conditions that arose after the balance date. The following are examples of such events:
- (a) The entity decides after the balance date, to incur expenses relating to an activity that occurs after balance date;
 - (b) Purchases and disposals of assets that occur after balance date;
 - (c) A decision by a lender made after balance date to forgive some amounts borrowed by the entity; and
 - (d) The entity enters into significant commitments after the balance date, for example issuing significant guarantees after balance date.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Section 3: Entity Information**Purpose and Value to Users**

A37. The purpose of the entity information is to summarise for users what the entity does and how it is organised. This information will assist users in their understanding of the entity and help particularly with their interpretation of the performance report.

Required Information

A38. The entity information shall provide general descriptive information about the entity. This information shall comprise:

- (a) The entity's name, type of entity and legal basis (if any);
- (b) The entity's purpose or mission² (the key difference the entity is trying to make);
- (c) The entity structure (i.e. whether it includes separate operating units, divisions or branches);
- (d) The entity's governance arrangements (i.e. who makes the key decisions on behalf of the entity); and
- (e) The names of any entities controlled by the entity for financial reporting purposes.

A38.1. The information required by paragraph A38 may be incorporated by cross-reference from the performance report to some other statement or report (e.g. an annual return submitted to a regulator) that is publicly available to users of the performance report at the same time.

A39. The amount of detail will depend on the size of the entity and the complexity of its operations.

~~A40. If the entity does not prepare a statement of service performance (see paragraph A42) the entity shall include a general description of:~~

~~A41. What the entity is seeking to achieve (i.e. its objectives); and
The significant activities it has undertaken during the financial year to achieve its objectives.~~

² Also called vision, strategic goals, or outcome goals.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Section 4: Statement of Service Performance**Purpose and Value to Users**

~~A43:A41.~~ The purpose of the statement of service performance is to provide information to help users understand what the entity did during the financial year to achieve its ~~broader aims and~~ objectives.

Requirement to Complete a Statement of Service Performance

~~A44:A42.~~ Public sector entities which are required by legislation to provide a statement of service performance (by whatever name called including “statement of performance”) in accordance with generally accepted accounting practice (GAAP) shall prepare a statement of service performance in accordance with this Standard.

~~A45:A43.~~ This requirement is optional for all other public sector PBEs. However, given the usefulness of this information for users of simple format reports, all public sector PBEs applying this Standard are encouraged to prepare a statement of service performance.

Required Information

~~A46:A44.~~ 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)
- (b) The significant activities the entity has undertaken during the financial year to achieve its objectives; and
- (c) Its significant achievements during the financial year.

~~A47:A45.~~ The statement of service performance shall:

- (a) Describe what the entity is seeking to achieve over the medium to long term; and
- (b) Describe, and quantify ~~to the extent practicable~~ as far as reasonably possible, information ~~about~~ the significant activities the entity has undertaken, and what it has achieved, during the financial year.

A45.1. The information required by paragraph A44(a) is likely to be closely related to the entity’s mission or purpose. The main difference is that the mission or purpose is usually stated in broad or general terms and applies over the life of the entity. By contrast, the information required by paragraph A45(a) should be more specific, focused on what the entity is seeking to achieve over the medium to long term.

A45.2. The information disclosed in the statement of service performance should be what the entity considers important for a user’s overall understanding of its service performance (i.e. its significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A45.3. To meet the requirement in paragraphs A44(b) and A44(c) the entity shall provide users with an appropriate and meaningful mix of measures and/or descriptions of activities and achievements for the financial year. The measures and/or descriptions used by an entity may include:

- (a) Quantity measures (~~to the extent practicable~~ as far as reasonably possible);
- (b) Quality measures (as far as reasonably possible ~~to the extent practicable~~); and
- (c) A measure of the timeliness of delivery of the entity’s goods or services if this is important to the recipient.

A45.4. The most appropriate and meaningful measures and/or descriptions are those that measure or describe aspects of performance that are of particular value or importance to users for accountability or decision making purposes. Refer to paragraph A11(b) for guidance on the qualitative characteristics that information should have to make it useful for users.

~~A48:A46.~~ The information disclosed in the statement of service performance should be what the entity considers important for a user’s overall understanding of its service performance (i.e. its

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significant activities and achievements). Therefore, the entity is not expected to include a detailed account of everything it has done in the financial year.

A46.1. Entities ~~can choose to~~shall present the information in the statement of service performance in whichever format is most helpful to users' understanding of the entity's significant activities and achievements. The Tier 3 template reports provide a generic simple example. For example, an entity may choose to present information using:

- (a) Graphs;
- (b) Tables; or
- (c) Images or infographics showing the entity's activities and achievements during the financial year.

A46.2. Service performance information shall be reported consistently from year to year. If the entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes, the effect of those changes on the current period's service performance information, and the reason those changes were made. Possible reasons for a change in what is reported and how it is reported include changes in:

- (a) The nature of the entity's activities from the prior period or from what was planned;
- (b) The descriptions of goods and services or the way in which they are aggregated; or
- (c) The measures and/or descriptions used.

Changes to comparative information are permitted, but not required. If an entity chooses to restate comparatives it shall disclose the effect of the changes on that comparative information.

Optional Information

~~A49-A47.~~ An entity may wish to report additional information such as:

- (a) [Deleted]
- (b) Comments on those factors which affect the achievement of the entity's objectives. 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; and
- (c) The entity's budget (plans) for the financial year being reported on, and an explanation of actual performance achieved against the plans set by the entity –for some entities this may be a legislative requirement and if so is required rather than optional information.
- (d) [Deleted]

~~A50-A48.~~ ~~A48.~~ [Deleted]

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Section 5: Statement of Financial Performance**Purpose and Value to Users**

A51-A49. The purpose of the statement of financial performance is to report all revenue and expenses of the entity for the financial year. The statement provides users with information about the entity's financial performance, including its revenue, expenses and the resulting surplus or deficit generated during the financial year.

Format of Statement of Financial Performance**Required Information**

A52-A50. The statement of financial performance shall be presented as follows:

Revenue (by category)	xx
Less expenses (by category)	xx
Surplus/(Deficit)	xx

Alternative Format

A53-A51. Additional line items, headings and subtotals may be presented in the statement of financial performance when such presentation will help users to understand the entity's financial performance.

A51.1. Where the making of grants and donations is a major activity of the entity, and/or where the entity receives significant grants for capital purposes an entity may elect to present these items separately from other revenue and expenses in accordance with the following format:

Revenue (by category)	xx
Less expenses (by category)	xx
Operating surplus/(deficit)	xx
Revenue from capital grants and donations	xx
Less grants and donations made	xx
Surplus/(Deficit)	xx

Revenue

A54-A52. Revenue is the cash and other resource inflows of the entity, other than inflows from borrowings, sale of assets, or contributions of capital from owners (see paragraph A55)³.

A55-A53. Revenue can come from various sources. Examples include funding from government (either as general funding or for the provision of goods or services), fees and charges (such as registration fees), grants and donations, and proceeds from the sale of goods or services.

A56-A54. Revenue includes only amounts received and receivable by the entity on its own account. Amounts collected on behalf of others (that is, as agent of another entity) are not revenue of the entity. However, if there is a commission involved in this collection arrangement the commission received would be recorded as revenue (see also paragraphs A85–A88).

A57-A55. All public sector PBEs are owned by someone – usually central or local government acting on behalf of the taxpayer or ratepayer. From time to time the owner may contribute capital⁴ to the entity. Contributions to the entity by owners are classified as “capital contributed by owners” in the statement of financial position, and not as revenue (see also paragraphs A142–A143). Sometimes the contributions of capital are referred to as “grants” (the entity may need to refer to the nature of the funding agreement in order to determine whether it should be categorised as equity or revenue). In order to account for them correctly such grants will need to be distinguished

³ See the Glossary for a more detailed definition of revenue.

⁴ This is analogous to a for-profit entity where the shareholders contribute share capital.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

from grants that are provided to fund the delivery of goods or services (which are accounted for as revenue).

Required Information

~~A58:~~A56. In order to make information understandable to users, revenue shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Donations, koha, bequests and other fundraising revenue ~~from the public or non-government organisations;~~
- (b) General funding received from central or local government;
- ~~(b)(c) Grants from non-government organisations;~~
- ~~(c)(a) General funding received from central or local government;~~
- (d) Capital grants; and funding
- (e) Revenue from service delivery grants/contracts (central or local government);
- (f) Revenue from service delivery grants/contracts (non-government);
- (g) Interest, dividends and other investment revenue; and
- (h) Other revenue.

~~A59:~~A57. Category (b) and (c) above includes all grants received from non-government organisation and all funding received from central or local government which is not explicitly linked to the delivery of specific goods or services. Any fees, charges and other revenue from other organisations and individuals that are in substance a contract for the delivery of goods or services (including student fees, registration fees, licensing fees and examination fees) would be included in category (e) or (f) depending on its source. Category (a) includes donations, koha, bequests and fundraising revenue received from the public or non-government organisations (such as charitable trusts, foundations and other philanthropic agencies).

A57.1. Category (d) includes any grants received from non-government organisations and funding received from central or local government with an external expectation from the provider that the funds are used to purchase or construct a significant asset.

A57.2. Category (g) includes any revenue received by the entity from the sale of goods or services as a commercial activity. In this context commercial activities are activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases this revenue would instead be considered fundraising revenue and therefore be included in category (a).

~~A60:~~A58. Entities only need to report against a category specified in paragraph A56 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from their performance report.

~~A61:~~A59. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A56, provided that the separate categories are still maintained.

~~A62:~~A60. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~A63:~~A61. [Deleted]

~~A64:~~A62. Disaggregated or additional categories of revenue may be presented in the statement of financial performance where doing so is necessary to provide users with an understanding of

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

the main revenue sources of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.~~[Deleted]~~

~~A65.~~A63. Further breakdowns or disaggregation of the categories in paragraph A56 may be provided in the notes to the performance report. For example, fees and charges may be disaggregated by type of fees (for example, school fees, examination fees, activity fees). Where the entity receives significant donations and grants, the entity may also elect to include in the notes to the performance report a list of donors or grant providers, together with a summary of their contributions, if it considers that this is useful information. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Revenue

~~A66.~~A64. Revenue shall be recorded on the occurrence of a recognition event. This is generally 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.

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Table 1: Recording of Specific Types of Revenues

Source	When to Record	Comments
Funding from government/<u>non-government</u> service delivery grants/contracts		
Funding linked to the delivery of goods or services	<u>Record as revenue by reference to the stage of completion of the services at balance date, based on the actual services provided as a percentage of the total services to be provided. Record as revenue in accordance with the appropriate category for "revenue from providing goods or services".</u>	<u>The stage of completion of a service may be determined in many ways including:</u> <u>(a) On an event by event basis if that is the basis for charging; or</u> <u>(b) Services performed to date as a percentage of total services.</u>
Revenue from the provision of services (including fees and charges relating to services delivered across the year)	Record as revenue by reference to the stage of completion of the services at balance date, based on the actual services provided as a percentage of the total services to be provided.	The stage of completion of a service may be determined in many ways including: (a) On an event by event basis if that is the basis for charging; or (b) Services performed to date as a percentage of total services.
Funding from non-government service delivery grants/contracts		
Fees and charges in exchange for goods or services	<i>If the goods or services are of similar value in each time period (for example, monthly access to tuition):</i> Record as revenue evenly over the period in which the items are provided to the recipients. <i>If the goods or services vary in value from period to period:</i> Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value of all items covered by the fee or charge.	Any fees or charges received in advance of the period to which they relate should be recorded as a liability.
Other fees and charges	Record as revenue when the fee or charge is due to be received.	Fees and charges such as registration fees that primarily entitle a person to the benefits derived from the payment of the fees and charges and do not <u>require the provide provision of</u> on-going benefits during the year, should be recorded in this way. However, if the fee or charge is received prior to the year to which it relates, it should be recorded as a liability.
Entrance fees and one-off fees	Record as revenue when the event takes place.	Any fees received for events that have not yet taken place are recorded as a liability.
Donations, koha, bequests and other fundraising revenue <u>from the public or non-government organisations</u>		
Insignificant donations and bequests	Record as revenue when cash is received.	<u>Revenue recognition shall not be deferred even if insignificant donations and bequests with expectations over use are significant in the aggregate.</u>
Significant donations and bequests received with no expectations over use	Record as revenue when cash received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Source	When to Record	Comments
Significant donations and bequests received with expectations over use	On receipt of the donation or bequest, record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied. Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
Donated assets (other than cash)	<i>Significant donated assets with useful lives of 12 months or more:</i> Record on receipt at readily obtainable current values (such as local council rateable value for land and buildings). <i>Significant donated assets that are difficult to value such as intangible assets, highly specialised assets, and heritage assets:</i> Do not record. <i>Other donated assets:</i> Do not record the asset or any revenue from the donation.	<i>Significant donated assets that are recorded:</i> Disclose in the notes to the performance report details of the assets in accordance with the disclosure requirements of this Standard in relation to the particular class of asset (see paragraphs A192–A193). <i>Significant donated assets not recorded:</i> Details are disclosed in the notes to the performance report (see paragraph A194).
Donated goods or services (other than donated assets)	Do not record.	Significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report (see paragraph A70).
Fundraising – cash	Record as revenue when cash is received.	May be received in the form of donations or from the sale of goods or services.
Fundraising – other	If the entity receives an asset refer to section on “donated assets” below. If the entity receives goods or services refer to section on “donated goods or services (other than donated assets)” below.	As part of a fundraising campaign the entity may receive donations of assets (other than cash) which it may keep, or the entity may receive donated goods which it may sell to raise funds.
General funding received from central or local government, grants from non-government organisations, and capital grants		
General funding	Record as revenue when the funding is received.	General funding is funding that is not linked to the delivery of specific goods or services.
Capital grants and		
Insignificant grants and general funding received	Record as revenue when cash is received.	Revenue recognition shall not be deferred even if insignificant grants with expectations over use are significant in the aggregate.
Significant general funding or grants received with no expectations over use	Record as revenue when cash is received.	Revenue recognition shall not be deferred even if the reporting entity expects to spend the funding received on related expenditures in future periods.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Source	When to Record	Comments
Significant general funding or grants received with expectations over use	On receipt of grant , record asset for funding received (generally cash) and a matching deferred revenue balance. As or when the expectations over use are met the deferred revenue balance is reduced and revenue is recorded.	The deferred revenue balance as at balance date reflects the extent to which the expectations over use (as established and documented by the resource provider) have not yet been satisfied. Judgement will be required to determine an appropriate approach for determining the point in time at which, or the period over which, the documented expectations are satisfied.
Revenue from <u>commercial activities</u>		
Sale of goods	Record as revenue when the goods are sold (this is usually when the goods are received the purchaser).	If the purchaser pays before they receive their goods, the entity records a liability. If the purchaser does not pay on receipt of the goods, the entity records a debtor.
Subscriptions to a series of events	Record as revenue as events occur, allocating to each event on a basis that reflects the extent to which services are performed at each event.	Any subscriptions received for events that have not yet taken place are recorded as a liability.
Interest, dividends and other investment revenue		
Interest	Record as revenue as it is earned during the period.	If the borrower pays interest in advance, the entity records a liability being the amount of the advance payment. If the borrower pays interest in arrears (after the investment period has elapsed), the entity records as an asset, any amount owed to the entity as a receivable.
Dividends and similar revenue	Record as revenue when receivable, for example when the dividend is declared (which would usually be before it is paid).	Dividends declared after the end of the financial year of the entity are not recorded as revenue.
Other revenue		
Commission for acting on behalf of another entity as the agent of that other entity (the principal)	Record as revenue when receivable, which would usually be defined in the agency agreement.	Revenue includes only amounts received and receivable by the entity on its own account, not the amounts collected for the principal.
Lease or rental revenue	Record as revenue on a straight-line basis over the term of the agreement, unless another systematic basis is representative of the time pattern of the user's benefit.	If the lessee pays in advance, the entity (as lessor) records a liability being the amount of the advance payment. If the lessee pays after the leased asset is used, the entity (as lessor) records, as an asset, any amount owed to the entity.
Gain on sale of an asset	Record as revenue when control of the asset transfers to the new owner.	The gain is the proceeds from the sale less the amount recorded as the value of the asset prior to its sale.

Insignificant Donations, [General Funding](#), Grants and Bequests

A64.1. Revenue from insignificant donations, [general funding](#), grants and bequests is recorded when the funding is received.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Significant Donations, General Funding, Grants and Bequests with No Expectations over Use

~~A67-A65.~~ Where there are no expectations communicated from the resource provider about how the funds will be used, revenue from significant donations, general funding, grants and bequests is recorded when the funding is received.

Significant Donations, General Funding, Grants and Bequests with Expectations over Use

~~A68-A66.~~ [Deleted]

~~A69-A67.~~ Where there are documented expectations (identified in accordance with paragraph A67.1) about how or when the funding received from significant donations, general funding, grants (including capital grants) and bequests will be used, the reporting entity shall record the funding as deferred revenue. As or when the expectations over use are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.

Identifying Expectations

A67.1. An expectation over how or when the funding received from significant donations, general funding, grants and bequests will be used, for the purpose of paragraph A67 arises when:

- (a) the expectation is documented and agreed by both parties – being the resource provider (the funder) and the reporting entity (who receives the transfer of resources from the resource provider, typically in the form of a transfer of cash); and
- (b) the expectation as documented is specific enough to allow the reporting entity to reliably demonstrate to the resource provider (regardless of whether the resource provider monitors the use of the funding provided or not) when the expectation has been satisfied.

A67.2. Examples of specific expectations include obligations to acquire or build a specific asset or assets (e.g. construct a building under the terms of a capital grant); or expectations that the funding will be used for the provision of specific goods or services to third-party beneficiaries, to cover general operating costs over a specified time period, or to support the delivery of specific programmes or activities.

A67.3. An expectation to use funds from significant donations, general funding, grants and bequests to support the general operating costs of the reporting entity over an unspecified period of time is not specific enough to allow for funding received to be recognised as deferred revenue. In these circumstances, revenue is recognised immediately when the funding is received.

A67.4. Internal expectations or decisions by those charged with governance about how or when the reporting entity expects to use funds received from donations, general funding, grants and bequests are not relevant when identifying expectations in accordance with paragraph A67.1.

A67.5. The expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). For an expectation to be both documented and agreed between the parties:

- (a) The resource provider has communicated the expectation to the entity within, for example, a formal contract, memo, letter or, email, ~~virtual meeting (for which there is a recording)~~; and
- (b) The entity has communicated acceptance of the expectation to the resource provider by, for example, signing the formal contract, memo or letter; or agreeing to the expectation via email, ~~or verbal agreement on a recorded virtual meeting.~~

A67.6. Where an application for funding sets out how or when the reporting entity expects to use the funds, then approval of the application by the resource provider is sufficient to demonstrate that there is agreement between both parties concerning the expectation over use.

Timing of Revenue Recognition

A67.7. The timing of revenue recognition is dependent on the nature of the documented expectation over use. An expectation over use (identified in accordance with paragraph A67.1) will either be satisfied by the reporting entity at a point in time or over a period of time.

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A67.8. The unit of account for the recognition of significant donations, general funding, grants and bequests with documented expectations over use, is each separate expectation identified. There may be multiple expectations attached to the funding, which will need to be accounted for separately when reducing the deferred revenue balance and recognising revenue.

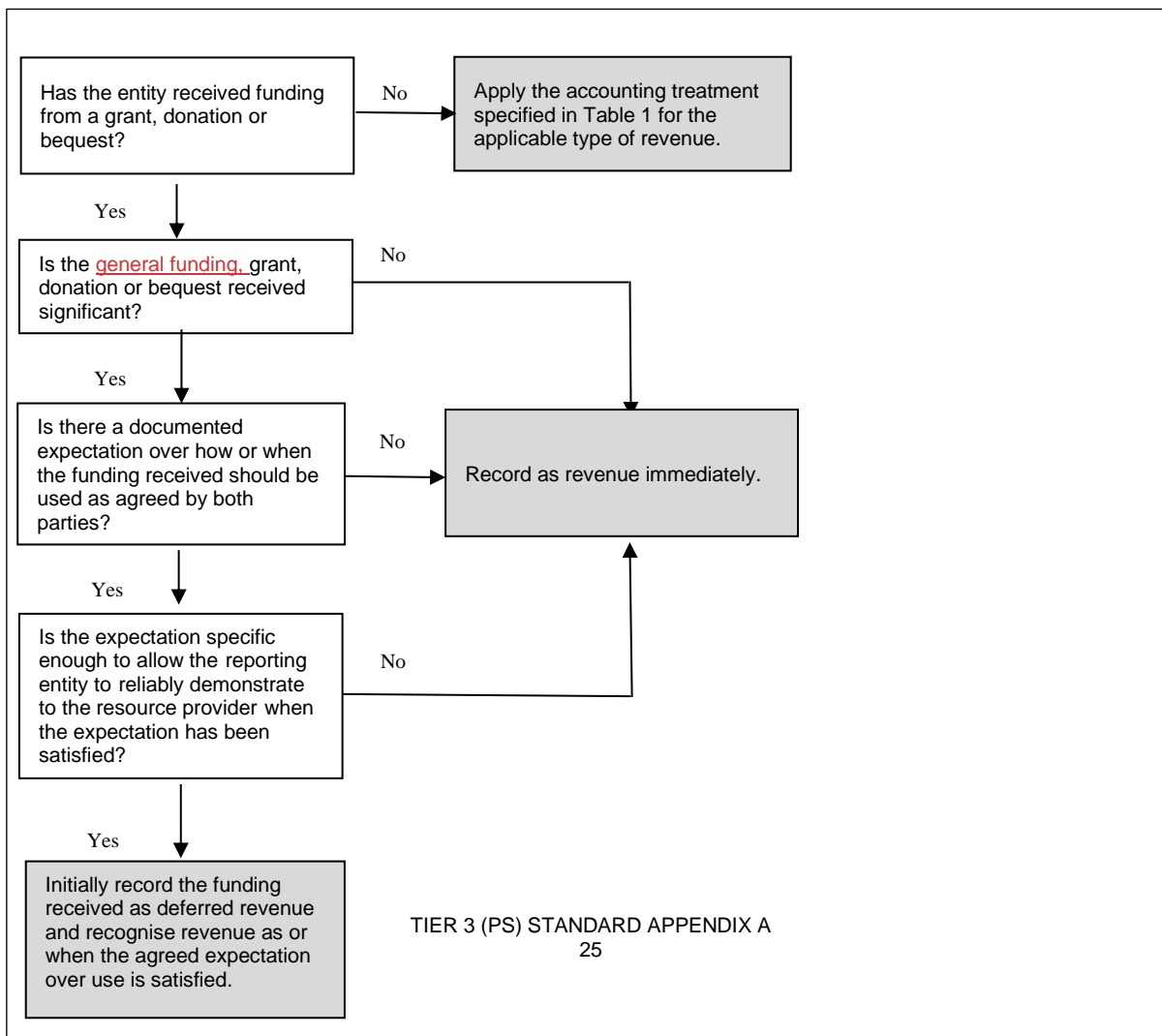
A67.9. Judgement will be required to determine an appropriate revenue recognition approach for determining the point in time at which, or the period over which, the documented expectation is satisfied. The following are examples of expectations over the use of funds from significant donations, general funding, grants and bequests, and the different revenue recognition approaches that may be used.

- (a) Deliver specified goods or services to beneficiaries (e.g. to deliver education programmes to 1,000 recipients) – revenue could be recognised as the specified goods or services are delivered.
- (b) Purchase an asset (e.g. a vehicle) – revenue could be recognised at the time the asset is purchased.
- (c) Construct an asset (e.g. building) – revenue could be recognised over the construction period (e.g. on a stage of completion basis).
- (d) Support general operating costs (over a specified time period, e.g., three years) – revenue could be recognised on a straight-line basis over the stipulated time period.
- (e) Host an event or deliver a specific programme or activity – revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specific programme or activity are incurred.

~~A70:A68.~~ [Deleted]

~~A71:A69.~~ Figure 1 provides an overview of the revenue recognition approach for donation, general funding, grant and bequest funding received.

Figure 1: Decision Tree: Accounting for Grant, Donation and Bequest Revenue



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Goods or Services in Kind

~~A72-A70.~~ Entities shall not record as revenue goods or services received in kind, unless they are significant donated assets (see paragraph A113). However, entities shall provide information about significant goods or services received in kind in the notes to the performance report (see paragraph A191).

Expenses

~~A73-A71.~~ Expenses are the cash and other resource outflows from the entity, other than outflows to settle liabilities or purchase assets, or which are distributions of capital to owners (see paragraph A149)⁵.

~~A74-A72.~~ Expenses do not include prepayments. Executory contracts are also excluded (an executory contract is one where neither party has performed their obligation under the contract, for example, inventory that has been ordered but not received and therefore not paid for).

~~A75-A73.~~ Expenses include only amounts paid and payable by the entity on its own account. Amounts paid on behalf of others (that is, as agent of another entity) are not expenses of the entity (see paragraphs A85-A88).

Required Information

~~A76-A74.~~ In order to make information understandable to users, expenses shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately in the statement of financial performance when applicable to the reporting entity:

- (a) Expenses related to fundraising
- ~~(b)~~—Employee remuneration and other related expenses;
- ~~(c)~~—~~Other employee related expenses~~;
- ~~(d)~~~~(b)~~ Expenses related to commercial activities
- ~~(e)~~~~(c)~~ Other expenses related to service delivery ~~of entity objectives~~;
- ~~(f)~~~~(d)~~ Grants and donations; and
- ~~(g)~~~~(e)~~ Other expenses.

~~A77-A75.~~ Entities only need to report against a category specified in paragraph A74 when the category is applicable to the entity. If a category is not applicable the entity may omit that category from its performance report.

~~A78-A76.~~ The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A74, provided that the separate categories are still maintained.

~~A79-A77.~~ If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~A80-A78.~~ Reimbursements for expenses incurred by employees on behalf of the organisation are not classified as employee expenses but are recorded in the appropriate category of expenses, for example, as an expense relating to providing goods or services.

A78.1. Category (b) above includes all remuneration paid to employees of the entity

A78.2. Category (e) above includes all expenses attributable to the activities carried out by the entity in pursuit of their stated purposes (excluding expenses allocated to other categories).

⁵ See the Glossary for a more detailed definition of expenses.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

A78.3. Category (d) above includes all expenses attributable to commercial activities carried out the entity (excluding employee remuneration). In this context commercial activities means activities conducted by the entity with an intention to derive a surplus and which do not, in themselves, contribute to the achievement of an entity's stated purposes. Some activities which could be considered commercial in nature may be carried out on a smaller scale, or without the intention to engage in a commercial activity on an ongoing basis. In such cases these expenses would instead be considered fundraising expenses and therefore be included in category (a).

Optional Information

~~A81:A79.~~ [Deleted]

~~A82:A80.~~ [Disaggregated or additional categories of expenses may be presented in the statement of financial performance where doing so is necessary to provide users with an understanding of the main expenses of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of disaggregated or additional categories used should therefore be limited to those that are really necessary.](#) ~~[Deleted]~~

~~A83:A81.~~ Further breakdowns or disaggregation of the categories in paragraph A74 may be provided in the notes to the performance report. For example, employee remuneration and other employee related expenditure could be disaggregated into salaries and wages, employer superannuation contributions (for example, KiwiSaver) and other costs relating to employees (for example, ACC levies). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Expenses

~~A84:A82.~~ Expenses shall be recorded on the occurrence of a recognition event. This is where there is a legal obligation to pay cash either now or sometime in the future (this is normally referred to as the point at which an expense is "incurred"). The timing of the recording of specific expense types is provided in Table 2.

Table 2: Recording of Specific Types of Expenses

Source	When to Record	Comments
Employee remuneration		
Wages and salaries, <u>and</u> annual leave.	Record the expense as staff provide services and become entitled to wages and salaries and leave entitlements.	Amounts for leave entitlements are recorded as liabilities. Amounts deducted from staff wages and salaries and held to pay to a third party (for example, Inland Revenue, KiwiSaver) are recorded as liabilities.
Wages and salaries paid in advance	Record the expense when the staff provide services.	Record as an asset (prepayment) until the relevant services are provided.
Performance related bonuses	Record the expense when the employee is notified that the bonus has been granted.	
<u>Other employee related expenses</u>		
Other (including ACC levies)	Record the expense in accordance with the relevant agreement.	Often recorded as an expense evenly over the period of the agreement.

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Source	When to Record	Comments
Superannuation contributions	Record the expense as staff provide services.	This category comprises the entity's contribution to KiwiSaver or other superannuation schemes on behalf of staff. Amounts not yet paid over are recorded as liabilities. An entity sponsoring a defined benefit plan shall account for that plan in accordance with PBE IPSAS 25 <i>Employee Benefits</i> . ⁶
Other expenses related to delivery of entity objectives		
Purchase of inventory for sale or distribution	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Expenses related to fundraising⁷		
Advertising costs, printing of fundraising materials, staff training	Record the expense when the advertising service is received or the other expense is incurred.	This category would include expenses associated with seeking gifts or donations.
Amounts paid to third party fundraisers	Record the expense when it is incurred.	
Expenses related to commercial activities		
Inventory sold or distributed	Record the expense when the goods are sold or distributed.	Where donated inventory is not recorded as an asset, there is no expense to record on sale or distribution.

⁶ Superseded by PBE IPSAS 39 *Employees Benefits* from 1 January 2019.

⁷ If expenses are classified under a separate category in this Standard then exclude them from this category. For example, a full-time staff member spends a small proportion of their time involved in fundraising, so their salary is still classified under employee costs. However, if a person is employed on contract solely for fundraising purposes this would be included under expenses related to fundraising.

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Source	When to Record	Comments
Inventory written down or written off	Record the expense when it is determined that the amount on the statement of financial position is greater than the value of the inventory (either as a sale or a distribution).	Inventory may lose value as: <ul style="list-style-type: none"> (a) It ages (for example, fresh food); (b) Future customers would not pay as much for the inventory; (c) Stock becomes obsolete; and (d) The inventory is less valuable to service recipients.
Administration and overhead costs	Record the expense when the cost is incurred.	Examples include premises rental, utilities (rates, power, phone), maintenance, IT costs, stationery etc.
Other costs associated with the delivery of services	Record the expense when the cost is incurred.	
Grants and donations		
Grants and donations made	Record the expense when the grant or donation has been approved and the recipient advised.	
Other expenses		
Interest expense	Record the expense as it is incurred during the period.	This category is the amount paid during the period related to borrowings. Includes any interest amount owing but not yet paid.
Impairment charges (changes in the value of assets) Reversal of an impairment charge recorded in a prior period	Record the expense when it is apparent that an asset is recorded at an amount that is greater than its net realisable value. Reverse the expense when there is an indication that an impairment charge recorded in a prior period may no longer exist or may have decreased. (see paragraphs A109.1 and A109.2)	The impairment expense is the amount by which the asset's recorded amount is reduced. Impairment charges mostly relate to property, plant and equipment, inventory, and receivables (which become bad debts). See also Table 3 for further discussion on impairment.
Depreciation	Record the expense at year end based on the established depreciation rate.	See also Table 3 for further discussion on depreciation.
Loss on sale of an asset	Record the expense when control of the asset transfers to the new owner.	The loss is the amount recorded as the value of the asset prior to its sale, less the proceeds from the sale.
Other expenses	Record the expense when it is incurred.	It may be useful to consider the above principles.

Other Information**Required Information**

A85-A83. The statement of financial performance shall include any additional information that the entity considers necessary for users to understand the financial performance of the entity.

A86-A84. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Amounts Payable or Receivable on Behalf of Others

~~A87~~A85. Revenue and expenses include only the amounts relating to the entity on its own account, that is, where it is the “principal”. Where the entity is acting as an “agent” (including as a trustee or nominee) for another party (for example, the Government⁸, another entity, or some other third party), the amounts collected or paid belong to that other party rather than the entity.

~~A88~~A86. An entity is a principal (that is, acting on its own behalf) when:

- (a) The entity has the primary responsibility for providing the goods or services to the beneficiary or customer;
- (b) The entity establishes the prices, either directly or indirectly, for those goods or services; and
- (c) The entity bears the customer’s credit risk for any amount receivable from the customer.

~~A89~~A87. An example of the entity as principal is when the entity organises a conference for a group of organisations involved in the same service area, receives the conference fees, and is responsible for all the conference-related payments such as advertising and catering.

~~A90~~A88. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the transactions. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

⁸ For the purposes of this Standard, the collection and payment of GST or PAYE are not considered to be transactions undertaken by the entity as an agent.

Section 6: Statement of Financial Position

Purpose and Value to Users

~~A91-A89.~~ The purpose of the statement of financial position is to provide a snapshot of the entity's assets (what the entity owns), liabilities (what the entity owes) and accumulated funds (the difference between assets and liabilities) at a certain point in time (being the balance date). ~~This is what the entity owns, what the entity owes, and the value of the members' financial interests in the entity.~~ The statement provides users with information about the financial sustainability of the entity, including the assets that can be used to run the entity in the future, and the liabilities that will have to be settled in future periods.

Format of Statement of Financial Position

Required Information

~~A92-A90.~~ The statement of financial position shall be presented as follows:

Assets (by category)	xx
Less Liabilities (by category)	xx
Assets less Liabilities	xx
Accumulated Funds (by category)	xx

~~A93-A91.~~ [Deleted]

~~A94-A92.~~ [Deleted]

Assets

~~A95-A93.~~ Assets are resources of the entity that are expected to provide benefits to the entity in the future⁹.

Required Information

~~A96-A94.~~ In order to make information understandable to users, assets shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A104):

- (a) ~~CBank accounts,~~ cash and short-term deposits;
- (b) Debtors and prepayments;
- (c) Inventory;
- (d) Property, plant and equipment; and
- (e) Investments.

~~A97-A95.~~ ~~CBank Accounts,~~ cash and short-term deposits comprise petty cash, cheque or savings accounts, and deposits held at call or with a maturity of three months or less from the date purchased.

~~A98-A96.~~ Debtors (sometimes called accounts receivable) comprise amounts owed to the entity by customers or others. This includes any GST receivable from Inland Revenue.

~~A99-A97.~~ Prepayments are expenses paid in advance of a good or service being received by the entity (such as rent, insurance or salaries and wages).

~~A100-A98.~~ Inventories are materials or supplies that are to be consumed in producing goods or services, held for sale or distribution in the ordinary course of operations, or are in the process of production for sale or distribution. Inventories may include information brochures printed for the entity but not yet distributed, consumable stores, maintenance materials, spare parts for plant and

⁹ See the Glossary for a more detailed definition of assets.

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equipment, and work-in-progress, such as educational/training course materials under development.

A101:A99. Property, plant, and equipment (sometimes called fixed assets) are tangible items that are used in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one financial year.

A102:A100. Investments are shares, term deposits (with a maturity of more than three months from the date purchased), bonds, units in unit trusts, or similar instruments held by the entity.

A103:A101. Entities only need to report the minimum categories specified in paragraph A94 separately when the category is applicable and significant to the entity.

A104:A102. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A94, provided that the separate categories are still maintained.

A105:A103. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

A106:A104. In presenting the statement of financial position the entity shall identify those assets which are intended to be converted to cash within 12 months of the balance date, for example, debtors that are expected to be collected within a few months of balance date, or inventories that are expected to be sold or used within the next year. These shall then be classified as “current assets”. The remaining assets shall then be classified as “non-current assets”.

Optional Information

A107:A105. [Deleted]

A108:A106. [Deleted]

A109:A107. Additional categories to those in paragraph A94 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main assets of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

A110:A108. Breakdowns or disaggregation of the categories in paragraph A92, may be provided in the notes to the performance report, for example, classes of property, plant and equipment, or different types of inventory (such as inventories held for consumption versus inventories held for sale). The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Assets

A111:A109. Assets shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the asset type. Details for recording and measuring specific asset types are provided in Table 3.

Table 3: Recording of Specific Types of Asset

Bank Accounts, Cash and Short-term Deposits (note: bank overdrafts should be separately recorded as a liability)	
When to record	When the cash is received (either in hand or in the bank account).
Measurement	At the amount held.
Debtors	

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When to record	When action is taken (such as goods or services sold) to give the entity the right to collect cash in the future. Compensation due from third parties (such as insurers) for assets that were impaired, lost, or given up should also be recorded as a debtor (and included as revenue in the statement of financial performance).
Initial measurement	At the amount owed.
When to record impairment	When it is likely that the amount owed (or some portion) will not be collected. Record the loss as a bad debt expense.
Change measurement at balance date	Consider whether any amounts are impaired (see paragraph A110). If the entity charges interest on overdue amounts, add this to the amount of the debtor and record revenue.
When to no longer record	When amount is collected or written off.
Prepayments	
When to record	When payment made.
Initial measurement	At the amount relating to the future goods or services to be received.
When to record impairment	If the entity is unlikely to get the service it has paid for.
Change measurement at balance date	Re-measure at the amount relating to the future services still to be received at that date.
When to no longer record (when to expense)	Once the entity receives the benefit for which it has paid, the prepayment (or portion thereof), is transferred from prepayments and is recorded as an expense.
Inventories	
When to record	When acquired.
Measurement	Purchased inventories: At cost.
When to record impairment	<i>Goods for sale:</i> Write-down to lower of cost and selling price. <i>Goods for use or distribution:</i> Write-down if the value to the entity decreases (for example, materials to be distributed are out of date or damaged).
Change measurement at balance date	Only if impaired.
When to no longer record (when to expense)	When sold, distributed or written off.
Property, Plant and Equipment (including Heritage Assets)	
When to record	When purchased or donated.
Initial measurement	<i>Purchased:</i> Cost (cash price equivalent). <i>Donated:</i> Current value (such as <u>local council</u> rateable value).
When to record impairment	<i>Asset to be sold:</i> If the market price for an equivalent asset falls below the carrying amount of the asset. <i>Asset to be used:</i> If the value to the entity in using the asset falls below the carrying amount of the asset (for example, the entity no longer provides the service supported by the asset).
Change measurement at balance date	<i>Record depreciation:</i> spread the cost of the asset over the expected useful life of the asset, using a structured method such as straight line or diminishing value. Note that land is not depreciated. <i>For classes of asset that the entity elects to revalue:</i> record revaluation gains/losses
When to no longer record	When sold, otherwise disposed of or written off.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Investments	
When to record	When purchased.
Initial measurement	At the amount paid.
When to record impairment	If it appears that the carrying amount of the investment will not be recovered, it shall be written down to the current market price.
Change measurement at balance date	If the current market price falls below cost. <i>For publicly traded investments the entity elects to measure at current value: record increases/decreases in current value.</i>
When to no longer record	When sold, otherwise disposed of, or written off.
Other Assets	
When to record	When: (a) The asset is acquired; and (b) The asset has a cost or value that can be measured reliably ^(a) .
Initial measurement	At the amount paid or other value that can be measured reliably.
When to record impairment	If it appears that the carrying amount of the asset will not be recovered, that is, it is more than the current market value (if it can be determined).
When to no longer record	When the asset is sold or otherwise disposed of.
(a) Information that is reliable is free from material error and bias, and bias and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.	

Reversal of Impairment Charges

A109.1 If there is any indication that an impairment charge recorded in prior periods for an asset

- (a) May no longer exist; or
- (b) May have decreased (i.e. if it is apparent that an asset is recorded at an amount that is less than its net realisable value);

an entity shall reverse all or part of that impairment charge.

A109.2 The reversal of the impairment charge shall:

- (a) In the case of inventories, be limited to the amount of the original write-down;
- (b) In the case of investments, not result in the carrying amount of the asset being recorded at more than its original cost; and
- (c) In the case of property, plant and equipment, not result in the carrying amount of the asset (net of depreciation) being recorded at more than it would have been had the impairment not been recorded.

Calculating Debtors

A112-A110. In calculating the value of debtors at the end of each financial year, the entity shall assess whether there is evidence that a receivable may not be collected. The factors to consider are:

- (a) Financial difficulty of the other party;
- (b) A breach of contract by the other party, such as a default in interest or principal payments;
- (c) The entity granting to the other party a concession relating to debt payment; or
- (d) Other information indicating that the receivable may not be collected.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Heritage Assets

~~A113:~~A111. Some classes of property, plant and equipment may be described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

~~A114:~~A112. Heritage assets shall be accounted for in the same manner as other property, plant and equipment (that is, at cost or if donated then at readily obtainable current values). Heritage assets for which current values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Donated Assets

~~A115:~~A113. Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values (such as local council rateable value for land and buildings), where it is ~~practicable~~ reasonably possible to obtain such current values.

~~A116:~~A114. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the performance report (by class if appropriate).

Revaluation of Property, Plant and Equipment

~~A117:~~A115. As specified in Table 3, purchased property, plant and equipment is generally to be measured on a cost basis. However, an entity may elect to revalue a class of property, plant and equipment. Entities are more likely to make such an election when the value of an asset is expected to increase over that asset's life.

A115.1. When electing to apply a revaluation approach, the subsequent measurement approach shall be applied to all assets of that class of property, plant, and equipment.

A115.2. A class of property, plant, and equipment is a grouping of assets of a similar nature or function. Possible types of property, plant and equipment are:

- (a) Land;
- (b) Buildings;
- (c) Motor vehicles;
- (d) Furniture and fixtures;
- (e) Office equipment;
- (f) Computers (including software); and
- (g) Machinery.

~~A118:~~A116. When an entity elects to revalue a class of property, plant and equipment, it shall measure an item of property, plant and equipment at its current value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

A116.1. When a revaluation approach is taken, the current value shall be based on a valuation by a suitably qualified independent valuer or, for land and buildings, a local council rateable valuation may be used.

A116.2. Where an entity elects to revalue a class of property, plant and equipment, it is still required to recognise depreciation on the individual assets. In such cases, depreciation shall be calculated based on the revalued amount from the date of the asset's most recent revaluation.

~~A119:~~A117. Electing to revalue a class of property, plant and equipment after initial recognition of the purchased asset is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued, the entity will need to continue measuring that class of assets at revalued amounts thereafter (rather than reverting to asset cost).

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

A117.1. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the reporting date.

A117.2. Where an entity elects to revalue land and buildings based on a local council rateable value it is only required to revalue its land and buildings when that value is updated. The entity shall also disclose, in the notes to the performance report that the local council rateable value may not reflect current market value.

~~A120:~~A118. If the entity chooses not to revalue property, plant and equipment but considers that a current value of some assets is useful information for users of the performance report, the entity may choose to disclose that current value, and the basis (valuation by and independent valuer or the local council rateable value) and date of that valuation in the notes to the performance report.

A118.1. If an entity elects to revalue a class of assets it shall:

- (a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A145);
- (b) Recognise revaluation gains for the type as “Gains/(losses) on the revaluation of property, plant, and equipment” directly in accumulated funds through a [separate](#) revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A109.1 and A.109.2);
- (c) Recognise revaluation losses for the class as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains, they are recognised as “Gains/(losses) on the revaluation of property, plant, and equipment” directly in accumulated funds through [the associated](#) revaluation reserve; and
- (d) Recognise any gain on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of property, plant and equipment”.

A118.2. For the purpose of applying paragraph A118.1 revaluation gains and losses relating to individual assets of the revalued class of property, plant and equipment shall be offset against other assets of that class but shall not be offset against assets of different class.

A118.3. Some or all of the revaluation gains included in net assets/accumulated funds in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the gains when the assets of the revalued class of property, plant and equipment to which they relate are retired or disposed of. Transfers from the revaluation reserve to accumulated surpluses or deficits are not made through the statement of financial performance.

A118.4. If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following in the notes to the performance report:

- (a) The basis (valuation by a suitably qualified independent valuer or current local council rateable value);
- (b) The date of the valuation; and
- (c) The revaluation gain/loss for the period that has been recognised in the revaluation reserve.

Investment property

A118.5. Some classes of property, plant and equipment may be described as investment property because they are held primarily by the entity to generate rental income or for capital gains rather than for use in the entity's ordinary activities.

A118.6. Investment property shall be accounted for in the same manner as other items of property, plant and equipment (see Table 3 and paragraphs A115 – A118.4). This means that an entity can choose to account for investment property on a cost or revaluation basis. [An entity may elect to present investment property as a separate class of property, plant and equipment.](#)

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Investments

A118.7. As specified in Table 3, investments are to be measured at the amount paid when purchased, less any impairment. However, where an entity holds investments which are publicly traded it may elect to measure those classes of investment at current market value.

A118.8. If an entity elects to measure publicly traded investments at current market value it shall: ~~recognise the change in current market value in revenue or expenses in the statement of financial performance.~~

(a) Present a separate revaluation reserve within accumulated funds in the statement of financial position and the notes to the performance report (see paragraph A143);

(b) Recognise revaluation gains for the investments as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through a separate revaluation reserve, unless they reverse an impairment charge recognised in a prior period (see Table 3 and paragraphs A109.1 and A109.2);

(c) Recognise revaluation losses for the investment as an expense in the statement of financial performance, except to the extent to which these losses offset any previous revaluation gains. If the revaluation losses offset previous revaluation gains they are recognised as “Gains/(losses) on the revaluation of publicly traded investments” directly in accumulated funds through the associated revaluation reserve; and

~~(a)~~(d) Recognise any gains on disposal over the carrying amount within other revenue in the statement of financial performance as “Gains/(losses) on disposal of publicly traded investments”.

A118.9. If investments are reported at current market value an entity shall disclose:

- (a) The accounting policies for investments, including the basis on which current market value was determined (for example, NZX-quoted price at the balance date).
- (b) In the notes to the performance report, an analysis of investments by class reconciling the opening and closing carrying amounts of each class of investment, with those held at current market value being displayed separately from those held at cost less impairment.

Assets Held on Behalf of Others

~~A121:~~A119. Assets held as an agent (including as a trustee or nominee) on behalf of another person, entity or other third parties are not recorded as assets of the entity. The statement of financial position should include only assets held by the entity on its own account as principal (see paragraphs A85–A88 for a discussion on principals and agents)

Liabilities

~~A122:~~A120. Liabilities are the amounts owed by the entity at balance date¹⁰.

Required Information

~~A123:~~A121. In order to make information understandable to users, liabilities shall be totalled (i.e., aggregated) and presented separately in categories. The following aggregated categories shall be reported separately and split between current and non-current (see paragraph A130):

- (a) Bank overdraft;
- (b) Creditors and accrued expenses;
- (c) Employee costs payable;
- (d) Deferred revenue; and
- (e) Loans.

¹⁰ See the Glossary for a more detailed definition of liabilities.

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~~A124:A122.~~ Creditors (sometimes called accounts payable) are amounts owing to suppliers to pay for goods or services that have been acquired in the course of the entity’s operations. GST payable to Inland Revenue is also part of creditors.

~~A125:A123.~~ Accrued expenses are costs incurred but not yet paid. This includes electricity, gas, telephone services used but not yet paid; water and local authority rates payable but not yet paid, and rent for the use of premises not yet paid.

~~A126:A124.~~ Employee costs payable are amounts owing to, but not yet paid to employees. This category includes wages and salaries earned but not yet paid, holidays earned but not yet taken (holiday pay accrual), ACC contributions owing, PAYE withheld from employees’ remuneration but not yet paid over to Inland Revenue, and contributions to superannuation schemes (such as KiwiSaver) or other post-employment benefit schemes collected but not paid over.

~~A127:A125.~~ [Deleted]

~~A128:A126.~~ Loans are amounts borrowed by the entity. These are likely to be relatively uncommon amongst entities applying this Standard.

~~A129:A127.~~ Entities need report only the minimum categories specified in paragraph A121 separately when the category is applicable and significant to the entity.

~~A130:A128.~~ The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A121, provided that the separate categories are still maintained.

~~A131:A129.~~ If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~A132:A130.~~ In presenting the statement of financial position the entity shall identify those liabilities which are due to be paid within 12 months of the balance date, which shall then be classified as “current liabilities”. The remaining liabilities shall then be classified as “non-current liabilities”.

A130.1. The balance of deferred revenue with respect to unsatisfied resource provider expectations over significant donation, grant and bequest funding at balance date shall be reported as a category of liabilities in the statement of financial position.

Optional Information

~~A133:A131.~~ [Deleted]

~~A134:A132.~~ Additional categories to those in paragraph A121 may be presented in the statement of financial position where doing so is necessary to provide users with an understanding of the main liabilities of the entity. Too many categories can make it difficult for users to understand the overall picture. The number of additional categories used should therefore be limited to those that are really necessary.

~~A135:A133.~~ Breakdowns or disaggregation of the categories in paragraph A121, may be provided in the notes to the performance report, for example, a breakdown of loans. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Accounting for Liabilities

~~A136:A134.~~ Liabilities shall be recorded on the occurrence of a recognition event and reported using the measurement basis appropriate for the liability type. Details for recording and measuring specific liability types are provided in Table 4.

Table 4: Recording of Specific Types of Liability

Bank Overdraft	
When to record	When the overdraft occurs.
Measurement	At the amount of the actual overdraft (not the overdraft facility).

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Creditors and Accrued Expenses	
When to record	When transaction occurs that creates the payment obligation, for example, on the receipt of goods or services from a supplier.
Initial measurement	At the amount owing. If the entity has not received a supplier invoice it shall record an accrual for an estimate of the amount to be paid
Change measurement at balance date	Review in case some part has been paid or is no longer owed (for example, a supplier changes the arrangement to donations of goods therefore revenue will be recorded).
When to no longer record	When settled.
Employee Costs Payable	
When to record	When an employee has earned the entitlement or the entity has withheld amounts from wages and salaries already paid. It is uncommon for entities with paid employees to have no employee costs payable.
Initial measurement	At the amount to be paid.
Change measurement at balance date	If employees have been granted increased wages and salaries, amounts owing may change (for example, annual leave is based on amounts to be paid when the employee is expected to take the leave).
When to no longer record	When settled.
Deferred Revenue	
When to record	When a significant donation, grant or bequest with expectations over use is received.
Initial measurement	At the amount of the donation, grant or bequest received.
Change measurement at balance date	Assess whether (or to what extent) expectations over use have been satisfied. If expectations have not been fully satisfied, assess the amount of the donation, grant or bequest that relates to expectations which have not yet been satisfied.
When to no longer record	When the expectations over use are satisfied.
Provisions	
When to record	When an event has occurred that leads to an obligation.
Initial measurement	At the entity's best estimate of the amount to be paid.
Change measurement at balance date	Review the estimate of the amount of the obligation in light of conditions at balance date.
When to no longer record	When no obligation remains.
Loans	
When to record	When the amount borrowed has been received.
Initial measurement	At the amount borrowed from the lender (usually referred to as the loan principal).
Change measurement at balance date	Include any loan principal outstanding and any interest owing that has not yet been paid.
When to no longer record	When all principal and interest has been paid.

Provisions

A137-A135. A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is established.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

~~A138:~~A136. A provision shall be recorded as a liability when:

- (a) The entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that the entity will have to settle the obligation; and
- (c) The entity can make a reliable estimate of the amount of the obligation.

~~A139:~~A137. The use of estimates is an essential part of the preparation of performance reports, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make an estimate of the obligation that is sufficiently reliable to use in recording a provision.

Possible Future Liabilities

~~A140:~~A138. The only liabilities recorded in an entity's statement of financial position are those where obligations exist at the balance date as a result of a past event. Therefore, no provision should be made for liabilities that might result from a future event as these liabilities don't yet exist. For example, costs likely to be incurred in the future in order to continue an entity's activities in the future are not liabilities. Neither are expected future operating losses.

Contingent Liabilities

~~A141:~~A139. Contingent liabilities are not recorded in the statement of financial position but are reported in the notes to the performance report (see paragraphs A201–A203).

Accumulated Funds

~~A142:~~A140. The accumulated funds balance is the difference between the assets and liabilities of the entity. It is therefore the component that balances the statement of financial position. The accumulated funds balance represents the net assets available to the entity to fulfil its objectives in the future. In the for-profit sector the equivalent term is equity.

A140.1. Movements in accumulated funds include the surplus or deficit for the year, revaluation reserve movements, and other transactions directly with owners in their capacity as owners. In general, transactions with owners (described as capital contributed by owners in paragraph A142 below) are uncommon for public sector entities and most transactions are recorded through the statement of financial performance rather than directly through the Accumulated Funds balance.

A140.2. For the purposes of applying the requirements in this Standard, the term "owners" specifically refers to those who have made capital contributions as described in paragraph A142 below. The term "owners" can include individuals or other entities.

Required Information

~~A143:~~A141. In order to make information understandable to users, accumulated funds shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately, where they are applicable to the entity:

- (a) Capital contributed by owners (if any);
- (b) Accumulated surpluses or deficits; and
- (c) Reserves:
 - (i) Restricted reserves;
 - ~~(#)~~(ii) Discretionary reserves;
 - ~~(##)~~(iii) Revaluation reserves; and
 - ~~(###)~~(iv) Other reserves.

A141.1. When an entity elects to apply the requirements of a Tier 2 PBE Standard to a specific type of transaction, in accordance with the requirements set out in Appendix C of this Standard, it may be required to present additional categories of accumulated funds balances based on the requirements of the Tier 2 PBE Standard applied.

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~~A144:A142.~~ The capital contributed by owners category represents contributions to the entity by owners in their capacity as owners that:

- (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 a voice in the management of the entity as an owner; and/or
- (c) Can be sold, exchanged, transferred, or redeemed.

~~A145:A143.~~ [Deleted]

~~A146:A144.~~ The accumulated surpluses or deficits category represents the total of all the surpluses and deficits from the commencement of the entity, excluding any transactions with owners in their capacity as owners (if any), and amounts transferred to other reserves.

~~A147:A145.~~ Reserves are of ~~three~~four types:

(a) ~~[Deleted] 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, and must not be able to be satisfied (in which case it is likely the funds will meet the criteria for recognition as deferred revenue, see paragraphs A66 – A68) for example:~~

~~(i) A bequest which specifies that the funds received may only be invested and that any investment returns may be used as the entity sees fit.~~

~~(ii) [Deleted]~~

~~(iii)~~

- (b) Discretionary reserves that have been created by a transfer from accumulated surpluses or deficits as an internal 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.
- (c) Revaluation reserves which represent the increase in value of items of property, plant and equipment over their carrying amounts (where an entity has elected to measure such items at revalued amounts).
- (d) Other reserves which have been created to present the effect of transactions recognised directly in accumulated funds as a result of the entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

~~A148:A146.~~ Entities need report only the minimum categories specified in paragraph A141 separately when the category is applicable to the entity.

~~A149:A147.~~ The minimum categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A141, provided that the separate categories are still maintained.

Accounting for Accumulated Funds

~~A150:A148.~~ Capital contributed by owners shall be recorded at the amount received or paid to owners in their capacity as owners.

~~A151:A149.~~ 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, plus any transfers to/from reserves.

~~A152:A150.~~ Reserves shall be recorded as follows:

- (a) ~~Restricted and D~~iscretionary reserves shall be recorded at the opening balance of the reserve plus/minus transfers to/from accumulated surpluses or deficits.

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- (b) Revaluation reserves shall be recorded at the opening balance of the reserve plus/minus the increase/decrease in value of each type of property, plant and equipment required to be recognised directly in accumulated funds (where an entity has elected to measure such items at revalued amounts).
- (c) Other reserves shall be recorded at the opening balance of the reserve plus/minus any amounts required to be recognised directly in accumulated funds as a result of an entity electing to apply the requirements of a Tier 2 PBE Standard in lieu of the requirements in this Standard (refer to Appendix C).

Approval and Issue of Performance Report

A150.1 It is important for users to know when the performance report was authorised for issue, as the performance report does not reflect events after this date. The performance report is authorised for issue when it is signed and dated by the body or individuals with the authority to approve the performance report for issue.

Required Information

A150.2 An entity shall disclose in the performance report the date the performance report was approved and authorised for issue, who gave that authorisation and the relevant signature(s).

Other Information**Required Information**

~~A153:~~A151. The statement of financial position shall include any additional information that the entity considers necessary for users to understand the financial position of the entity.

~~A154:~~A152. An entity shall include the entity's budget (or plans) for the current financial year where this is required by legislation. Other entities may include this information if they wish and it is available.

Section 7: Statement of Cash Flows

Purpose and Value to Users

~~A155:A153.~~ The purpose of the statement of cash flows is to provide information about the cash flows of the entity, which can have a different timing to the accruals that are reported in the statement of financial performance. Cash flow information allows users to determine how much cash the entity has received, and how the cash was used during the year. An understanding of an entity's cash flows is helpful to users in making decisions about the sustainability of the entity and whether funds received have been appropriately spent on advancing the entity's objectives.

~~A156:A154.~~ [Deleted]

Format of Statement of Cash Flows

Required Information

~~A157:A155.~~ The statement of cash flows shall be presented as follows:

Cash Flows from Operating Activities (by category)	xx
Cash Flows from Other Activities (by category)	xx
Net Increase/(Decrease) in Cash	xx
Add Opening Cash Balance	xx
Closing Cash Balance	xx

~~A158:A156.~~ [Deleted]

~~A159:A157.~~ Other activities are the acquisition and disposal of long-term assets and other investments not included in the cash balance. For example, the purchase of property, plant and equipment, or investments. It also comprises receipts and payments relating to long-term borrowing by the entity (the principal amount only), and any capital contributions to/from owners (if any).

~~A160:A158.~~ Operating activities are the activities of the entity that are carried out as part of its normal operations, for example, the funding received and the costs paid in delivery of the entity's objectives.

~~A161:A159.~~ The statement of cash flows does not include:

- Cash receipts collected and payments made on behalf of others when the cash flows reflect the activities of the other party rather than those of the entity (see paragraphs A85–A88). For example, rent collected on behalf of, and paid over to, the owners of properties; and
- Transactions not involving cash, for example depreciation and donated goods or services.

Cash Flows from Operating Activities

Required Information

~~A162:A160.~~ In order to make information understandable to users, cash flows from operating activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

Cash Received:

(a) Donations, koha, bequests and other fundraising receipts from the public or non-government organisations;

(b) Grants from non-government organisations;

(c) General funding received from central or local government;

(d) Capital grants received;

~~(a)~~(e) Funding from government service delivery grants/contracts;

~~(b)~~—Funding from non-government service delivery grants/contracts;

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~~(c) Donations, koha, bequests and other fundraising receipts from the public or non-government organisations;~~

~~(d)(f) General funding received;~~

~~Grants from non-government organisations~~

~~(e) Gross sales from commercial activities~~

~~(f)(g) Interest, dividends and other investment receipts; and~~

~~(g)(h) Other cash received.~~

Cash Payments:

~~(h)(i) Payments related to fundraising;~~

~~(i) Payments to employees remuneration and other related payments;~~

~~(j) Payments related to commercial activities;~~

(k) Payments related to providing goods or services service delivery;

(l) Grants and donations paid; and

(m) Other payments.

~~A163:~~A161. Entities only need to report against a category specified in paragraph A160 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

~~A164:~~A162. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A160, provided that the separate categories are still maintained.

~~A165:~~A163. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

~~A166:~~A164. [Deleted]

~~A167:~~A165. [Deleted]

~~A168:~~A166. Further breakdowns or disaggregation of the categories in paragraph A160 may be provided in the notes to the performance report, for example, a breakdown of cash payments related to the entity's main activities. The objective is to provide a breakdown that gives the most useful information to users of the performance report.

Cash Flows from Other Activities

Required Information

~~A169:~~A167. In order to make information understandable to users, cash flows from other activities shall be aggregated and presented separately in categories. The following aggregated categories shall be reported separately:

Cash Received:

- (a) Sale of property, plant and equipment;
- (b) Sale of investments;
- (c) Cash drawn down from loans from other parties; and
- (d) Cash received from owners (capital contributions).

Cash Payments:

- (e) Payments to acquire property, plant and equipment;
- (f) Payments to purchase investments;

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- (g) Repayments of loans borrowed from other parties; and
- (h) Capital distributed to owners.

~~A170:~~A168. Investments are shares, term deposits (with a maturity greater than 3 months), fixed interest bonds, units in unit trusts, or similar instruments held by the entity. Investments also include loans made to other entities.

~~A171:~~A169. Entities only need to report against a category specified in paragraph A167 when the category is applicable to the entity. If a category is not applicable, the entity may omit that category from its performance report.

~~A172:~~A170. The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph A167, provided that the separate categories are still maintained.

~~A173:~~A171. If there is difficulty in determining the category that should be used for a particular transaction, the entity shall make its best estimate of the appropriate classification. This classification shall then be used consistently in future periods so that the information reported is comparable over time.

Cash Balances

Required Information

~~A174:~~A172. Cash balances is the same amount reported as "~~cbank accounts,~~ cash and short-term deposits" less bank overdrafts as reported in the statement of financial position. It includes petty cash, cheque or savings accounts, at call deposits or with a maturity of three months or less from the date purchased, and bank overdrafts (see paragraph A95).

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Section 8: Statement of Accounting Policies**Purpose and Value to Users**

A175:A173. The purpose of the statement of accounting policies is to disclose the specific policies and practices applied by the entity in preparing its performance report. This provides users with an understanding of the basis on which the performance report has been prepared.

Format of Statement of Accounting Policies**Required Information**

A176:A174. The statement of accounting policies shall comprise two components;

- (a) Accounting policies applied; and
- (b) Changes in accounting policies.

Accounting Policies Applied

A177:A175. Accounting policies applied are the specific policies and practices used by the entity in preparing its performance report for the reporting period.

Required Information

A178:A176. As a **minimum**, the following shall be included in the statement of accounting policies.

Basis of Preparation

A179:A177. The statement of accounting policies shall disclose that:

- (a) The entity is eligible to apply this Standard, the criteria specified in XRB A1 that allows it to do so, and the fact that it has elected to do so;
- (b) All transactions are reported using the accrual basis of accounting; and
- (c) The performance report has been prepared on the assumption that the reporting entity is a going concern, or if this is not the case the fact that the performance report has been prepared on the basis that the entity will not continue to operate for more than 12 months in the future (see paragraph A178).

A180:A178. The performance report is normally prepared assuming that the entity will continue in operation for the foreseeable future (normally considered to be a minimum of 12 months from balance date). This assumption may not be appropriate in some circumstances. For example, it may not be appropriate if the governing body determines after the balance date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so. If the assumption of continuity is not appropriate this needs to be disclosed in the statement of accounting policies (additional disclosures are also required in the notes to the performance report – see paragraph A212). The entity shall consider whether different specific accounting policies are more appropriate in these circumstances, for example valuing assets at fire sale value.

Goods and Services Tax (GST)

A181:A179. The statement of accounting policies shall disclose:

- (a) Whether the entity is registered for GST; and
- (b) Whether the performance report is prepared on a GST-inclusive or GST-exclusive basis.

Specific Accounting Policies

A182:A180. The statement of accounting policies shall disclose the accounting policies for each significant type of transaction or balance. These policies shall be consistent with the requirements of this Standard (including the requirements of paragraph 6).

A183:A181. The policies may be reported at an appropriate level of aggregation, for example, “revenue from the sale of services” as a category of accounting policies.

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~~A184.~~~~A182.~~ 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 Appendix C), the PBE Standard applied shall be disclosed.

Changes in Accounting Policies

~~A185.~~~~A183.~~ A change in the accounting treatment, recording, or measurement of a transaction or other event is regarded as a change in accounting policy. For example, the initial application of a policy to revalue assets (rather than measuring them at cost) is a change in accounting policy.

~~A186.~~~~A184.~~ An entity shall change an accounting policy only if the change:

- (a) Is required by this Standard; or
- (b) Is in accordance with this Standard and results in the statements providing more faithfully representative or more relevant information about the effects of transactions or other events and conditions on the entity's service performance, financial performance, financial position, or cash flows.

Required Information

~~A187.~~~~A185.~~ When an entity changes its accounting policy an entity shall disclose:

- (a) The reason for the change, a description of the change in policy, and how and from when this change in policy has been applied; and
- (b) For the current period, for each statement line item affected, the amount as calculated under the previous accounting policy.

~~A188.~~~~A186.~~ Where there have been no changes to accounting policies during the reporting period, that fact shall be reported.

Accounting for Changes in Accounting Policies

~~A189.~~~~A187.~~ Changes in accounting policies shall be applied from the beginning of the current reporting period.

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Section 9: Notes to the Performance Report**Purpose and Value to Users**

~~A190:A188.~~ The notes to the performance report contain information that expands on the information included in other parts of the performance report as well as providing any additional relevant information. This is designed to provide users with a greater understanding of the information reported in the statements of service performance, financial performance, financial position and cash flows.

Required Information

~~A191:A189.~~ The following matters shall be included in the notes to the performance report.

~~A192:A190.~~ [Deleted]

Deferred Revenue: Unused Significant Donations, Grants and Bequests with Expectations over Use

A190.1. Where the entity has received a significant donation, grant or bequest where revenue recognition has been deferred at the balance date, the entity shall disclose in the notes to the performance report information to help readers understand:

- (a) The purpose and nature of the expectations over future use; and
- (b) When the entity expects to satisfy the remaining expectations over use.

Goods or Services in Kind Provided to the Entity

~~A193:A191.~~ An entity shall disclose in the notes to the performance report a description of any significant goods or services in kind provided to the entity during the financial year, such as free professional services. A dollar quantification may be provided but is not required.

Property, Plant and Equipment

~~A194:A192.~~ For each class of property, plant and equipment recorded in the statement of financial position, the entity shall disclose in the notes to the performance report:

- (a) A description of the asset class (for example, equipment, furniture);
- (b) The carrying amount of the asset class at the beginning of the financial year;
- (c) The depreciation and/or impairment expense recorded for the asset class for the financial year;
- (d) The amount of any revaluation gain/loss recognised in the revaluation reserve for the financial year (where the entity has elected to measure such items at revalued amounts); and
- (e) The carrying amount of the asset class at the end of the financial year.

~~A195:A193.~~ The entity shall disclose the source and date of the valuation of assets for any assets recorded at valuation (such as significant donated assets) and any other assets for which the entity has chosen to disclose a current value (see paragraphs A115–A118.4).

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Investments

A193.1. Where the entity has elected to measure a type of investments at its current market value (see paragraphs A118.7 – A118.9) the entity shall disclose for each type of investment in the notes to the performance report:

- (a) A description of the asset type (for example, shares, bonds);
- (b) Whether the asset type is held at current market value or cost less impairment;
- (c) The carrying amount of the asset type at the beginning of the financial year;
- (d) The amount of any revenue/expense recognised in the statement of financial performance due to changes in the market value of the asset class for the financial year; and
- (e) The carrying amount of the asset type at the end of the financial year.

A193.2. For each type of investment held at current market value the entity shall also disclose the source and date of the valuation (for example, NZX-quoted price at the balance date).

Significant Donated Assets not Recorded

~~A196.~~A194. Where significant donated assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A114), the entity shall disclose in the notes to the performance report a description of the asset, categorised by class where appropriate.

Significant Heritage Assets not Recorded

~~A197.~~A195. Where significant heritage assets have not been recorded in the statement of financial position because values are not readily obtainable (see paragraph A112), the entity shall disclose in the notes to the performance report, a description of the asset, categorised by class where appropriate.

Assets Used as Security for Liabilities

~~A198.~~A196. If an entity has used any of its assets as security for loans borrowed, the entity shall disclose in the notes to the performance report information about:

- (a) The nature and amount of the loan that is secured; and
- (b) The nature and amount of the asset(s) used as security.

Assets Held on Behalf of Others

~~A199.~~A197. Where an entity is acting on behalf of another entity as its trustee, nominee or agent, the following matters shall be disclosed in the notes to the performance report:

- (a) A description of the assets which it holds in this capacity; and
- (b) The name of the entity on whose behalf the assets are held.

Changes in Accumulated Funds

~~A200.~~A198. The notes to the performance report shall include an explanation of the movements between the opening and closing balances for each category of accumulated funds. An entity shall also disclose the nature and purpose of each [restricted and discretionary](#) reserve.

[A198.1.](#) An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing its [accumulated funds/reserves](#).

[A198.2.](#) [In meeting the requirements of paragraph A197.1 for restricted reserves, an entity shall disclose a description of the purpose of the reserve and the nature of the restriction on the reserve.](#)

~~A198.4.~~A198.3. [In meeting the requirements of paragraph A 196.1 for discretionary reserves an entity shall disclose a brief description of the purpose of the reserve, the entity's general plans for applying its accumulated funds/the reserve towards its stated purposes, and when the entity expects the reserve will be applied.](#)

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~~A198.2~~-~~A198.4~~. Information which an entity may consider disclosing ~~for this purpose in meeting the requirements of paragraphs A198.2 and A198.3~~ includes:

- (a) Whether the entity intends to begin any significant projects to which ~~its accumulated funds~~ the reserve will be applied;
- (b) To what extent the entity's ~~accumulated funds~~ reserve represents investments in assets. This can be property, plant and equipment that are used in pursuit of its stated purposes in future periods. It can also include long term investments held to generate revenue returns to be used in pursuit of its stated purposes; or
- (c) Whether the entity is accumulating funds with the intent to make a significant distribution to another entity with similar objectives.

Commitments

~~A204~~-~~A199~~. Commitments are legal obligations to make payments in the future. Although commitments (operating or capital) are not yet recorded as liabilities, reporting them is essential for users of reports to gain a proper understanding of the entity's future viability.

~~A202~~-~~A200~~. An entity shall report in the notes to the performance report the timing and estimated amount of any significant commitments (both operating and capital). Types of commitments which may need to be reported include:

- (a) Commitments to lease or rent assets;
- (b) Commitments to purchase property, plant and equipment; and
- (c) Commitments to provide loans or grants.

Contingent Liabilities

~~A203~~-~~A201~~. A contingent liability is a possible obligation that arises from past events that is contingent (dependent) on some future event. For example, a court case not yet settled, or a guarantee issued.

~~A204~~-~~A202~~. For each class of contingent liability at the balance date an entity shall disclose in the notes to the performance report:

- (a) A brief description of the nature of the contingent liability;
- (b) A best estimate of the amount of the contingent liability (where this can be estimated);
- (c) An indication of the uncertainties relating to the amount or timing of any outflow of resources; and
- (d) The possibility of any reimbursement.

~~A205~~-~~A203~~. For each guarantee or class of guarantee, an entity shall disclose in the notes to the performance report:

- (a) The nature of the guarantee;
- (b) The maximum amount of any guarantees provided to others; and
- (c) The likelihood of the entity being required to make payment under the guarantee.

Related Party Transactions

Explanation

~~A206~~-~~A204~~. A related party transaction is a transfer of money or other resource between the reporting entity and a person or other entity that is closely associated with the reporting entity that has the ability to influence the reporting entity. For public sector entities related party transactions comprise significant transactions that are different from those conducted under normal terms and conditions (including the provision of free goods or services).

~~A207~~-~~A205~~. Related parties comprise:

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- (a) People that have significant influence over the entity (such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity – whether employed or volunteer), and close members of their families; and
- (b) Other entities that have significant influence over the entity.

~~A208~~:~~A206~~. Related party relationships exist throughout the public sector. Disclosure of related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and to enable users to better understand the entity's performance report. This is because:

- (a) Related party relationships can influence the way in which an entity operates with other entities;
- (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of that relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on terms and conditions that differ from those that would normally be available to unrelated parties.

~~A209~~:~~A207~~. Examples of transactions with a related party that would meet these criteria and therefore would be disclosed are:

- (a) The sale of a significant resource (such as a used vehicle) to the chairperson of the governing body at less than market rates;
- (b) The provision of preferential access to services provided by the entity to the dependent of a person in a key management role; and
- (c) The provision of finance (including loans, grants and guarantees), for example, a low interest loan, to a related party.

Requirements

~~A210~~:~~A208~~. An entity shall disclose in the notes to the performance report, transactions with a related party that have occurred during the financial year if the transaction is significant to the entity (individually or in aggregate with similar transactions) and is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

~~A211~~:~~A209~~. For each disclosed transaction the following shall be reported:

- (a) A description of the related party relationship;
- (b) A description and amount of any revenue or expense (and the value of free goods or services provided) related to the transaction during the financial year; and
- (c) Any amounts due from or to related parties at balance date.

Events After the Balance Date

~~A212~~:~~A210~~. Where events after balance date occur (see paragraphs A34–A36), and those events have a significant impact on the information included in the performance report, the entity shall report in the notes to the performance report the following:

- (a) The nature of the event; and
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made; and
- (c) The effect, if any, on the entity's ability to continue operating.

~~A213~~:~~A211~~. An entity is not required to provide comparative information for events occurring after the balance date. That is, an entity is not required to repeat disclosure of events occurring after the previous balance date.

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Ability to Continue Operating

~~A214~~~~A212~~. Where the entity plans to stop operating within 12 months from balance date (see paragraph A178), or it is likely that the entity will be unable to continue operating, the entity shall include in the notes to the performance report the following:

- (a) A statement that the entity intends to stop operating or that it is unlikely the entity will be able to continue operating;
- (b) The reason why the entity intends to stop operating or why it may not be able to continue operating; and
- (c) The estimated effect of the entity's circumstances on the amounts of the entity's assets and liabilities.

~~A215~~~~A213~~. The impact of such a change will depend upon the particular circumstances of the entity. For example, the impact on the recorded amounts of assets will depend upon whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying amount of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts which will lead to the reclassification of those debts as current liabilities.

Correction of Errors

~~A216~~~~A214~~. When an entity corrects a significant prior period error (see paragraph A29), it shall report in the notes to the performance report:

- (a) A description of the error and how it was corrected; and
- (b) The line items and amounts that have been corrected.

Additional Information

~~A217~~~~A215~~. The notes to the performance report shall include any additional information that the entity considers necessary for users to understand the overall financial performance and position of the entity.

Optional Information

~~A218~~~~A216~~. An entity may include in the notes to the performance report:

- (a) Breakdowns of the minimum categories, or the disaggregated categories or additional categories reported in the statement of service performance, statement of financial performance, statement of financial position or statement of cash flows;
- (b) Additional information about donations, fundraising and other similar revenue including a list of donors; and
- (c) Other information that the entity considers will be helpful to users in understanding the performance of the entity.

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Section 10: Illustrative Examples

The following are examples of the accounting treatment required in the performance report.

1. Revenue Earned**Scenario 1**

A Rural Education Activity Programme (REAP – the reporting entity) receives funding from the government on a “use or return” basis at the beginning of each quarter to provide education services during that quarter.

Treatment: The reporting entity records:

- (a) The funding received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue in the statement of financial performance (revenue from providing goods or services) as the education services are delivered (i.e. as the quarter year progresses), and reduces the liability for the funding received in advance by the same amount at the same time.

Scenario 2

A fish and game council (the reporting entity) receives money from the issuing of fishing and hunting licences. The licences give the users the right to fish or hunt for a designated period.

Treatment: The reporting entity records:

- (a) The license money received as a liability in the statement of financial position (as part of creditors and accrued expenses or separately as a disaggregated category “revenue in advance”); and
- (b) Revenue evenly in the statement of financial performance (revenue from providing goods or services) as the period covered by the licence progresses; and reduces the liability for the revenue received in advance by the same amount at the same time.

The fees are recorded as revenue in advance because the licence is granted for a designated period of time in the future (i.e., the reporting entity earns the revenue during the period over which it has granted the right to fish or hunt).

Scenario 3

A registration board (the reporting entity) receives fees for issuing registration certificates. The registrations give the users the right to practice in their designated profession. The reporting entity does not provide users with any further services during the year in connection with the registration fee.

Treatment: The reporting entity records the registration fees as revenue in the statement of financial performance (revenue from providing goods or services) when it is received. The fees are not treated as revenue in advance because the registration is a right to practice and that right is granted at the point the certificate is issued. The registration does not provide any further service during the year.

2. Grants with and Without Expectations**Scenario 1 – Grant received with no documented expectations over use**

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor has not communicated any expectations to the reporting entity as to how the grant should be used.

Treatment: The reporting entity records the grant as revenue in the statement of financial performance (as donations, fundraising and other similar revenue).

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Optional Information: The reporting entity may include information about this grant provider in any list of grant providers and their contributions included in the notes to the performance report (see paragraph A63).

Scenario 2 – Grant for the purchase of assets

A school (the reporting entity) receives a grant from a local philanthropic trust to support its activities. The grantor specifies in writing that the school must use the grant to purchase 10 computers for the school library. The school has only purchased five computers as at balance date. *Treatment:* As there is a documented expectation attached to the grant:

Financial Year 1

- (a) Upon receipt of the grant the reporting entity records it as deferred revenue in the statement of financial position; and
- (b) When the reporting entity purchases the computers it records:
 - (i) Half of the amount of the grant as grant revenue from non-government organisations in the statement of financial performance, and reduces the deferred revenue balance by the same amount at the same time; and
 - (ii) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment).

Financial Year 2

The school spends the remaining half of the amount of the grant on additional computers for the school library. The entity records:

- (a) The remaining half of the amount of the grant as grant revenue from non-government organisations in the statement of financial performance; and reduces the deferred revenue balance to zero; and
- (b) The purchased computers (at the total cost of purchase) as assets in the statement of financial position (as property, plant and equipment)

Optional Information: The reporting entity may include in the notes to the performance report a list of grant providers, together with a summary of their contributions (see paragraph A63).

Scenario 3 – Bequest received to fund the construction of an asset

A school (the reporting entity) receives a bequest for the purposes of building a new sports hall. This expectation has been documented and agreed between the reporting entity and a representative of the donor's deceased estate.

Treatment: There is a documented expectation over the use of the bequest, which relates to the construction of an asset. Therefore, the reporting entity:

- (a) Records the grant as deferred revenue upon receipt of the funds;
- (b) Records the bequest in the statement of financial performance (as revenue from donations, koha, bequests, and other fundraising revenue from the public or non-government organisations) on a stage of completion basis (i.e. recognise a percentage of the bequest as revenue, based on the percentage of total expected expenditure incurred to date), with a corresponding reduction in the deferred revenue balance; and
- (c) Provides information in the notes to the performance report outlining the total amount of the bequest, the amount of the bequest unused, the fact that the bequest is to be used to fund the construction of the new sports hall, and when the reporting entity expects to fulfil the resource provider's expectations in full (see paragraph A190.1).

3. Donated Goods or Services

An Administering Body (the reporting entity) has its performance report prepared free of charge by a chartered accountant who is not associated with the Administering Body. The value of the free services is significant to the Administering Body.

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Treatment: The reporting entity does not record the donated services (see paragraph A70). However, the donated service is disclosed in the notes to the performance report (see paragraph A191).

4. Liabilities and Contingent Liabilities

At its annual student concert, a school (the reporting entity) made use of material subject to copyright. Legal proceedings are started seeking damages from the reporting entity for breach of copyright, but the school disputes liability. Up to the date of finalising the performance report for the year, the reporting entity's lawyers advise that it is probable that the entity will not be found liable. However, when the reporting entity prepares its performance report for the following year, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Treatment: In the first year, the reporting entity does not record a liability in the statement of financial position because the legal advice is that the entity is not likely to be found liable. The matter is reported as a contingent liability in the notes to the performance report.

In the second year, the reporting entity records a liability in the statement of financial position (as a creditor provision) if the amount of damages can be reliably estimated; and records an equivalent amount as an expense in the statement of financial performance. If the amount of damages cannot be reliably estimated, no liability or expense is recorded and the facts are reported in the notes to the performance report.

5. Related Parties

Scenario 1

A trust (the reporting entity) has total operating payments of \$20,000. These payments are all made to the spouse of the trust's chairperson for office administration duties of the entity. The payments are made at a higher hourly rate than the office administrator receives.

Scenario 2

The reporting entity has total operating payments of \$20,000. A few of these payments (\$1,000) are made to the spouse of the chairperson for relieving the office administrator. The payments are made at a higher hourly rate than the office administrator receives.

Treatment: In both of the scenarios the spouse of the chairperson is a related party of the reporting entity (see paragraph A205).

In scenario 1 the transactions with the related party are significant and are not made under normal terms and conditions (see paragraph A204) and therefore the entity reports in the notes to the performance report the information set out in paragraph A209(a)–(c).

In scenario 2 the transactions with the related party are not significant and therefore the entity is not required to report those transactions in the notes to the performance report (but it may do so if it wishes).

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Section 11: Glossary

This Glossary contains all terms defined in this Standard.

Accounting policies	The specific policies and practices used by the entity when preparing the performance report.
Accumulated funds	<u>Represents the net assets available to the entity to fulfil its objectives in the future. The owners' financial interest in the entity. It comprises capital contributed by owners, accumulated surpluses or deficits, and reserves.</u> —It also represents the difference between the assets and liabilities of the entity. In the for-profit sector the equivalent term is equity.
Assets	Resources controlled by the entity as a result of past events (which would usually be transactions), from which future economic benefits are expected to flow to the entity (such as investments producing interest revenue).
Associate	An entity over which the investor has significant influence.
Bad debt	Money owing to the entity (accounts receivable) that is deemed uncollectible and written off as an expense. This may be due to the length of time it has been owing, or information known about the customer's ability to pay (for example, the customer has gone into liquidation).
Balance date	The date to which the performance report is prepared. It is usually an end of month date, for example, 30 June 20XX.
Carrying amount	The cost of the asset less accumulated depreciation and accumulated impairment losses (if any).
<u>Cash</u>	<u>Cash on hand and bank account balances (e.g., cheque and savings accounts)</u>
Commitments	Contracts or similar arrangements entered into by the entity to pay money in the future.
Consolidated performance report	The performance report of an economic entity ¹¹ presented as that of a single entity.
Contingent liability	A possible obligation to pay money that will be confirmed by the occurrence or non-occurrence of an uncertain future event or an obligation that has arisen but is not recorded because (i) it is not probable that the entity will have to settle the obligation; or (ii) the amount of the obligation cannot be estimated reliably (that is, the entity is too uncertain of the amount of the obligation).
Control	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
Controlled entity	An entity that is controlled by another entity.
Controlling entity	An entity that controls one or more entities.
Deficit	The amount in the statement of financial performance when expenses exceed revenue for the year. In the for-profit sector the equivalent term is loss.
Defined benefit plan	A retirement scheme where the amount paid to members on retirement is principally determined by years of membership in the scheme and/or salary level rather than the level of contributions by the member.

¹¹ Note the term group is sometimes used to refer to the economic entity.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Depreciation	The allocation of the cost of the asset over its useful life using a structured method such as straight line or diminishing value.
Economic entity	A controlling entity and its controlled entities.
Entity	An organisation which may take any of a number of forms, including but not limited to, a public entity, company, incorporated association, unincorporated association or trust. Dependent on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may be comprised of one or more units.
Expenses	All outflows from the entity during the year other than capital outflows. Capital outflows comprise distributions to owners (in their capacity as owners), outflows to settle liabilities that were recorded in a previous year, and outflows to purchase assets. Expenses include cash paid out during the year, and any liability to pay out cash in the future related to an event (usually a transaction) in the current year or a prior year. These outflows may be from normal operating activities such as the costs of fundraising, or from transactions such as grants made by the entity. Expenses also include reductions in property, plant and equipment called depreciation expense and impairment expense.
Fair value	The amount for an arm's length transaction if it takes place between two willing parties in the market. Fair value applies to both assets and liabilities.
Financial year	A twelve-month period ending on the entity's balance date.
Impairment	When an asset is worth less in the market than the carrying amount in the statement of financial position, the difference is an impairment (and is recorded as an expense). This may occur if the asset becomes obsolete due to technological change, or the asset is damaged. Impairment tests apply to both tangible and intangible assets.
Intangible assets	Assets without a physical presence (for example, trademarks, patents).
Inventory	Also referred to as stock, these are current assets held for sale in the ordinary course of business. For example, a stock of licensing or registration forms held for distribution.
Joint arrangement	An arrangement of which two or more parties have joint control.
Joint control	The agreed sharing of control of an arrangement by way of binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow of resources from the entity. An example is the purchase of supplies prior to balance date, with the payment due in the next financial year.
Measurement	Quantification of activities in terms of money, being New Zealand dollars.
Notes to the performance report	Notes that provide further information on items in the various financial statements, either by a further breakdown of figures or a narrative description.
Performance report	A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

	notes to the performance report prepared in accordance with this Standard.
Public accountability	<p>While public sector PBEs are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g. a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in XRB A1</p>
Public benefit entity (PBE)	Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.
Public sector public benefit entity (PS PBE)	A public benefit entity that is a public entity as defined in the Public Audit Act 2001, and all Offices of Parliament.
Recording	Including a revenue, expense, asset or liability item in the statements of the performance report (also referred to as recognition).
Recognition event	<p>An event that brings about the legal obligation for the entity to:</p> <ul style="list-style-type: none"> (a) Settle a transaction with another party at a future date (payables), or by the payment of cash; or (b) Have a legal obligation settled upon the entity by another party (receivables), or by the receipt of cash. <p>This is what distinguishes accrual accounting from cash accounting (for which the only recognition event is the receipt or payment of cash).</p>
Related parties	People or entities that have significant influence over the reporting entity, such as members of the governing body, persons in key management roles, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
Reporting entity	An entity preparing a performance report in accordance with this Standard. In the New Zealand reporting environment, it is a public entity that is required by law to apply standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. For the purposes of applying this Standard the entity is a public sector entity.
Revenue	All inflows into the entity during the year other than capital inflows. Revenue includes the cash received during the year, and the right to receive a payment in the future related to an event (usually a transaction) in the current year. These inflows may be from normal operating activities such as the sale of a good or service. Capital inflows comprise contributions from owners (in their capacity as owners), inflows to settle a receivable that was recorded in the previous year, inflows from the sale of assets, and inflows from borrowings.
Significant	An item is significant if recording and/or disclosure of the particular item, whether financial or non-financial, could influence a user’s understanding of the entity’s overall performance. For the purposes of this Standard it has the same meaning as material.
Significant influence	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

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Statement of cash flows	A statement that shows the movements between the cash balances at the beginning and the end of the year. It is divided into two categories: operating, and investing and financing.
Statement of financial performance	A statement that shows an entity's revenue and expenses, to establish its surplus or deficit for the financial year. This statement is sometimes called the income statement or operating statement.
Statement of financial position	A statement that reports a picture of the entity's position by listing what it owns and what it owes at the balance date. This statement is sometimes called the balance sheet.
Statement of service performance	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. It is particularly useful in the public sector when the focus is on achieving planned objectives, rather than making a profit. The information in this statement is predominantly non-financial, but still involves measurement.
Surplus	The amount in the statement of financial performance when revenue exceeds expenses for the year. In the for-profit sector the equivalent term is profit.
Total expenses	<p>For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance.</p> <p>Where revenue and expense are offset as required or permitted, any net expense is included in total expenses.</p> <p>Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.</p>

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Appendix B: Transitional Arrangements

This Appendix contains the requirements for entities to transition to Reporting Requirements for Tier 3 Public Sector Entities. It is an integral part of the Standard.

Objective

- B1. This part of the Standard¹² is designed to assist an entity in preparing its first performance report under this Standard. This Standard recognises that entities come from divergent reporting backgrounds and prescribes different transitional rules to meet different circumstances.

Transitional Groups

- B2. There are likely to be four types of entities applying this standard:

Group 1: New entities – those who have started up in the current financial year.

Group 2: Entities previously applying Tier 4 PBE Accounting Requirements – those who have complied with Tier 4 PBE Accounting Requirements in the previous financial year.

Group 3: Entities previously applying Tier 2 PBE Accounting Requirements – those who have complied with Tier 2 PBE Accounting Requirements in the previous financial year.

Group 4: Other Entities – entities that have been operating prior to the current financial year, and in the previous financial year followed other accounting standards (for example, NZ IFRS PBE or Old GAAP), or have not followed any accounting standard issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB.

General Provisions

- B3. These general provisions apply to all entities in Groups 1 to 4 applying this Standard unless there is an override in the Special Provisions in paragraphs B7 to B10.
- B4. An entity that is reporting in accordance with this Standard for the first time, shall apply this Standard from the beginning of the earliest comparative period presented. This is the financial year prior to that for which the performance report is currently being prepared. For example, if the performance report is being prepared in accordance with these general provisions for the year ended 30 June 2015, the beginning of the earliest comparative period would be 1 July 2013.
- B5. All assets and liabilities shall be recorded at the beginning of the earliest comparative period presented.
- (a) For payables and receivables, amounts shall be recorded at the amount owing or owed at the beginning of the earliest comparative period.
 - (b) For property, plant and equipment, an entity shall record significant items at their readily obtainable current amounts (such as rateable value or government valuation). Where amounts are not readily obtainable the entity is not required to record the assets but shall disclose this fact in the notes to the performance report. An entity is not required to record insignificant items of property, plant and equipment.
 - (c) For other assets and liabilities an entity shall make its best estimate of the value at the beginning of the earliest comparative period presented and record the assets and liabilities at that amount. In this case accumulated funds is the number needed to make the statement of financial position balance on transition.
- B6. Separate disclosure of significant restatements is encouraged, but is not required.

¹² This Appendix is part of the Standard and so the term “Standard” is used throughout. “Standard” refers to the Reporting Requirements for Tier 3 Public Sector Entities, abbreviated as Tier 3 (PS) Standard.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Special Provisions**Group 1: New Entities**

- B7. No comparative figures are required for this Group. This overrides any requirement elsewhere in this Standard for comparatives to be reported. New entities shall disclose their date of commencement in the notes to the performance report.

Group 2: Entities Previously Applying Tier 4 Accounting Requirements

- B8. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
 - (b) Apply the general provisions of this Standard.

Group 3: Entities Previously Applying Tier 2 Accounting Requirements

- B9. Entities in this Group shall follow one of the following two options:
- (a) Provide comparative data based on the applicable information reported in their financial statements for the previous year prepared in accordance with the Tier 2 PBE Accounting Requirements; or
 - (b) Apply the general provisions of this Standard.

Group 4: Other Entities

- B10. Entities in this Group shall follow one of the following two options:
- (a) Follow this Standard from the start of the current period. In this case comparative information is not required, and this overrides any requirement elsewhere in this Standard for comparatives to be reported. However, the entity shall attach its previous financial statements and a list of its previous accounting policies; or
 - (b) Apply the general provisions of this Standard.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Appendix C: Application of PBE Standards

This Appendix contains the requirements for entities when applying a PBE Standard. It is an integral part of the Standard.

Interests in Other Entities

- C1. To determine whether an entity has an interest in a controlled entity, an associate or a joint arrangement the entity must refer to the guidance within the following Tier 2 PBE Standards:
- (a) PBE IPSAS 35 *Consolidated Financial Statements*
 - (b) PBE IPSAS 36 *Investments in Associates and Joint Ventures*
 - (c) PBE IPSAS 37 *Joint Arrangements*
- C2. If an entity controls another entity, it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35 and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.
- C3. If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36 and PBE IPSAS 38. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34.
- C4. If an entity has an interest in a joint arrangement, it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37 and PBE IPSAS 38.
- C5. When applying the requirements in PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 38 an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

Other Applications of PBE Standards

- C6. 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 Standards 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 27 *Agriculture* so that it can measure its biological assets and agricultural produce at fair value less costs to sell, or an entity may decide to opt up to PBE IPSAS 25 *Employee Benefits* to account for long-term employee benefits.
- C7. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, the entity:
- ~~(a) shall disclose this in the statement of accounting policies; and-~~
 - ~~(a)~~
 - ~~(b) C8. If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard 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 A183– A184).~~
- ~~C89.~~ If, for a specific type of transaction, an entity elects to apply the requirements of a Tier 2 PBE Standard instead of applying the requirements in this Standard, and the PBE Standard requires that the effect of that transaction shall be recognised in other comprehensive revenue and expense, the entity shall instead:

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- (a) Recognise the effect of that transaction directly in accumulated funds; and
- (b) Present the cumulative effect of similar transactions as a separate reserve within Accumulated Funds.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Basis for Conclusions

BC1. This Basis for Conclusions summarises the NZASB's considerations in developing the PBE Simple Format Reporting – Accrual (Public Sector) Standard (PBE SFR-A (PS)).

Background

BC2. The Accounting Standards Framework includes four reporting tiers for public sector PBEs. PBE SFR-A (PS) contains requirements for the third tier and may be applied by entities that do not have “public accountability” (as defined in standard XRB A1 (FP Entities + PS PBEs Update)) and that have annual expenses less than, or equal, to \$2 million.

Objective

BC3. PBE SFR-A (PS) is intended to improve the quality and consistency of financial reporting by entities eligible to apply the Standard.

BC4. PBE SFR-A (PS) is intended to provide a simplified version of the Tier 1 and Tier 2 PBE Accounting Standards, rather than a standard based on a different conceptual framework. As a result, the NZASB approached the development of the Standard with a view that, in principle, the same recognition and measurement requirements should apply to Tier 3 public sector financial reporting as are applied by public sector entities applying the Tier 1 and Tier 2 PBE Accounting Standards. The NZASB also considered the extent to which the cost of applying the recognition and measurement requirements in the PBE Accounting Standards outweighed the benefits to users of the resulting financial statements.

Approach

BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 public sector preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (PS).

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

- (a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (PS);
- (b) Contains simplified measurement of transactions where, taking the public sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;
- (c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and
- (d) Contains simplified presentation and disclosure requirements.

Omitted Transactions

BC7. The NZASB relied heavily on information in public sector financial statements prepared under previous requirements to assist it in identifying transactions which were undertaken very infrequently by public sector entities and therefore did not need to be addressed in this Standard. These transactions include:

- (c) Financial instruments other than payables, receivables and term deposits; and
- (d) Complex transactions such as service concession arrangements and insurance contracts.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Simplifications

BC8. The major simplifications in this Standard compared to the Tier 1 and Tier 2 PBE Accounting Standards are as follows:

- (a) *Whether grants or donations are recorded:* Goods or services (and other non-cash assets) received in kind are not required to be recorded;
- (b) *Treatment of donation/grant and government funding revenue:* Donations, grants and government funding are recorded as revenue when received unless there is a “use or return” condition attached to the revenue. In this Standard the key element that drives the recognition of a liability relating to the donation/grant or government funding received is the “use or return” condition.

BC9. The NZASB decided that the simplification in BC8(a) should not apply to significant donated assets, such as property. Any such donated assets are required to be recognised at a readily available current value (rather than requiring measurement at fair value as defined in the Tier 1 and Tier 2 PBE Accounting Standards). This is to ensure that the statement of financial position includes all significant assets regardless of whether they are purchased or donated.

BC10. The simplification set out in BC8(a) has the consequence that information about donated goods, services and assets (other than significant donated assets), including services provided by volunteers, will not be recorded in the performance report. To compensate for this, PBE SFR-A (PS) requires disclosure of significant donations in kind in the notes to the performance report.

BC11. In relation to the simplification set out in BC8(b) the NZASB chose not to fully apply to grants and donations and government funding the principles in PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The NZASB considered the requirements of PBE IPSAS 23 to be too costly and complex for entities likely to apply PBE SFR-A (PS) without a corresponding increase in the usefulness of the information that would be provided to users. The NZASB decided to simplify the principles to require a “use or return” condition before a liability is recorded.

BC12. The NZASB made a number of simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications include the following:

- (a) Financial instruments are measured at amounts receivable or payable, with interest revenue or expense recognised in accordance with the terms of the contract, rather than by applying the effective interest method;
- (b) Any foreign currency transactions are to be translated using the spot rate at the transaction date or at the balance sheet date for monetary assets and liabilities;
- (c) Basing the statement of cash flows on ‘cash’ rather than cash equivalents; and
- (d) Allowing the direct method of preparing the statement of cash flows, on the assumption that most entities applying this Standard will use cash books as their primary source of information.

Option to Apply the Requirements in Tier 2 PBE Accounting Standards

BC13. The NZASB is aware that some entities may prefer not to apply certain of these simplifications or may wish to use an option that is available in the Tier 1 and Tier 2 PBE Accounting Standards. Accordingly, the NZASB included an option in this Standard that permits entities to elect to use the recognition and measurement requirements of Tier 2 PBE Accounting Standards for a specific type of transaction as long as the entity applies that same requirement to all transactions of that type. Entities are required to disclose the use of this option, where applied.

Financial Information

BC14. This Standard establishes minimum aggregated categories for the reporting of financial information. It also allows an entity to add additional categories applicable to that entity and to describe all categories using terminology appropriate to that entity. In doing so, the NZASB was seeking to achieve a balance between comparability and understandability on the one hand, and flexibility for entities to reflect their own circumstances on the other.

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Non-Financial Information

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, this Standard requires:

- (a) Disclosure of information about the entity's structure and objectives; and
- (b) The preparation of a statement of service performance for entities required by law to produce such a statement (by whatever name called).

BC16. The NZASB is of the view that the reporting of this non-financial information is necessary for users to gain a full understanding of the entity's performance. It therefore encourages public entities not required by law to produce a statement of service performance to do so optionally.

Group Accounting

BC17. At the stage that PBE SFR-A (PS) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on accounting for groups (the entity together with any entities that it controls).

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-2 *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) in April 2014 (ED NZASB 2014-2). The NZASB noted that PBE SFR-A (PS) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 public sector entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 public sector entity with such interests in other entities.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (PS) the NZASB noted that:

- (a) Relatively few Tier 3 public sector entities would be expected to have interests in controlled entities, associates or joint ventures;
- (b) Most Tier 3 public sector entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and
- (c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 public sector standard, thereby detracting from the usefulness of the standard for most public sector entities.

BC17.4 The NZASB agreed to require Tier 3 public sector entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 public sector standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

Related Parties

BC18. The definition of related party in existing accounting practice includes both people (and close members of their families) and other entities that have significant influence over the entity. The NZASB considered whether to simplify that definition of related party for this Tier. After considering the importance of related party disclosures for accountability purposes, and the risks and opportunities inherent in these relationships, the NZASB decided to retain in the definition of related party both related people (and close members of their families) and other entities that have significant influence over the entity.

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BC19. However, disclosure of related party transactions is only required if the transaction is significant to the entity (individually or in aggregate with similar transactions); and the transaction is on terms and conditions that are likely to be different from the terms and conditions of transactions in similar circumstances between parties that are not related.

Transition

BC20. The NZASB was aware that a range of pre-existing accounting policies were applied by entities that are now eligible for, and elect to apply, PBE SFR-A (PS). The NZASB was also concerned that some of those entities might have difficulty in restating their comparative information and measuring some existing purchased assets as required by this Standard. Rather than delay the application of the Standard, PBE SFR-A (PS) permits entities to:

- (a) Apply PBE SFR-A (PS) in the first year without restating the comparative information. Entities taking this option are required to attach their prior period financial statements (including an explanation of the accounting policies applied) rather than having to restate the comparative financial information; and
- (b) Only record pre-existing assets that are significant and that have values that are readily obtainable. Assets that are not significant or for which values are not readily obtainable need only be disclosed in the notes to the performance report. The NZASB concluded that disclosing reliable information about purchased pre-existing assets was sufficiently useful to users of financial statements rather than imposing the costs on entities to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (PS).

Post-implementation review

BC21. The NZASB completed a post-implementation review of the Tier 3 (PS) Standard in 2021 to assess whether the Standard was working as intended and achieving its original objectives. Over 100 submissions were received in response to the post-implementation review, which have been considered as the basis for developing proposed amendments to the Standard.

BC22. Many respondents to the post-implementation review considered that, in general, the Standard was working well. However, there were some key issues raised in the feedback which highlighted areas where the Standard could be improved. In response, the NZASB issued ED NZASB 2022-4 Amendments to Tier 3 (PS) Standard in [Month, Year] which proposed amendments to the following specific areas of the Standard.

Service Performance Reporting (Section 4)

BC23. The NZASB noted that the statement of service performance requirements in the Tier 3 (PS) Standard were developed before PBE FRS 48 Service Performance Reporting (PBE FRS 48) was developed and issued. The NZASB decided to re-express the requirements for Tier 3 public sector entities so that they were more in line with the requirements 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”.

BC24. Therefore, the NZASB decided to remove the language around “outcomes” and “outputs” but retain the requirement for a Tier 3 public sector entity to report on what it is seeking to achieve over the medium to long term (i.e. its ‘objectives’) and the significant activities undertaken during the reporting period to achieve these objectives.

BC25. The NZASB also decided to add requirements and/or guidance on:

- (a) how to select appropriate and meaningful measures and/or descriptions;
- (b) what is meant by a “significant activity”; and
- (c) the need for consistency of service performance reporting from year to year (including possible reasons for changes to what an entity reports and how it is reported).

The additional requirements/guidance is aligned with PBE FRS 48.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Asset Valuation (Section 6)

BC26. The Tier 3 (PS) Standard was originally drafted to require all assets to be measured on a cost basis. If a Tier 3 public sector entity wanted to measure any of its assets on a different basis (such as a revalued amount), it was required to opt up to Tier 2 PBE Standards with the exception that an entity may use rateable or government value rather than fair value when revaluing property, plant and equipment assets. Many respondents to the post-implementation review considered that the Standard should include simple requirements for measuring assets such as property, plant and equipment, investment property and financial investments (such as shares, bonds and units in managed funds) on an alternative basis to cost. Other respondents raised practical concerns with the current requirements when opting up to the Tier 2 PBE Standards to revalue assets.

BC27. The NZASB agreed that there is scope to improve and simplify the requirements in the Standard when a Tier 3 public sector entity elects to measure these assets at revalued amounts. Therefore, the NZASB decided to incorporate simplified alternative measurement methods directly in the Tier 3 (PS) Standard.

BC28. The NZASB agreed to allow property, plant and equipment assets to be revalued with the requirements including the following key features.

- (a) Entities would be permitted to use current council rateable value when revaluing.
- (b) To avoid introducing the concept of other comprehensive income to the Tier 3 (PS) Standard, revaluation gains would be recognised directly in accumulated funds except to the extent that they reverse a previously recognised impairment charge.
- (c) Revaluation losses would be recognised as an expense in the statement of financial performance except to the extent that they offset a previously recognised revaluation gain.
- (d) Gains on disposal over the carrying amount would be recognised as revenue in the statement of financial performance.
- (e) Revaluation gains and losses are to be offset against each other within a class of revalued assets but must not be offset against gains and losses from another class of revalued assets.
- (f) Entities are still required to recognise depreciation on revalued assets from the date of their most recent revaluation.
- (g) Revaluation gains included in accumulated funds are not to be recycled through the statement of financial performance.

BC29. The NZASB decided to allow investment property assets to be revalued and, in the interest of simplicity, considered it appropriate that investment property be treated in the same manner as property, plant and equipment for this purpose. It was noted that the original drafting of the Tier 3 (PS) Standard was silent on investment property and so the NZASB also agreed to include a simple definition of investment property in the Standard.

BC30. The NZASB noted that respondents who expressed a desire to revalue their financial investments generally only referred to publicly traded or managed investments. Therefore, the NZASB decided to allow financial investments to be revalued where those investments are publicly traded. Restricting revaluations to only assets of these types was considered to be the most appropriate method to achieve the effect desired by the respondents without introducing the complexity required to allow other types of financial investments to be revalued.

Categories for Presenting Revenue and Expenses (Section 5)

BC31. The Tier 3 (PS) Standard requires revenue and expenses to be aggregated and reported within a set of categories in order to improve the understandability, consistency and comparability of performance reports. While feedback on the post-implementation review was generally supportive of maintaining minimum categories in principle, many respondents considered that the minimum categories could be improved by introducing additional disaggregation and clarifying the application of existing categories.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

BC32. After considering the views of respondents the NZASB decided to disaggregate the required categories based on a mixture of both the nature and source of the underlying transactions. The increase in the number of minimum categories is expected to assist preparers in identifying the appropriate category for different types of transactions by being more specific and more clearly defined.

BC33. The NZASB also decided to separate the following.

- (a) Revenue and expenses which relate solely to commercial activities from other revenue and expenses. As public sector entities have a primary objective to provide goods or services for community or social benefit the NZASB considered that separating the revenue and expenses incurred in pursuit of this objective from those incurred solely to generate a financial return would provide useful information.
- (b) Revenue from grants or funding that are, in substance, a contract for the delivery of goods or services from general grants or funding (where applicable).
- (c) Revenue from government entities and revenue from non-government entities based on feedback from respondents.
- (d) Employee remuneration from other employee related expenditure based on feedback from respondents.

BC34. Respondents also noted that the extent of disaggregation and relabelling of the minimum categories permitted by the Tier 3 (PS) Standard was unclear, resulting in diversity in practice. As the amount of mandatory disaggregation has increased (where applicable), the NZASB decided to remove the option to provide further disaggregation in the statement of financial performance.

Revenue Recognition (Section 5)

BC35. In the original drafting of the Tier 3 (PS) Standard, donations and grants received with “use or return” conditions were recognised as revenue as the conditions over use were satisfied. A “use or return” condition is one where the entity is required to either use the donation or grant as specified by the resource provider or return the funds. Feedback from many respondents to the post-implementation review highlighted concern about the restrictive nature of the “use or return” revenue recognition approach.

BC36. Respondents noted that “use or return” conditions do not provide for appropriate accounting outcomes in practice and limits their ability to explain how funding received from the public was being spent on advancing the entity’s objectives. It was also noted by respondents that the restrictive nature of this revenue recognition approach was negatively impacting the ability of Tier 3 public sector entities to secure multi-year funding arrangements.

BC37. The NZASB considered the feedback from respondents, various international frameworks, and three key factors (i.e. clarity, meeting user needs and auditability). The NZASB decided to introduce the principle of recognising revenue as or when documented resource provider “expectations” over use are satisfied. The NZASB has not defined the term “expectations” but instead has put conditions in the Standard around what constitutes an expectation for revenue recognition purposes.

- (a) An expectation over use is one which the resource provider has communicated to the reporting entity when the funding is initially transferred.
- (b) The expectation must be both documented and agreed between the resource provider and the entity. An expectation is documented when it has been agreed in writing between the reporting entity and the resource provider (or there is some other form of evidence to demonstrate this agreement). This condition is important from an assurance perspective.
- (c) Only external expectations (i.e. expectations from the resource provider) should be considered for revenue recognition purposes. Internal expectations (i.e. how the entity expects to use the funds) is not a relevant consideration.
- (d) An expectation should be specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied. However, there is no

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

requirement for the expectation to be enforceable by the resource provider, as the concept of “enforceability” introduces a level of complexity within the Standard that the NZASB does not deem necessary for a Tier 3 entity’s financial reporting.

- BC38. The principle of recognising revenue as (or when) expectations over use are satisfied applies only to significant funds received as a donation, grant or bequest. These revenue streams are the only ones where there may be a resource provider expectation over use. The NZASB considers it to be a rare occurrence when there is a resource provider expectation attached to general fundraising revenue, and so this revenue stream is not within scope of this revenue recognition principle.
- BC39. The NZASB has made it clear in the Standard that the unit of account for the recognition of significant donations, grants and bequests with documented expectations over use, is each separate expectation identified.
- BC40. The timing of revenue recognition is dependent on the nature of the documented expectation over use. Some expectations are naturally satisfied at a point in time (e.g. where the expectation is to purchase an item such as a vehicle), whereas other expectations are satisfied over a period of time (e.g. where the expectation is to use the funding to cover a worker’s salary for one year – as each month’s salary is paid, more of the expectation is satisfied). For the purposes of providing guidance to preparers the NZASB has put common scenarios and the likely patterns of revenue recognition within the Standard but has also made an explicit statement in the Standard that judgement will be required to determine an appropriate approach to the timing of revenue recognition.

Accumulated Funds (Section 6)

- BC41. Respondents considered that greater disclosure was needed about entities’ plans and policies for applying its accumulated funds towards its stated purposes. In responding to this feedback the NZASB was mindful of the significant diversity in the activities and circumstances of public sector entities and the unintended consequences of requiring disclosures that were too specific in nature.
- BC42. Ultimately, the NZASB agreed to expand the disclosures required in the notes to the performance report in the form of a high-level requirement to disclose information to enable users of an entity’s financial statements to evaluate the entity’s objectives’ policies, and processes for managing its accumulated funds. This specifically includes a brief description of the entity’s plans for applying its accumulated funds toward its stated purposes. Rather than require further specific disclosures it was agreed to provide further guidance on the types of information an entity may wish to disclose towards this.

Opting up (Appendix C)

- BC43. The Tier 3 (PS) Standard allows a Tier 3 public sector entity to elect to apply the requirements of Tier 2 PBE Standards to specific types of transactions, as long as it applies the requirements to all transactions of that type. A key piece of feedback from the post-implementation review highlighted a lack of understanding about what to do if the relevant Tier 2 PBE Standard requires revaluation movements to be recognised in other comprehensive revenue and expense.
- BC44. In response to this feedback, the NZASB decided to include a requirement in Appendix C of the Standard to recognise the effects of transactions directly in accumulated funds where there is a requirement in Tier 2 PBE Standards to recognise the effects of those same transactions in other comprehensive revenue and expense. The NZASB decided not to introduce an “other comprehensive revenue and expense” category in the statement of financial performance, to avoid adding unnecessary complexity to the Standard.

Other amendments to the Tier 3 (PS) Standard

- BC45. The NZASB decided to make the following additional amendments to the Standard, in response to feedback on the post-implementation review.
- (a) Add a paragraph in Section 3 of the Standard (Entity Information), which permits a Tier 3 public sector entity to incorporate the required information in Section 3 by cross-reference

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

to another document, as long as the document is available to users at the same time as the performance report.

- (b) Align the categories within the statement of cash flows with the categories of revenue and expenditure in the statement of financial performance.
- (c) Include short-term deposits in the definition of cash and define them as deposits “with a maturity of three months or less from the date purchased”. This is in response to feedback on the post-implementation review which noted that the definition of cash in the Standard does not align with Tier 1 and Tier 2 PBE Standards, which can make the consolidation of entities reporting under different tiers more challenging. In the interests of limiting complexity the NZASB decided not to add the term “cash equivalents” or related guidance in the Standard.

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

History of Amendments

Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard) was issued in November 2013.

This table lists the pronouncements establishing and substantially amending Tier 3 (PS) Standard. The table is based on amendments issued as at **31 January 2021**.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
<i>Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) PBE SFR-A (PS)</i>	Nov 2013	Early application is not permitted	1 July 2014
<i>Interests in Other Entities (Amendments to PBE SFR-A (PS))</i>	Sept 2014	Early application is not permitted	1 July 2014
<i>Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1</i>	Dec 2015	Early application is permitted	1 Jan 2016
<i>PBE IPSAS 34 Separate Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 35 Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 36 Interests in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 37 Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 38 Disclosure of Interests in Other Entities</i>	Jan 2017	Early application is permitted	1 Jan 2019
<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i>	July 2018	Early application is permitted	1 Jan 2019
<i>PBE IPSAS 41 Financial Instruments</i>	Mar 2019	Early application is permitted	1 Jan 2022
<i>Amendments to Tier 3 (PS) Standard</i>	xx	Early application is permitted	1 Jan 202 x

Table of Amended Paragraphs in Tier 3 (PS) Standard		
Paragraph affected	How affected	By ... [date]
Paragraph 1	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Table of Amended Paragraphs in Tier 3 (PS) Standard		
Paragraph affected	How affected	By ... [date]
Paragraph 2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 3	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 4	Amended	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Inserted	<i>Interests in Other Entities</i> [Sept 2014]
Paragraphs 4.1 to 4.6	Amended	PBE IPSAS 34 [Jan 2017]
Paragraph 4.5	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 6	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7 and preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 7	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 7	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 8	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 9	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 9	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 11	Added	<i>Interests in Other Entities</i> [Sept 2014]
Paragraph 12	Added	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph 13	Added	PBE IPSAS 34 [Jan 2017]
Paragraph 14	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph 15	Added	PBE IPSAS 41 [Mar 2019]
Paragraph A11	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A13	Deleted	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A43	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Table 2: <i>Recording of Specific Types of Expenses</i> (follows paragraph A83)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]

REPORTING REQUIREMENTS FOR TIER 3 PUBLIC SECTOR ENTITIES

Table of Amended Paragraphs in Tier 3 (PS) Standard		
Paragraph affected	How affected	By ... [date]
Table 3: <i>Recording of Specific Types of Asset</i> (follows paragraph A109)	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A109.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A109.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A115	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A116	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A117	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A150.1	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A150.2	Added	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A177(a)	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph A182	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph A184	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Section 11: Glossary Associate, Consolidated performance report, Control, Controlled entity, Controlling entity, Economic entity, Joint control, Joint venture, Significant influence	Added defined terms	<i>Interests in Other Entities</i> [Sept 2014]
Section 11: Glossary Associate, joint arrangement, joint control, joint venture, significant influence	Amended	PBE IPSAS 34 [Jan 2017]
Section 11: Glossary Control, Controlled entity, Controlling entity, Economic entity.	Amended	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> [July 2018]
Paragraph B2	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Heading preceding Paragraph B8	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]
Paragraph B9 and preceding heading	Amended	<i>Amendments to Simple Format Reporting Accounting Requirements</i> [Dec 2015]

Date: 2 February 2023
To: NZASB Members
From: Jamie Cattell and Gali Slyuzberg
Subject: Approach in responding to IPSASB ED on Concessionary Leases

COVER SHEET

Project priority and complexity

Project priority	<p>Medium</p> <ul style="list-style-type: none"> This IPSASB project is intended to introduce accounting requirements for concessionary leases and right-of-use assets in-kind (i.e lease arrangements with no or nominal consideration). These transactions are common for PBEs in New Zealand across both the public and not-for-profit sectors. Previous proposals in relation to concessionary leases have been contentious with strong push-back against the concept of measuring the concessionary portion of the lease based on market amounts. We have recently consulted on the NZASB ED PBE IPSAS 43 <i>Leases</i> which proposed to introduce the right-of-use model (based on IFRS 16) into the PBE Standards for ordinary leasing transactions at market rates. It was noted we would address the accounting for concessionary leases at a later stage.
Complexity of Board decision-making at this meeting	<p>High</p> <p>The Board is being asked to provide feedback and AGREE:</p> <ul style="list-style-type: none"> whether to expose the recently issued IPSASB ED 84 <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23) for comment in New Zealand; whether to develop an alternative approach to reflect previous New Zealand feedback received, to be exposed together with the IPSASB ED; and how an alternative New Zealand specific approach should be developed.

Overview of agenda item

Project status	International ED – decision on project direction
Project purpose	To develop requirements on accounting for concessionary leases and right-of-use assets in-kind under the ROU model established in IPSAS 43.
Board action required at this meeting	<p>CONSIDER the proposals in IPSASB ED 84 and staff recommendations on developing a response to the ED.</p> <p>DECIDE on the approach for developing a response to the ED and New Zealand requirements on accounting for concessionary leases and right-of-use assets in-kind.</p> <p>We will ask for Board feedback on the questions in this memo.</p>

Purpose and introduction¹

1. On 17 January 2023, the International Public Sector Accounting Standards Board (IPSASB) issued ED 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) for comment. The ED is part of phase two of the IPSASB's Leases project. ED 84 proposes amendments to IPSAS 43, *Leases* and consequential amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to introduce new requirements on accounting for concessionary leases, as well as new guidance on accounting for right-of-use assets in-kind.
2. The purpose of this paper is to provide the Board with an overview of the proposals in ED 84 and to seek decisions from the Board on the next steps in the project in New Zealand.
3. It is likely that decisions made in this agenda item will impact those made in Agenda item 6.1A which is seeking the Board's direction on the next steps to take in responding to the feedback received on the ED PBE IPSAS 43 *Leases*. We recommend considering the questions in this memo before those in 6.1A.
4. The proposals in ED 84 would require lessees to recognise concessionary leases on the balance sheet, using the 'right of use' (ROU) model established in IPSAS 43. Concessionary leases as defined involve the provision of ROU assets at below-market terms, ED 84 proposes that lessees measure these ROU assets based on market rates rather than contractual payments.

Recommendations

5. The Board is asked to:
 - (a) CONSIDER the proposals in ED 84 and the questions raised in this memo; and
 - (b) DECIDE on the NZASB approach for responding to ED 84, as well as the approach to developing a possible New Zealand alternative approach for exposure together with the IPSASB ED.

Structure of this memo

6. The remaining sections in this memo are:
 - (a) [Background](#);
 - (b) [Overview of ED 84](#);
 - (c) [Concerns with ED 84](#);
 - (d) [Options in responding to ED 84](#);
 - (e) [Developing an NZ specific approach](#); and
 - (f) [Next steps](#).

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

Background

7. The table below summarises the developments to date, and future steps to be taken after this meeting.

Table 1 PBE Leases project timeline

Date	Project activity
Jan 2018	IPSASB issues IPSASB ED 64 <i>Leases</i> – which includes lessee accounting proposals aligned with IFRS 16 <i>Leases</i> , but also proposals to introduce the ROU model for lessors, and proposals for the fair value measurement of concessionary leases.
Feb-May 2018	XRB carried out broad outreach in New Zealand on IPSASB ED 64 (including roundtables, etc.) Feedback indicated broad support for the proposed ROU model for PBE <i>lessees</i> , except in relation to concessionary leases and other lease-type arrangements
Jun 2018	NZASB submitted comments on IPSASB ED 64 <i>Leases</i>
Jan 2021	IPSASB issued IPSASB ED 75 <i>Leases</i> – proposals aligned with IFRS 16 <i>Leases</i> (for lessees and lessors) Separate Request for Information (RFI) issued on <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
Feb 2021	XRB carried out broad outreach in New Zealand on IPSASB ED 75 <i>Leases</i> and received feedback on the RFI
May 2021	NZASB submitted comments on IPSASB ED 75 <i>Leases</i> and the RFI
Jan 2022	IPSASB issued IPSAS 43 <i>Leases</i> – aligned with ED 75 proposals and IFRS 16 No specific requirements for concessionary leases, and public sector arrangements that are similar to leases are scoped out – considered separately under the project <i>Other Lease-type Arrangements</i> .
Feb 2022	NZASB applied the PBE Policy Approach and agreed that it should propose incorporating the requirements in IPSAS 43 into PBE Standards – and not wait for the project on concessionary leases and public sector arrangements that are similar to leases to be completed. The NZASB agreed in principle to allow for a long effective date to enable PBEs the option to adopt the new lease accounting requirement early (this was considered important for mixed group entities).
Apr 2022	NZASB discussed whether to make certain modification to IPSAS 43 – to enhance the appropriateness and usefulness of this standard for New Zealand PBEs and the users of their financial statements
Jun 2022	NZASB discussed a working draft of the ED and Consultation Document
August 2022	NZASB APPROVED the ED (PBE IPSAS 43) and Consultation Document for publication
Aug–Nov 2022	Staff undertook outreach activities – including: <ul style="list-style-type: none"> publicising the consultation in our newsletter and on LinkedIn; recording and publishing a ‘walkthrough webcast’ on the consultation; and reaching out to key PBE stakeholders, including those who previously made submissions on the IPSASB <i>Leases</i> EDs.
25 Nov 2022	Consultation closed – 11 formal and informal submissions received
Dec 2022 – Jan 2023	Staff analysed feedback received on the EDs

Date	Project activity
Jan 2023	IPSASB issued ED 84: <i>Concessionary Leases and Other Lease-type Arrangements</i>
This meeting	<ul style="list-style-type: none"> NZASB to decide on approach in response to IPSASB ED 84: <i>Concessionary Leases and Other Lease-type Arrangements</i> [Agenda Item 6.1] Staff presents analysis of feedback received on ED PBE IPSAS 43 <i>Leases</i> and seeks NZASB's strategic direction for this project [this agenda item]
FUTURE:	The expected timing of future milestones depends on the strategic decisions to be made by the Board at this meeting. See the <i>Strategic Questions</i> section below.
1 Jan 2027	PBE IPSAS 43 becomes effective for periods beginning on or after this date as currently proposed.

Overview of ED 84 ²

Lessees

8. The proposals in ED 84 would require lessees to recognise concessionary leases on the balance sheet, using the 'right of use' (ROU) model established in IPSAS 43. However, as concessionary leases are at below-market terms ED 84 proposes that lessees recognise:
- a right-of-use asset measured at the present value of payments for the lease **at market rates based on the current use of the underlying asset** (hereafter referred to as "market lease payments");
 - a lease liability measured at the present value of the contractual payments for the lease; and
 - non-exchange revenue for the concession component as the difference between (a) and (b), except if a present obligation exists. Where a present obligation exists, it is recognised as a liability. As the lessee satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognised.
9. This approach is similar to that originally proposed by the IPSASB in ED 64. The primary difference is that the ROU asset is recognised based on measurement in (a) rather than fair value.

Lessors

10. ED 84 proposes that concessionary leases should be accounted for as operating or finance leases in the same manner as ordinary leases under IPSAS 43. It does not propose any changes to measurement to reflect the value of the concession granted. However, it does propose additional disclosure requirements for both concessionary operating leases and concessionary finance leases to provide users with information on the amount, purpose, terms, and nature of concessions granted.
11. The rationale for not proposing any measurement changes in the case of concessionary operating leases is that the amount of the concession represents forgone revenue, which is not recognised under IPSAS 9 *Revenue from Exchange Transactions*.
12. The rationale for not proposing any measurement changes in the case of concessionary finance leases is that, the amount of the concession would already be reflected by the difference between the

² In addition to the summary provided in this memo, the IPSASB have published an 'at-a-glance' document and introductory video on their [website](#)

carrying amount of the derecognised underlying asset and the newly recognised net investment in the lease.

Right-of-use assets in-kind

13. Right-of-use assets in-kind are defined as “right-of-use assets transferred to an entity without charge”. These were previously referred to by the IPSASB as “leases for zero consideration”. ED 84 proposes to initially measure the right-of-use asset in-kind at the present value of market lease payments. It also proposes that an entity identifies right-of-use assets in-kind by applying the principles in IPSAS 43, with the necessary adaptations in the absence of lease payments. ED 84 proposes recognising right-of-use assets in-kind when they are received or there is a binding arrangement to receive them. If right-of-use assets in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced, and revenue recognised as the conditions are satisfied.
14. ED 84 proposes initially measuring right-of-use assets in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets in concessionary leases because both types of assets arise from non-exchange transactions. Consistent with the proposals for concessionary leases ED 84 proposes subsequently measuring right-of-use assets in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets in leases at market terms.
15. ED 84 proposes enhanced disclosures for right-of-use assets in-kind, such as:
 - (a) Nature and type of major classes of right-of-use assets in-kind;
 - (b) Depreciation charge; and
 - (c) Carrying amount at the end of the reporting period by class of underlying asset.
16. If right-of-use assets in-kind meet the definition of investment property or are measured at revalued amounts applying IPSAS 17, *Property, Plant, and Equipment*, the entities should apply the disclosure requirements in IPSAS 16, *Investment Property* and paragraph 92 of IPSAS 17, respectively.

Sale and leaseback

17. ED 84 proposes new guidance on sale and leaseback transactions with embedded below market terms that are identified as concessions. While IPSAS 43 already provides guidance on sale and leaseback transactions at below-market terms, the IPSASB notes that this guidance is intended to reflect a leasing arrangement where the below market terms are part of an arm’s length negotiation process rather than an intention to provide a concession.
18. In order to reflect circumstances where an entity intends to provide a concession the ED proposes new public sector-specific guidance where the below-market terms of the leaseback are not linked to a prepayment. That is, where the purchase price of the asset is at its fair value and the leaseback is at below market terms. In this situation ED 84 proposes the accounting for the concessionary leaseback should follow the same principles as for concessionary leases.

Concerns with ED 84

19. While exposing IPSASB consultations in New Zealand is a fundamental part of our due process requirements, the nature of the proposals and constituents’ previous feedback leave us with several concerns about exposing ED 84 in New Zealand in its current form.

Similarity to IPSASB ED 64

20. As noted above, the proposals in ED 84 are very similar to those previously exposed by the IPSASB in ED 64. When ED 64 was exposed for comment in 2018, strong feedback was received that recognising concessionary leases at fair value was inappropriate. This is true of the responses received by the IPSASB internationally as well as the New Zealand responses received.
21. While the specific measurement basis for concessionary leases in ED 84 is present value of market lease payments rather than fair value (as originally proposed), we do not consider that this change is sufficient to address the concerns raised by respondents to ED 64 about the cost of adopting a market-based measurement approach for concessionary leases. Therefore, we are concerned that exposing ED 84 in New Zealand as it is, presents a risk of the XRB being perceived as an organisation that does not value and respond to our constituent' feedback (i.e we could be seen as asking the same questions again).

Subsequent measurement

22. While ED 84 proposes specific requirements for the initial measurement of the ROU asset and lease liability in a concessionary lease, it does not propose any specific requirements for subsequent measurement within IPSAS 43. Our assumption is that this implies preparers are expected to apply the general subsequent measurement requirements already in IPSAS 43 for ordinary leases. However, there is no explicit statement to this effect.
23. We consider that this is a fundamental flaw with the proposals in ED 84. Under the cost model a ROU asset is subsequently measured by adjusting the ROU asset for accumulated depreciation, accumulated impairment losses, **and for any remeasurement of the lease liability**. In order for such remeasurement of the ROU asset to be appropriate it is necessary that the ROU asset and lease liability remain fundamentally linked. ED 84 explicitly breaks this link by requiring the ROU asset to be measured based on the present value of market lease payments while measurement of the lease liability remains based on the present value of the contract lease payments.
24. For example, suppose there is a lease modification which increases the term of the lease. Under the proposals in ED 84, it is not clear whether the ROU asset is remeasured and if so whether it is remeasured:
 - (a) based on the change in the lease liability;
 - (b) by recalculating for the new lease term using the market lease payments used in the initial calculation; or
 - (c) by recalculating for the new lease term based on an updated assessment of market lease payments.
25. Retaining this ambiguity presents a significant risk of diversity in practice with preparers each reaching their own interpretation of how the model applies. We consider that additional guidance is needed on how to apply the subsequent measurement requirements in IPSAS 43 to ensure they will be understood and applied consistently.

Feedback received on ED PBE IPSAS 43 – NFP Sector

26. The Board recently consulted on ED PBE IPSAS 43 *Leases* which proposed requirements for lessees to recognise most leases on the balance sheet, using the ROU model. The proposals were based on the IPSASB's IPSAS 43 *Leases*, which is in turn aligned with the for-profit standard NZ IFRS 16 *Leases*.

27. ED PBE IPSAS 43 included an NZ specific scope clarification for concessionary leases as an interim measure until specific requirements for concessionary leases were developed. The ED clarified that concessionary leases are within the scope of PBE IPSAS 43 – but are to be accounted for based on the lease payments as per the lease agreement, rather than at market terms or at fair value.
28. Feedback received on ED PBE IPSAS 43 was mixed. Respondents from the not-for-profit (NFP) sector expressed concerns regarding the cost/benefit aspect of the proposals and did not support introducing the ROU model for the NFP sector. Generally, these respondents were concerned that the requirements of the ROU model were *overly complex* and that the *costs of applying these requirements would outweigh the benefits for NFP* entities due to the different challenges faced by the NFP sector in applying these requirements.³
29. The most frequently expressed concern for NFP entities relates to determining the appropriate discount rate to be used in calculating the lease liability and ROU asset. Respondents highlighted that most NFPs do not have borrowings/debt and therefore would not have the inputs needed to determine the incremental borrowing rate for discounting their leases.
30. Because the proposals on accounting for concessionary leases in ED 84 are dependent on the ROU model in IPSAS 43, our view is that the concerns raised by the NFP sector above are equally as relevant to concessionary leases as they are to ordinary leases at market rates. We consider that there will be an expectation among our constituents that the concerns raised about the ROU model should be considered before exposing further requirements related to accounting for concessionary leases.

Feedback received on ED PBE IPSAS 43 – Public Sector

31. While there was general support for the proposals from the public sector, the Treasury’s submission raised specific concerns in relation to developing requirements for concessionary leases. While the Treasury agreed with the scope clarification for concessionary leases, they only agreed to it as an interim measure and they considered that future requirements on concessionary should have a far broader scope than those currently proposed in ED 84. They recommend that as part of the next phase of the project, we take the following actions.
 - (a) Consider whether certain concessionary leases that meet the definition of a lease should nevertheless be excluded from the scope of PBE IPSAS 43 – They think this should be considered because the IFRS 16-based ROU model reflected in ED PBE IPSAS 43 is based on the ‘foundational presumption’ that leases are financing arrangements, whereas many concessionary leases are not financing arrangements, even though they meet the definition of a lease as per ED PBE IPSAS 43. They note that most public sector concessionary leases can be described as:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for a commitment to carry out an activity from which the lessor benefits indirectly (e.g. a complementary activity to the lessor’s activity) but not directly (e.g. (e.g. nil or nominal consideration, or consideration set without reference to markets or where the lessor does not seek a financial return, is received)”

They question whether such arrangements should be thought of as leases (even if they meet the definition of a lease) and they consider that “characterising a concessional lease as an operating subsidy is a more fair reflection of its economic substance than reporting it as a financial obligation”.

³ The feedback received on ED PBE IPSAS 43 is discussed in detail in agenda item 6.1A

- (b) Consider a broader range of 'right to use' arrangements (which might not meet the definition of a lease) that the public sector is involved in – The Treasury notes that in the public sector, there various 'rights to use' arrangements relating to property that involve transferring rights to a lessee, or to a proprietor/kaitiaki, or to a lessee. These rights may include a right to use the asset, a right to direct its use, or both. They recommend taking a holistic approach to the development of financial reporting requirements applicable to public sector arrangements involving the transfer of rights over property (which may or may not meet the definition of a lease as per PBE IPSAS 43). Specifically, the Treasury notes the following:

“Lease contracts are just one way to reflect a transfer of rights of use from an owner or kaititaki to a lessee. Other arrangements besides lease contracts may be used to transfer similar rights in the public sector. If financial reports are to fairly reflect the rights of a public sector entity, other bundles of rights than access, withdrawal and management should be provided for. A holistic approach that fully reflects the attributes of rules and rights that apply over the use of assets in the public sector is likely to be a much better fit for purpose than an accounting approach derived simply from private sector lease contracts.”

32. While we think there is merit in considering these points, we consider that doing so in a fulsome manner requires significant time and resources. It would likely require a full domestic project to develop NZ specific requirements for concessionary leases and ROU assets in-kind which is outside of the scope contemplated by our current project. We do not consider it is feasible to complete this work at this time, but considering these issues in the future is something the Board may wish to do.
33. Regardless of the Board's preference for considering these issues now or in the future, due to the time we expect it will take to consider these issues in depth, our view is that an interim solution is required. Once an interim solution is in place we can revisit with the Board whether to explore a broader project covering the issues raised by the Treasury.

Additional cost-benefit considerations

34. We are concerned that, in addition to applying the ROU model to leases generally, the cost to many PBEs of measuring concessionary leases based on the “present value of payments for the lease at market rates based on the current use of the underlying asset” will exceed the benefits. These concerns are supported by previous comments received from New Zealand constituents.
35. Determining the market value for an asset is already a complex and judgemental process which frequently requires entities to engage a professional valuation expert. This process becomes considerably more complex when the asset being measured is specialised or is subject to restrictions over its use, both of which are common for PBEs in New Zealand.
36. Given that the proposals in ED 84 require an entity to determine the market lease payments for the asset based on its current use, we expect that any restrictions on the use of the leased assets will likely impact the measurement of the market lease payments. We are also aware that many restrictions are unique to the particular assets being leased or are, at least, uncommon. We are concerned that in many cases it may not be possible to find any market data for an asset which is sufficiently similar in its nature, current use, and subject to similar restrictions - such that it could be considered sufficiently comparable to the ROU asset being measured. Where this is the case, the degree of judgement required in determining the market lease payments based on the asset's current use will be significant. We therefore expect that complying with the requirements proposed in ED 84 will impose substantial costs for PBEs (including time cost, financial cost, or both).

37. We acknowledge that IPSASB ED 84 includes an exception from accounting for ROU assets arising from concessionary leases based on the present value of market lease payments (based on the assets current use) when information about the market lease payments is not readily available. We note that no guidance is proposed on determining when market rates are deemed to be not readily available. However, we note that the following is included in the proposed Basis for Conclusions on the topic.
- BC132. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset as a result of a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty of measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets).*
- BC133. When initially measuring the right-of-use asset in a concessionary lease, the IPSASB expects preparers to apply a reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset. The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.*
38. However, we are still somewhat concerned by the ambiguity around what constitutes a “reasonable level of effort” and that PBEs may need to spend time and effort to ‘prove’ that market rates are not readily available for certain concessionary leases.
39. From a technical perspective, the IPSASB’s primary rationale for requiring market-based measurement of ROU assets arising from a concessionary lease (or received as an ROU asset in-kind) is that doing so is consistent with the IPSASB’s literature on the accounting for non-exchange transactions including concessionary loans. In IPSAS, assets acquired through non-exchange assets are required to be measured at fair value.
40. From a practical perspective, the IPSASB note that the public sector is accountable for the effective and efficient use of all resources made available to them. They consider the recognition of ROU assets arising from concessionary leases and received in-kind based on market lease payments will increase accountability and allow the full cost of service delivery to be recognised (due to depreciation of the ROU asset recognised based on market lease payments). This is based on the principle that “what is measured is managed” and therefore the value of the concession received should be recognised.
41. However, it is not clear to us that the only means by which useful information about concessionary leases or ROU assets in-kind can be provided is by measuring them at the present value of market lease payments. Nor do we consider it is clear that measuring the assets in this way is superior to other approaches to reporting on concessionary leases (such as disclosures) in terms of the benefits it provides to users.
42. We note that in developing AASB 16 *Leases* the Australian Accounting Standards Board (AASB) considered similar challenges for NFP entities (NFP public and private sector). The AASB concluded that disclosures provided sufficient information for users about concessionary leases. This view was supported by constituent feedback and ultimately resulted in AASB 16 allowing NFP entities an accounting policy choice between recognising the ROU assets arising from concessionary leases at fair value or at cost with supporting disclosures about the nature and terms of the concessionary lease.

Options for responding to IPSASB ED 84

43. Taking into account the concerns raised above we have identified three possible approaches to exposing and developing a response to ED 84.

- (a) **Option 1:** Issue ED 84 as usual for comment in New Zealand and using feedback received to develop NZASB submission to IPSASB.
- (b) **Option 2:** Issue ED 84 with an accompanying New Zealand specific overlay outlining an alternative disclosure only approach.

In this way we will encourage feedback on whether constituents support the IPSASB approach or an alternative disclosure only approach developed by NZASB (in response to New Zealand feedback received on earlier consultations). We will also be able to explain that the approach proposed in the overlay was developed in response to the concerns raised by stakeholders during previous consultations.

The NZ specific disclosure only approach could be based on the disclosures required by the Australian model set out in AASB 16 *Leases* when an entity elects to measure ROU assets arising from concessionary leases at cost rather than fair value.

- (c) **Option 3:** Do not issue ED 84 at all and proceed to develop a New Zealand specific approach for concessionary leases and ROU assets in-kind (this would be issued for public consultation). This scope of this option is considerably more flexible than options 1 and 2. For example, depending on the Board’s preference the project could range from developing disclosure only requirements (as per option 2) to a long-term domestic project considering concessionary leases, ROU assets in-kind, and other lease-like arrangements in detail.

42. Under all options staff suggest a broader holistic review all lease type arrangements that arise in the public sector (i.e. considering the broader questions raised by Treasury in their submission) in a future project – after a PBE Standard with the requirements principles for common lease arrangements has been finalised.

Table 2 advantages and disadvantages of each option

Approach	Staff comments
<p>Option 1: Issue ED 84 and determine an appropriate response to the IPSASB based on the outcome of the consultation.</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Follows the ordinary process for incorporating an IPSAS into the PBE Standards. • No additional content is required to be drafted by XRB staff. • Promotes alignment with international standards. <p>Disadvantages</p> <ul style="list-style-type: none"> • Feedback from constituents may continue to indicate that the costs of requiring NZ PBEs to measure their concessionary leases based on the present value of market lease payments exceeds the benefits. In this case we may then be required to develop and expose a NZ specific approach at a later stage. That is, consulting now without an NZ specific approach may only serve to delay the project and increase its costs while ultimately resulting in the same outcome.

Approach	Staff comments
	<ul style="list-style-type: none"> • Does not respond to constituents' views expressed in the prior consultation on ED 64. Given the strong disagreement expressed with the proposed accounting requirements for concessionary leases, this approach could make it appear that the XRB have ignored their feedback and we are asking them to raise the same concerns again without giving them any confidence that we will take their feedback into account. • If the issues raised in the Treasury submission are considered at a later stage, could result in significant changes in the accounting treatment of concessionary leases for some PBEs. This would impose significant costs on these entities by requiring them to apply the ROU model to concessionary leases and ROU assets in-kind, and then subsequently change their approach.
<p>Option 2: Issue ED 84 with an accompanying NZ specific overlay – may be based on the cost model with disclosures as in AASB 16</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Acknowledges and responds to the views previously expressed by constituents on accounting for concessionary leases. • Allows for modifications to make the treatment of concessionary leases more reflective of the costs and benefits in the NZ context. • Can be done relatively quickly, particularly if based on the requirements in AASB 16. • If based on AASB 16, will result in requirements that are more closely aligned with Australia. • Allows for further consideration of the issues in the Treasury submission at a later stage – potentially as part of a post-implementation review. • Will allow finalisation of PBE IPSAS 43 including specific requirements for concessionary leases (see agenda item 6.1A) in a timely manner. <p>Disadvantages</p> <ul style="list-style-type: none"> • Treatment of the non-exchange portion of a concessionary lease transaction will not be aligned with international standards.

Approach	Staff comments
<p>Option 3: Do not issue ED 84 and instead move ahead of IPSASB and develop an NZ specific approach (This option may or may not involve considering the comments made in the Treasury submission)</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Will allow for development of accounting requirements for concessionary leases that are specifically tailored for NZ. • Responsive to constituents’ comments from earlier consultations and requests to consider a broader range of transactions. <p>Disadvantages</p> <ul style="list-style-type: none"> • Does not follow ordinary due process requirements. • Will require a significant domestic project which, we consider would require substantial time and resources. • Depending on the scale of the project, could prevent an NZ ED on concessionary leases and ROU assets in-kind being issued until 2024. • Depending on the final approach to issuing PBE IPSAS 43 the Board agrees on, it could result in a ‘two stage’ implementation with PBEs needing to significantly amend their accounting treatment for concessionary leases in the future (see agenda item 6.1A) • May not be aligned with international standards.

44. Based on the advantages and disadvantages outlined in Table 2 above, we recommend that the Board proceed with option B which we consider appropriately meets our obligations to develop accounting standards which are appropriate for NZ while also fulfilling our due process requirements.

45. In reaching this conclusion, we have also considered the PBE Policy Approach. While in most cases the trigger for considering the PBE Policy approach is the issuance of a new or amended IPSAS, because we are recommending the development of independent domestic requirements our view is that it is necessary to consider the PBE Policy Approach at this stage. Our analysis is included in [appendix A](#).

Questions for the Board

Q1. Does the Board agree with the staff recommendation to proceed with Option 2 and expose ED 84 with an accompanying NZ specific overlay which outlines an alternative disclosure only approach?

Developing the NZ specific overlay

46. We note that in undertaking the recommended approach of issuing ED 84 with an accompanying NZ overlay there is significant time pressure as they will need to be issued shortly following this Board meeting. A possible method of developing the overlay is to use the requirements in AASB 16 as a starting point which can then be tailored for application by NZ PBEs.

47. AASB 16 allows for an accounting policy choice between measuring ROU assets in a concessionary lease at fair value or at cost. Where an entity elects to measure their ROU assets at cost, AASB 16 requires the entity to disclose information that helps users of financial statements to assess:

- (a) the entity’s dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and
- (b) the nature and terms of the leases, including:

- (i) the lease payments;
 - (ii) the lease term;
 - (iii) a description of the underlying assets; and
 - (iv) restrictions on the use of the underlying assets specific to the entity.
48. The requirements relevant to concessionary leases from AASB 16 have been included in [appendix B](#) for reference. To illustrate what these requirements look like in practice, some extracts from financial statements have been included in [appendix C](#).
49. Our recommendation is that the NZ specific requirements to be included in the overlay should be developed using the requirements in AASB 16 as a starting point. We consider that this is the most appropriate approach for the following reasons.
- (a) The AASB faced similar issues when developing their requirements for concessionary leases and in response to this feedback developed the approach outlined above.
 - (b) This approach will be more efficient and allow for the proposals in the NZ overlay to be developed faster than if the requirements were to be drafted from scratch.
 - (c) As AASB 16 and IPSAS 43 are both based on IFRS 16 there should be minimal modification needed to reflect the NZ PBE context beyond that already required in adapting IPSAS 43 for application in NZ.
 - (d) The approach will promote trans-Tasman alignment which we consider is relevant to some larger NFP PBEs in NZ which operate across jurisdictions.

Question for the Board

Q2. Does the Board agree with the staff recommendation to develop the alternative approach for inclusion in the NZ overlay based on the requirements of AASB 16 which allows ROU assets arising from a concessionary lease or received in-kind to be measured at cost with additional disclosures?

50. As noted above, the requirements in AASB 16 allows for an accounting policy choice between cost and fair value when measuring the ROU assets arising from a concessionary lease. While the wording of the requirements can be easily updated to reflect the accounting policy choice to measure concessionary leases based on the “present value of payments for the lease at market rates”, considering the responses received on ED PBE IPSAS 43, we are uncertain about whether there would be a significant number of PBEs who would make such an election in practice.
51. If in practice, all or almost all, entities applying the requirements for concessionary leases would elect to measure their ROU assets at cost with additional disclosures, the complexity of the standard and the amount of XRB resources required in its development could be significantly reduced by not allowing for such an election. To allow the option of measuring concessionary leases and ROU assets in-kind based on the “present value of payments for the lease at market rates based on the current use of asset” (as proposed in ED 84 will required significant effort to introduce this approach in a PBE standard (due to significant concerns we have with the draft ED 84 in regard to completion and clarity of applying this approach).
52. We also consider that there is a risk to comparability of allowing for an accounting policy choice due to the significant impact measuring ROU assets based on the present value of market lease payments

could have on the financial statements of PBEs (in the form of additional revenue for the concession as well as the value of the ROU asset and the associated depreciation).

53. We therefore recommend developing the NZ overlay on the basis that we consider a disclosure only approach is most appropriate for NZ. This would also include an explanation that the Board considered whether an accounting policy choice between measuring ROU assets arising from concessionary leases at the present value of market lease payments and at cost with additional disclosures should be allowed but concluded not to allow the option for the following reasons.
- (a) Based on previous feedback from constituents, we do not consider there are many entities that would elect to measure their concessionary leases based on the present value of market lease payments.
 - (b) Allowing for a choice between the two approaches could have significant impacts on comparability between entities that elect to apply the disclosure only model and those that do not.
 - (c) We consider that in the NZ context, a disclosure only approach would be more efficient while providing the same (or similar) benefits as the approach proposed in ED 84.
 - (d) A disclosure only approach allows for development of an appropriate approach for NZ to be developed and finalised before PBE IPSAS 43 becomes effective. This means that NZ entities can transition to PBE IPSAS 43 for both ordinary leases at market rates and concessionary leases at the same time.
 - (e) Not allowing for an accounting policy choice reduces the overall complexity of applying the standard.
 - (f) Taking a disclosure only approach at this stage allows further refinement of the model for other NZ specific issues in the future.
54. We also recommend including a question in the overlay on whether constituents agree with our rationale for not allowing an accounting policy choice and, if not, why they disagree.
55. We note that the OAG stated in their submission on ED PBE IPSAS 43 that there are some public sector entities which currently fair value the concessionary component of their concessionary leases and expressed a preference for allowing these entities to continue applying this approach until the approach for concessionary leases is finalised. However, in their response they did not give any indication of how many entities would be affected. We consider that including this question will allow for any entities who elect to fair value their concessionary leases to provide their rationale for doing so.

Question for the Board

- Q3. Does the Board agree to develop the NZ overlay on the basis that we are proposing a disclosure only model rather than allowing an accounting policy choice?
- Q4. Does the Board agree to seek constituent feedback on whether they agree with our rationale for proposing a disclosure only approach as outlined above?

56. To allow constituents enough time to consider ED 84 we will need to issue it, along with the accompanying NZ overlay, shortly after this Board meeting. Our expectation is that the NZ overlay can be finalised and ED 84 issued in early March.

57. We recommend allowing for a 60-day comment period with the consultation closing on Monday 1 May 2023. This approach allows sufficient time for staff to develop a response to the IPSASB ED for the Board's consideration at its meeting on 11 May 2023. Staff can then address any Board comments ahead of the IPSASB consultation deadline of 17 May 2023.
58. To meet the above timeframe, we recommend establishing a smaller focus group of 3-4 Board members with an interest in the project to finalise the NZ approach for the overlay.

Question for the Board

- Q5. Does the Board agree with the staff recommendation to establish a smaller focus group of 3-4 NZASB members to develop the NZ approach and the overlay to be issued for consultation alongside ED 84?

Next steps

59. If the Board agrees with the staff recommendations outlined in this memo then we will:
- (a) commence work on developing the NZ approach and overlay based on the disclosure requirements in AASB 16;
 - (b) circulate the draft NZ overlay and approach to the focus group for consideration in the week ending Friday 24 February (we will however still send a copy to the entire Board);
 - (c) amend the NZ overlay based on focus group feedback and seek approval to issue alongside ED 84 in early March (this can be done either via circularisation or via the Chair based on Board preference).

Attachments

Agenda item 6.2: IPSASB ED 84, *Concessionary Leases and Right-of-Use Assets In-Kind*

Appendix A

Application of the PBE Policy Approach

Relevant paragraphs from the PBE Policy Approach	Staff comments in terms of developing proposed NZ requirements for concessionary leases ahead of the IPSASB
<p>Development principle (general)</p> <p>19. In accordance with the New Zealand Accounting Standards Framework, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:</p> <p>(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups and NFP PBE groups, than would be the case if the development was not made; and</p>	<p>Yes – developing NZ specific requirements for concessionary leases and right-of-use assets in-kind will allow for these arrangements to be appropriately recognised and disclosed in the financial statements of all PBEs. It will allow for NZ PBEs to fully transition their lease accounting to the right-of-use model set out in IPSAS 43 (which is based on IFRS 16) based on contractual lease payments.</p>
<p>(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:</p> <p>(i) relevance to the PBE sector as a whole: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;</p>	<p>Transactions involving concessionary leases and right-of-use assets in-kind are common across the whole PBE sector, including both public sector and not-for-profit entities.</p>
<p>(ii) relevance to the NFP or public sector sub-sectors: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are</p>	

<p>developed to meet the needs of users of the financial reports of public sector entities;</p>	
<p>(iii) coherence: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);</p>	<p>Adoption of an NZ specific approach to accounting for concessionary leases and right-of-use assets in-kind can be done without affecting application of the right-of-use model to ordinary leasing transactions.</p>
<p>(iv) the impact on mixed groups; and</p>	<p>Development of an NZ specific approach to accounting for concessionary leases and right-of-use assets in-kind will reduce the compliance burden on mixed groups by allowing for all transactions involving a lease to be accounted for similarly using the right-of-use model based on contractual lease payments.</p>
<p>(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard that is relevant to PBEs, the IPSASB’s likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).</p>	<p>N/A – not in response to a new or amended IFRS.</p>
<p>New or amended IPSAS</p> <p>22. There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS.</p>	<p>As per our comments in relation to paragraph 25 below we are rebutting the presumption that we will adopt any amended IPSAS based on the proposals in IPSASB ED 84.</p>
<p>23. This rebuttable presumption is based on the expectation that the IPSASB’s due process has considered the needs of the wide range of users of public sector financial statements in developing and issuing a new or amended IPSAS. Therefore, it is presumed that a new or amended IPSAS will lead to higher quality financial reporting by PBEs in New Zealand in accordance with factors (a) and (b) of the development principle, in the absence of reasons to the contrary (refer to paragraph 25).</p>	

<p><i>Amending a new or amended IPSAS</i></p> <p>24. Depending on the circumstances, it may be appropriate to amend a recently issued new or amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:</p> <ul style="list-style-type: none"> (a) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance or making changes to enhance the clarity and consistency of the requirements to enable public sector PBEs and NFP PBEs to apply the standard consistently; (b) adding guidance to assist NFP PBEs in applying the standard, given that the standard has been developed for application by public sector PBEs; (c) amending as necessary to reduce any significant costs for mixed groups in the New Zealand context, to the extent that these costs can be reduced while still meeting the needs of users of PBE financial statements (see paragraph 18); (d) amending as necessary to maintain the coherence of the suite of PBE Standards; (e) excluding options that are not relevant in the New Zealand context; or (f) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for NFP PBEs. 	<p>N/A – we are planning to develop an NZ specific approach and are therefore rebutting the presumption and not adopting a new or amended IPSAS.</p>
<p><i>Rebutting the presumption and not adopting a new or amended IPSAS</i></p> <p>25. Depending on the circumstances, it may be appropriate to rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS,</p>	<p>While the IPSASB has not yet issued an amendment to IPSAS 43 for concessionary leases, based on the history of the project our expectation is that the final standard will be substantially similar to</p>

<p>or part(s) thereof. Given that PBE Standards are based primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:</p> <p>(a) adoption of a new or amended IPSAS would not be either appropriate or relevant (based on the development principle); and</p> <p>(b) the costs of adoption of a new or amended IPSAS would outweigh the benefits to users of PBE financial reports.</p>	<p>IPSASB ED 84. As this is our expectation we consider that we are therefore pre-emptively rebutting the presumption and not adopting the forthcoming amended IPSAS 43.</p> <p>The basis for reaching this conclusion is in accordance with 25(b) of the PBE policy approach. Our rationale is fully explained in the main section of this memo. At a high level we have received significant feedback from our constituents in the past that accounting for concessionary leases and right-of-use assets in-kind using any kind of market-based measure would be excessively costly and impractical.</p> <p>We also do not consider that the benefits of accounting for these transactions using market-based measures have been clearly articulated. Therefore, our conclusion is that in this case the costs of adopting a future IPSAS based on IPSASB ED 84 are likely to exceed the benefits in NZ.</p>
<p>26. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:</p> <p>(a) its decision and rationale for the decision, including reference to the relevant factors of the development principle; and (b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.</p>	<p>Our decision not to adopt a future IPSAS based on IPSASB ED 84 and to instead develop NZ specific requirements will be communicated to the XRB Board soon after the NZASB reaches its final decision.</p>
<p>Domestic Developments</p>	<p>We are rebutting the presumption and not adopting any future IPSAS based on the proposals in IPSASB ED 84, and instead developing</p>

<p>43. In determining whether to initiate the development of a domestic standard for inclusion in the suite of PBE Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context, or whether such an international pronouncement is expected to be developed within an acceptable timeframe.</p>	<p>domestic requirements on accounting for concessionary leases and right-of-use assets in-kind.</p> <p>As discussed above, we are satisfied that developing domestic requirements will improve the quality of financial reporting by PBEs per 19 above.</p>
<p>44. The New Zealand Accounting Standards Framework presumes that the NZASB will use international standards or guidance as a starting point for developing PBE Standards rather than developing domestic standards whenever possible, for a range of reasons, including:</p> <p>(a) the quality derived by an international due process;</p> <p>(b) the prospect of international comparability; and</p> <p>(c) the limited resources available for the domestic development of standards.</p>	<p>While there is (or will be) an international pronouncement on accounting for concessionary leases and right-of-use assets in-kind, we do not consider that it is appropriate for application in New Zealand.</p> <p>Based on past feedback we have received, we do not consider that international comparability is important in this case for PBEs.</p> <p>While we are mindful of the limited resources available for the domestic development of standards, in this case we anticipate the resources required will be limited by the fact that we can use the requirements in AASB 16 as a starting point. Further, we consider that there will be significant benefits in developing an approach to accounting for concessionary leases and right-of-use assets in-kind that is appropriately tailored to NZ PBEs.</p>
<p>45. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:</p> <p>(a) there is no other source of material available internationally; or</p>	<p>We considered whether IPSASB ED 84, which we do not expect to significantly change before the IPSASB issue a final pronouncement, could be amended to be appropriate for NZ. However, we do not consider that its fundamental objective of requiring concessionary</p>

<p>(b) the available international guidance is not targeted specifically towards addressing New Zealand issues.</p>	<p>leases and right-of-use assets in-kind to be measured at market rates appropriately addresses New Zealand issues as per 45(b).</p> <p>We consider that the Australian Standard AASB 16 <i>Leases</i> could form an appropriate basis for developing domestic requirements on accounting for concessionary leases and right-of-use assets in-kind. We intend to use these requirements as a starting point in developing the domestic requirements.</p>
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Appendix B

Relevant paragraphs from AASB 16 on accounting for concessionary leases

Measurement

Initial measurement

Initial measurement of the right-of-use asset

...

Aus25.1 Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit entity, the lessee may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value in accordance with AASB 13 *Fair Value Measurement* for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

Aus25.2 Right-of-use assets arising under leases that have significantly below-market terms and conditions principally to enable a not-for-profit entity to further its objectives may be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases, despite their similar nature and use in the entity’s operations. Identifying separate classes of right-of-use assets despite their similar nature and use in the entity’s operations applies for the purposes of this Standard and other Standards that refer to classes of assets. However, this approach shall not be applied by analogy to distinguish sub-classes of other assets as separate classes of assets.

...

Disclosure

...

Aus59.1 In addition to the disclosures required in paragraphs 53–59, where a lessee is a not-for-profit entity and elects to measure a class or classes of right-of-use assets at initial recognition at cost in accordance with paragraphs 23–25 for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives, the lessee shall disclose additional qualitative and quantitative information about those leases necessary to meet the disclosure objective in paragraph 51. This additional information shall include, but is not limited to, information that helps users of financial statements to assess:

- (a) the entity’s dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and
- (b) the nature and terms of the leases, including:
 - (i) the lease payments;
 - (ii) the lease term;
 - (iii) a description of the underlying assets; and
 - (iv) restrictions on the use of the underlying assets specific to the entity.

Aus59.2 The disclosures provided by a not-for-profit entity in accordance with paragraph Aus59.1 shall be provided individually for each material lease that has significantly below-market terms and conditions principally to enable the entity to further its objectives or in aggregate for leases involving right-of-use assets of a similar nature. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

...

Effective date and transition

...

Transition

...

AusC5.1 Not-for-profit entities electing to measure a class of right-of-use assets at initial recognition at fair value and applying this Standard retrospectively in accordance with paragraph C5(a) to leases that at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives shall:

- (a) measure each right-of-use asset in the class at fair value;
- (b) measure the lease liability in accordance with this Standard; and
- (c) recognise any related items in accordance with paragraph 9 of AASB 1058 *Income of Not-for-Profit Entities*.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest prior period presented.

AusC5.2 Notwithstanding paragraph AusC5.1, not-for-profit entities that adopted AASB 1058 in an earlier reporting period are not required to remeasure the fair value of the right-of-use asset arising from leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117. Instead, the entity shall transition those leases in accordance with paragraph C11, regardless of which transition option in paragraph C5 is applied.

...

AusC8.1 Not-for-profit entities electing to measure a class of right-of-use assets at initial recognition at fair value and applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as operating leases applying AASB 117 shall:

- (a) notwithstanding paragraph C8(b), measure each right-of-use asset in the class at fair value at the date of initial application of this Standard;
- (b) measure the lease liability in accordance with paragraph C8(a); and
- (c) recognise any related items in accordance with paragraph 9 of AASB 1058.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

...

AusC11.1 Subject to paragraph AusC5.2 and notwithstanding paragraph C11, not-for-profit entities electing to measure a class of right-of-use assets at initial recognition at fair value and applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117 shall:

- (a) measure each right-of-use asset in the class at fair value at the date of initial application of this Standard;
- (b) measure the lease liability in accordance with this Standard; and
- (c) recognise any related items in accordance with paragraph 9 of AASB 1058.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard

Appendix C

This appendix includes some example disclosures from NFP and Public Sector entities applying AASB 16 (or model financial statements applying AASB 16) which elect to measure their concessionary leases at cost. Links to the annual reports of the entities have been included for reference.

<p>Willoughby City Council</p>	<p style="text-align: right;">---</p> <p>(f) Leases at significantly below market value – concessionary / peppercorn leases</p> <p>Council has a number of leases at significantly below market for land and buildings which are used for:</p> <ul style="list-style-type: none"> • Zenith Theatre • Joe Ciantar Rehearsal Studio • Castle Cove Library • Willoughby Girls High Playing Fields • Frank Channon Walkway • West Chatswood Library • Various waterways • Vehicle bridge 15 Herbert St - St Leonards • Land adjoining Artarmon Railway station • Upper Lane Cove River jetty <p>The leases have varying terms and require payments of less than \$1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.</p> <p>None of the leases in place are individually material from a statement of financial position or performance perspective.</p>
--	--

<p>The Salvation Army Australia</p>	<p>Leases with significantly below-market terms and conditions ('Peppercorn')</p> <p>The Social Fund has the right to use a number of properties for no or nominal rental payments in order to further the entity's not-for-profit objectives. The lease terms for these properties range from 1 - 92 years. The Social Fund is permitted to continue to use the properties provided that The Salvation Army's status as a not-for-profit entity does not change and that it continues to operate for the benefit of the community.</p> <p>The Social Fund elected to measure the right of use asset arising from these leases at cost, which is based on the associated lease liability. The carrying amounts attributable to Peppercorn leases were as follows:</p> <table border="1" data-bbox="680 568 1868 799"> <thead> <tr> <th></th> <th style="text-align: right;">2022</th> <th style="text-align: right;">2021</th> </tr> <tr> <th></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Right of use assets</td> <td style="text-align: right;">2,020</td> <td style="text-align: right;">87,461</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;">(505)</td> <td style="text-align: right;">(72,121)</td> </tr> <tr> <td>Total lease liability</td> <td style="text-align: right;">1,548</td> <td style="text-align: right;">15,399</td> </tr> </tbody> </table>		2022	2021		\$	\$	Right of use assets	2,020	87,461	Accumulated depreciation	(505)	(72,121)	Total lease liability	1,548	15,399
	2022	2021														
	\$	\$														
Right of use assets	2,020	87,461														
Accumulated depreciation	(505)	(72,121)														
Total lease liability	1,548	15,399														
<p>Transport for NSW</p> <p><i>Annual Report 2021-22 Volume 2</i></p>	<p>Leases at significantly below-market terms and conditions principally to enable the entity to further its objectives</p> <p>The consolidated entity has a 98-year lease with Infrastructure NSW to accommodate amenities and infrastructure required to operate the Barangaroo Ferry Hub. The leased premises must only be used for this purpose. The lease contract specifies a lease payment of \$1.</p> <p>The consolidated entity had leases with various government agencies for periods between 1 to 5 years. The lease premises are used by the consolidated entity in order to obtain access to the sites in order to undertake Sydney Metro construction works. The lease contracts specify lease payments between \$1 and \$100 per annum.</p> <p>These leases do not have a significant impact on the consolidated entity's operations. The initial and subsequent measurement of right of use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the consolidated entity to further its objectives is the same as normal right of use assets. They are measured at cost, subject to impairment.</p>															

<p>NSW Health</p>	<p>26. Leases (continued)</p> <p>(a) Entity as a lessee (continued)</p> <p>The parent entity had total cash outflows for leases of \$33.36 million for the year ending 30 June 2022 (2021: \$30.6 million).</p> <p>Leases at significantly below market terms and conditions principally to enable the entity to further its objectives</p> <p>The consolidated entity entered into a number of leases, with lease terms ranging from 1 to 99 years with various organisations, including local councils, health charities, Catholic churches and other NSW State entities for the use of various community health buildings. There are also some leases for the use of various helipads across the state. These contracts generally specify lease payments of \$Nil or negligible amounts per annum, and the leased premises are used by the consolidated entity to provide different community health services and access to helipads. These community health buildings and helipads account for a small portion of similar assets used by the consolidated entity for the purposes of providing health services. Therefore, these lease arrangements do not have a significant impact on the consolidated entity's operations.</p>
<p>Sydney Local Health District</p>	<p>Leases at significantly below market terms and conditions principally to enable the entity to further its objectives</p> <p>SLHD entered into a number of leases, with lease terms ranging from 1 to 5 with various local councils for the use of community health buildings. The contract specifies lease payments of \$Nil (2021: Nil) per annum. The leased premise is be used by SLHD to provide different community health services. The community health buildings account for a small portion of the similar assets SLHD is using for the purpose of providing community services. Therefore it does not have a significant impact on SLHD's operations.</p>

<p>NSW Communities and Justice</p>	<p>Leases at significantly below-market terms and conditions principally to enable the Department to further its objectives</p> <p>The Department has the following major categories for concessionary leases in 2021-22:</p> <ul style="list-style-type: none"> (i) The Department entered into a 16 year lease from 1 October 2017 and a 3 year lease from 1 July 2020 with the NSW Land and Housing Corporation (LAHC) for lease payments of \$1 per annum. The 16 year lease is for the use of 13 residential buildings to provide specialist disability accommodation under the NDIS. These buildings are subleased to the non-government organisations (NGOs) and account for a small portion of similar assets the Department is providing for the purpose of specialist disability accommodation under the NDIS. The 3 year lease is for the purpose of an Integrated Child and Family Centre. Therefore, it does not have a significant impact on the Department's operation. <p>As a Lessee (cont'd)</p> <ul style="list-style-type: none"> (ii) The Department entered into 5 separate lease agreements of 10 to 40 years of lease with the local councils, Police Citizens Youth Clubs NSW, Health Administration Corporation NSW and Minister for Education NSW for the use of these community centres. The lease contract specifies lease payments of \$1 per annum. The leased premises must be used for integrated delivery of services for children, families and communities and as Aboriginal Child and Family Centres. These properties are subleased to the NGOs and account for a small portion of the similar assets the Department is providing as community centres. Therefore, it does not have a significant impact on the Department's operation.
<p>ACT Model Financial Statements for Directorates and Territory Authorities</p>	<p>Concessionary land leases (also referred to as peppercorn leases)</p> <p>The Agency has a 30 year concessionary lease from 'ABC Agency' for use of land. The lease expires in 2044, with a rental of \$xxx per year which is well below market value. 'Burley Griffin Agency' is dependent on the use of the land to further its objectives of conducting ecological studies and using the results to provide policy advice to Government. The land is restricted to provision of community services in accordance with the objectives of the Agency to local residents.</p>

Exposure Draft 84
January 2023
Comments due: May 17, 2023

IPSAS®

Proposed International Public Sector Accounting Standard®

Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft (ED), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23), was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 17, 2023.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF file and a Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB’s Leases Project

In January 2018, the IPSASB published [ED 64, Leases](#) proposing a single right-of-use model for lease accounting that would replace the risks and rewards incidental to ownership model adopted in [IPSAS 13, Leases](#). ED 64 also proposed new public sector-specific accounting requirements for leases at below-market terms (also known as "concessionary leases") for both lessors and lessees.

After careful consideration of the feedback received, the IPSASB decided not to proceed with the proposed accounting model in ED 64, but instead to adopt a phased approach to this project, as follows:

- (a) Phase One – addressing accounting for leases which would be aligned with IFRS 16, *Leases*; and
- (b) Phase Two – addressing public sector issues specific to concessionary leases and other arrangements similar to leases.

In January 2022, the IPSASB published [IPSAS 43, Leases](#), which is aligned with IFRS 16, *Leases*. The publication of IPSAS 43 completed phase one of the IPSASB’s Leases project.

The Basis for Conclusions to IPSAS 43 explains how the IPSASB addressed the comment letters in developing IPSAS 43 and the reasons to have a phased approach to the Leases project.

Phase Two of the Leases project led to the publication in January 2021 of [Request for Information \(RFI\), Concessionary Leases and Other Arrangements Similar to Leases](#). The objective of phase two of the Leases project is to develop additional guidance on concessionary leases and other arrangements similar to leases.

This ED is based on the work undertaken in phase two of the Leases project. This ED does not address some of the arrangements identified in the RFI because the current IPSAS provide the principles on how to account for those arrangements.

Objective of the ED

The objective of this ED is to provide additional guidance for concessionary leases and for right-of-use assets in-kind.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB decided to propose new accounting guidance for concessionary leases for lessees (see paragraphs IPSAS 43.BC124–BC137) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28–BC30). Do you agree with the proposed amendments to IPSAS 43 and IPSAS 23? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 2:

For lessors, the IPSASB decided to propose accounting for leases at below-market terms in the same way as for leases at market terms (see paragraphs IPSAS 43.BC138–BC149). Do you agree with the proposed amendments to IPSAS 43? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 3:

The IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC124–BC131) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28–BC30) at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date of the lease. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 4:

When the payments for the lease at market rates based on the current use of the underlying asset are not readily available, the IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC132–BC133) at the present value of contractual payments for the lease. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

EXPOSURE DRAFT 84, CONCESSIONARY LEASES AND RIGHT-OF-USE ASSETS IN-KIND (AMENDMENTS TO IPSAS 43 AND IPSAS 23)

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Objective

1. The objective of this Exposure Draft (ED) is to propose amendments to IPSAS 43, *Leases* on accounting for concessionary leases and consequential amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, as well as proposing amendments to IPSAS 23 for new accounting for right-of-use assets in-kind.
2. This ED is part of phase two of the Leases project.

Request for Comments

3. The IPSASB welcomes comments on all the matters proposed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording.

IPSAS Addressed

IPSAS	Summary of Proposed Change
IPSAS 43, <i>Leases</i>	Provide guidance on identification, classification, recognition, measurement, and disclosures of concessionary leases.
IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	<ul style="list-style-type: none">• Consequential amendment to provide guidance on revenue recognition of the concession component in concessionary leases for lessees; and• Provide guidance on identification, recognition, measurement, and disclosures of right-of-use assets in-kind and on the revenue recognition of the concession.

Amendments to IPSAS 43, Leases

Paragraphs 6, 42, 54, 109, 118, and 120 are amended. Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103A, 117A–117F, AG32A, AG32B, and AG60–AG62 are added. Headings above paragraphs 18A, 64A, 96A, 96B, 117A, 117E, 117F, AG32A, AG32B, AG60 are added. New text is underlined and deleted text is struck through.

Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18D and 23–52 to:
- (a) Short-term leases; and
 - (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

...

Identifying a Lease (see paragraphs AG10–AG34, AG60–AG62)

...

Assessing Whether the Transaction is at Market Terms or at Below-Market Terms

18A. An entity will determine whether the transaction is at market terms or at below-market terms, including the level of consideration being exchanged.

18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease can have exchange and non-exchange components. In determining whether a lease has an identifiable exchange or non-exchange component on initial recognition, professional judgment is exercised.

18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset. At initial recognition, an entity, therefore, analyzes the substance of the lease granted or received into its component parts, and accounts for those components using the principles in paragraphs AG60–AG62.

18D. An entity firstly assesses whether the substance of the concessionary lease is in fact a lease transaction, a concession or a combination thereof, by applying the principles in this Standard and paragraphs 39–58 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

...

Lessee

...

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

...

26A. Where a right-of-use asset is acquired through a concessionary lease, its cost shall be measured at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date.

26B. The payments for the lease at market rates based on the current use of the underlying asset shall be discounted using the interest rates identified in paragraph 27. The carrying value of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).

26C. If payments for the lease at market rates based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26.

Initial Measurement of the Lease Liability

...

29A. Where a lease liability is recognized through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29.

...

42. In applying paragraph 41, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined. In the case of a concessionary lease, a lessee shall apply the discount rate identified in paragraph 27.

Disclosure

54. **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64A specify requirements on how to meet this objective.**

...

Concessionary Leases

64A. For concessionary leases received, a lessee shall disclose:

(a) The amount of the lease concession on initial recognition;

(b) The amount of the contractual payments for the lease when the payments for the lease at market rates based on the current use of the underlying asset are not readily available;

- (c) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and
- (d) Significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset.

Lessor

Classification of Leases (see paragraphs AG54–AG60)

...

Finance Leases (see paragraph AG62(a))

Recognition and Measurement

...

71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard.

...

Operating Leases (see paragraph AG62(b))

Recognition and Measurement

...

81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard.

...

Disclosure

...

Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose:

- (a) Carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS;
- (b) The net investment in the lease at the commencement date in accordance with this Standard;
- (c) The difference between (a) and (b); and
- (d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.

Concessionary Operating Leases

96B. For concessionary operating leases granted, a lessor shall disclose:

- (a) Contractual value of the lease payments received during the period; and
- (b) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.

...

Sale and Leaseback Transactions

...

- 97A. An entity shall assess whether a sale and leaseback transaction contains an embedded concession at the inception of the lease.
- 97B. If an entity (the seller-lessee and the buyer-lessor) identifies below-market terms embedded in the leaseback transaction as a concession, the seller-lessee shall account for the concession in accordance with IPSAS 23, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for the below-market terms as prepayments in accordance with paragraph 100(a).

...

Effective Date and Transition

Effective Date

...

- 103A. Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 117A–117F, AG32A, AG32B, and AG60–AG62 were added and paragraphs 6, 42, 54, 109, 118, and 120 were amended by [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)* issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43 at the same time.

...

Transition

...

Lessees

...

109. A lessee shall apply this Standard to its leases either:
- (a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or
 - (b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117E.

...

Concessionary Leases

Leases Previously Classified as Operating Leases

117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

- (a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- (b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall, on a lease-by-lease basis, measure that right-of-use asset at its carrying amount as if this Standard had been applied since the commencement date, but using the payments for the lease at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

117B. Notwithstanding the requirements in paragraph 117A, for concessionary leases classified as operating leases applying IPSAS 13, a lessee is not required to make any adjustments on transition for concessionary leases previously accounted for as investment property using the fair value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

117C. A lessee may use one or more of the practical expedients in paragraphs 114(a), 114(b), 114(d), and 114(e) when applying this Standard retrospectively in accordance with paragraph 109(b) to concessionary leases previously classified as operating leases applying IPSAS 13.

117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

Leases Previously Classified as Finance Leases

117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:

- (a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and
- (b) Recognize a right-of-use asset and measure in accordance with paragraph 117A(b).

For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

117F. If a lessee elects to apply this Standard in accordance with paragraph 109(b) for concessionary leases, the lessee shall disclose information according to paragraphs 116 and 117, as appropriate.

Lessors

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases, including concessionary leases, in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

...

Sale and Leaseback Transactions Before the Date of Initial Application

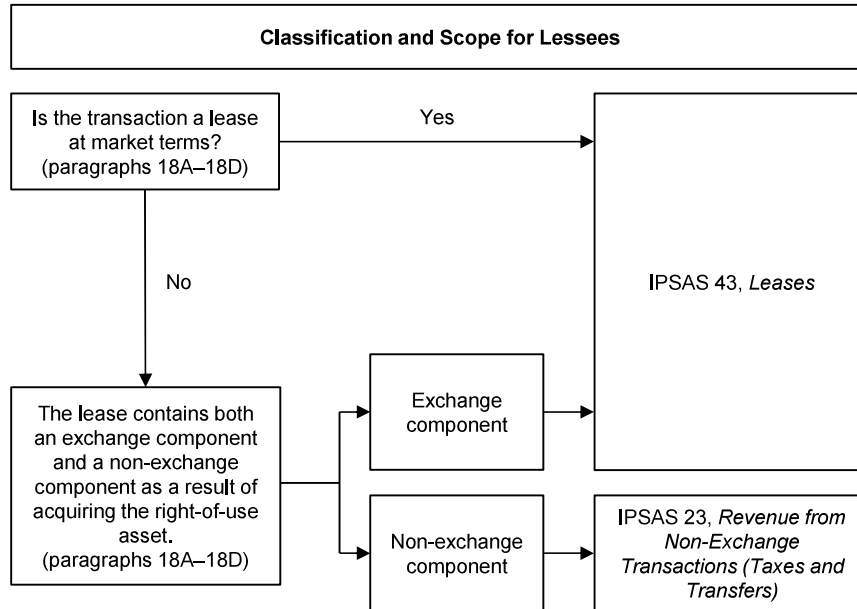
120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether:
- (a) The transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale; and
 - (b) Satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

Application Guidance

...

Classification of Leases At Market Terms and At Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)

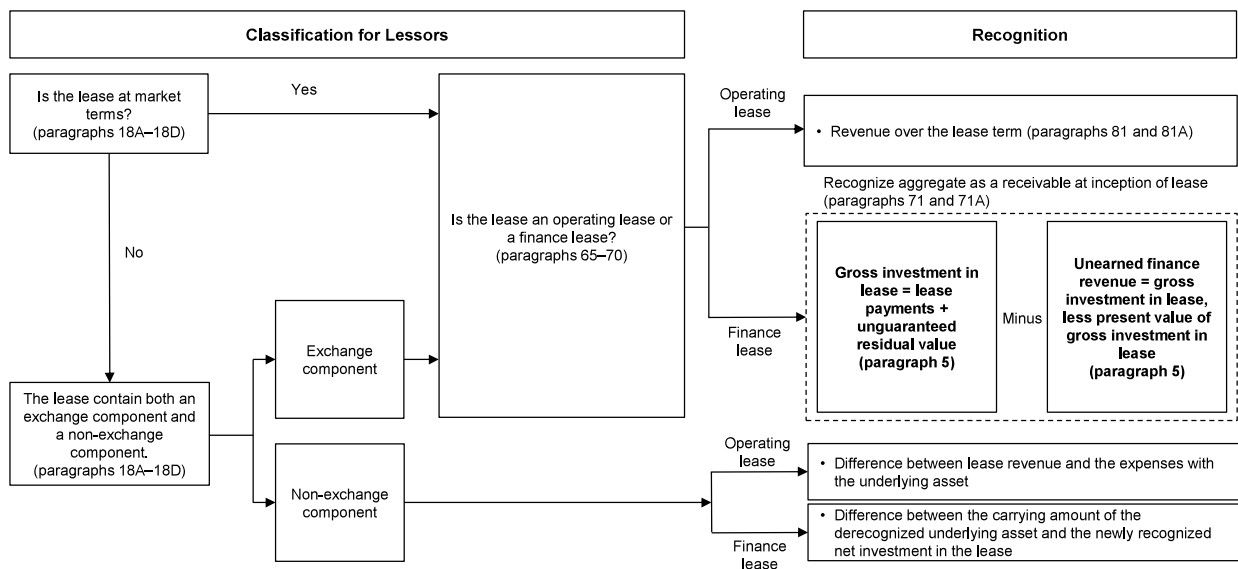
AG32A. The diagram below establishes the classification and scope of leases for lessees.



Classification of Leases at Market Terms and at Below-Market Terms, Scoping, and Recognition for Lessors (paragraphs 18A–18D)

AG32B. The diagram below establishes the classification, scope, and recognition of leases for lessors.

...



Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 29A, 42, 64A, 71A, 81A)

AG60. Concessionary leases are granted to or received by a lessee at below-market terms. Examples of concessionary leases include leases to international organizations or to other public sector entities with public policy objectives.

AG61. If a lessee receiving the right-of-use asset has determined that the transaction is a combination of a lease transaction and a concession, any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with IPSAS 23.

AG62. If a lessor granting a lease has determined that the transaction is a combination of a lease transaction and a concession:

(a) In a finance lease, the entity derecognizes the underlying asset in accordance with the applicable IPSAS and recognizes the net investment in the lease in accordance with this Standard; and

(b) In an operating lease, the entity recognizes lease revenue in accordance with this Standard and may assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IG60 of IPSAS 23 as well as in paragraphs IE5, IE10A and IE11 accompanying this Standard.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

...

Revision of IPSAS 43 as a result of [draft] IPSAS [X] (ED 84), Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23) issued in [Month and Year]

BC105. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics in that Request for Information based on the information received from respondents.

Definitions

BC106. The IPSASB reconsidered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC107. The IPSASB decided not to extend the definition of a lease to non-binding arrangements because a lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not.

BC108. Regarding binding arrangements that are not contracts, the IPSASB, when developing IPSAS 43, decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph AG3 and clarifying that IPSAS 43 is designed only for arrangements that:

(a) Are in substance a contract rather than having the legal form of a contract; and

(b) Have the following three elements:

(i) Willing parties;

(ii) Rights and obligations for the parties to the contract; and

(iii) The remedy for non-performance is enforceable by law.

BC109. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement is that in the latter one the enforceability is broader and includes “equivalent means”. In other words, binding arrangements are enforceable both within and outside the legal system, whereas contracts are enforceable only within the legal system. Compliance through equivalent means includes laws and regulations, including legislation, executive authority, cabinet, or ministerial directives.

BC110. The IPSASB’s Conceptual Framework acknowledges that there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to enforce the rights and obligations in those arrangements.

BC111. Sometimes in the public sector, there are binding arrangements, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

(a) One or both parties to the arrangement is not a willing party (for example: a government conveys to another party the right to use an underlying asset on a unilateral basis);

(b) The enforceable rights and obligations did not arise from a contract (for example: the rights and obligations are stipulated by a government unilaterally); and

(c) Binding arrangements with enforceability mechanisms outside of the legal system (for example: compliance is achieved through executive authority, cabinet, or ministerial directives).

BC112. By extension, when entities do have arrangements as described in paragraph BC111, the IPSASB noted that they should not apply IPSAS 43 because:

(a) Those arrangements are not, in substance, contracts, as leases are contractual arrangements by nature; and

(b) It was designed to be applicable to arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset¹.

BC113. Therefore, the IPSASB decided to retain the definition of a lease to contractual arrangements in IPSAS 43 because:

(a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts; and

(b) It is consistent with IPSAS 41, *Financial Instruments*, which is only applicable to contracts.

BC114. The IPSASB also considered whether to provide a definition or a description of a concessionary lease. The IPSASB noted that concessionary leases may vary depending on the level of consideration being exchanged, which may make them at below-market terms. In these cases, professional judgment may be required to assess whether, in substance, the transaction meets the definition of a lease or whether it is, in substance, a concession of the whole transaction.

BC115. The IPSASB decided to provide a description rather than a definition of a concessionary lease because:

(a) It prevents an apparent contradiction of labeling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration;

(b) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and

(c) The accounting for arrangements that convey the right to use an underlying asset without consideration is the same as arrangements that convey the right to use an underlying asset with consideration at below-market terms.

BC116. The IPSASB noted that there are transactions that convey the right to use an underlying asset without consideration (right-of-use asset in-kind). The IPSASB is of the view that transactions that convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43.

¹ IPSAS 43 introduced extensive application guidance on the assessment of both rights.

BC117. The IPSASB concluded that a transaction that conveys a right-of-use asset in-kind is in substance a non-exchange transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* are applicable to this type of transaction.

Identification, Classification, and Scope

BC118. IPSAS 43 introduced new guidance on identifying a lease as a result of an exchange transaction. Building on this guidance, the IPSASB proposed additional guidance to identify, classify, and scope concessionary leases.

BC119. The IPSASB proposed this new guidance because it would help preparers:

- (a) Distinguish leases at market terms from leases that have embedded concessions;
- (b) Understand the relationship between IPSAS 43 and other IPSAS; and
- (c) Apply the IPSAS 43 principles to leases at market terms and apply the principles in other IPSAS to the concessions, as appropriate.

Variable Lease Payments Other than Those Referred in IPSAS 43

BC120. The IPSASB considered whether to include additional specific guidance on variable lease payments other than those referred in IPSAS 43 when identifying and classifying leases at market or at below-market terms. Lease payments that are dependent of lessee's sales might influence the identification of a concessionary lease.

BC121. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

Lease Modifications

BC122. The IPSASB considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC123. The IPSASB decided not to include additional guidance on lease modifications because an entity needs to apply professional judgment when assessing the conditions in IPSAS 43.

Lessee

Recognition and Measurement

BC124. IPSAS 43 measures the right-of-use asset at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment*, and IPSAS 31, *Intangible Assets* that are a result of exchange transactions. However, for non-exchange transactions a cost measurement basis does not reflect the economics of the transaction because it does not capture the embedded concession.

BC125. To address this issue, when developing the guidance to account for leases as a result of a non-exchange transaction (concessionary leases) in [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)*, the IPSASB considered the principles in the above IPSAS as well as in IPSAS 23 and in IPSAS 41, *Financial Instruments* to account for the right-of-use asset and the concession component.

BC126. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions to be measured at their fair value as at the date of acquisition. The IPSASB considered requiring measuring the right-of-use asset also at fair value in a concessionary lease because:

- (a) It is consistent with IPSASB's literature on the accounting for non-exchange transactions, including concessionary loans;
- (b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and
- (c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change for accountability and decision-making purposes.

BC127. However, the IPSASB noted that when an entity values the right-of-use asset at fair value it should measure the right to use the underlying asset, not the underlying asset itself, which are reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring the right-of-use asset in a concessionary lease at the present value of payments for the lease at market rates based on the current use of the underlying asset because:

- (a) It is a measurement technique consistent with the fair value measurement basis;
- (b) It helps preparers in measuring the right-of-use asset using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates; and
- (c) When comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

BC128. The IPSASB also noted that the current definition of fair value in IPSAS 9, *Revenue from Exchange Transactions* will be replaced by a new fair value definition drawn from IFRS 13, *Fair Value Measurement*.

BC129. The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use, which was not present in the fair value definition in IPSAS 9.

BC130. The IPSASB decided to refer to the present value of payments for the lease at market rates based on the current use, instead of the highest and best use as implied in the new fair value definition. The IPSASB considered the new fair value definition would not be appropriate because:

- (a) The measurement of the right-of-use asset would no longer be based on the current use of the underlying asset, once the current fair value definition is replaced;
- (b) There would be an increased difficulty of measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use; and
- (c) Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC131. In reaching this decision, the IPSASB noted that measuring a right-of-use asset at the present value of the lease payments at market rates based on the current use of the underlying asset is determined by considering right-of-use assets that have similar economic benefits or service potential.

BC132. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset as a result of a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty of measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets).

BC133. When initially measuring the right-of-use asset in a concessionary lease, the IPSASB expects preparers to apply a reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset. The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.

BC134. The IPSASB also decided to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23 because:

- (a) Both transactions are at below-market terms at inception;
- (b) Have a concession to the price of the resource being transferred;
- (c) Have the objective to provide/receive resources with a price at below-market terms;
- (d) Whether transferring a resource in cash or in-kind it should not modify the accounting for the concession component as non-exchange revenue in both transactions, as concessionary leases are in substance a financing transaction; and
- (e) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

Recognition Exemptions

BC135. The IPSASB considered the applicability to lessees of the general model to account for concessionary leases that are short-term leases and leases for which the underlying asset is of low value.

BC136. The IPSASB decided not to require the general model to account for concessionary leases to lessees' recognition exemptions because:

- (a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and
- (b) Of cost-benefit reasons for short-term leases as they have a lease term of 12 months or less.

Disclosures

BC137. The IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases and related to the accounting model.

Lessor

Recognition and Measurement

BC138. IPSAS 43 requires lessors to classify leases as either an operating lease or a finance lease under a risks and rewards dual model. Operating leases are viewed as a service, and the net investment in finance leases is viewed as a financial instrument.

BC139. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, IPSAS 17, and IPSAS 31, as appropriate. The accounting for the attached financing (net investment in the lease) is made in accordance with IPSAS 43, which includes the accounting for the lease payments and the residual value.

BC140. In an operating lease, the substance or main issue of the lease is the stream of cash-flows received by the lessor in the form of lease payments, as the lessor continues to recognize the underlying asset.

BC141. As a consequence of the different economics of leases under the risks and rewards dual model, in a:

(a) Concessionary finance lease, the concession is related to the price of the underlying asset transferred to the lessee; and

(b) Concessionary operating lease, the concession component is related to the price of lease payments received from the lessee.

BC142. This means that lessors can have two types of transactions:

(a) Concessionary finance leases—which can be equivalent to transferring of a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred; and

(b) Concessionary operating leases—which can be equivalent to services partially in-kind, as the lessor continues to recognize the underlying asset.

BC143. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:

(a) The cost of the concession incurred by the lessor, being the economic benefits or service potential given up measured by the carrying amount of the underlying asset; and

(b) Consistent with the derecognition principles in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets* for disposals.

BC144. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor in accordance with IPSAS 43 because:

(a) No economic benefits or service potential associated with the transaction will flow to the entity higher than the cash received by the lessor in the form of lease payments made by the lessee; and

(b) It is consistent with revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions*.

BC145. In reaching this decision, the IPSASB noted that the terms and conditions of the concessionary operating lease might help an entity assess whether there is an indication that the underlying asset may be impaired in accordance with IPSAS 21, *Impairment from Non-Cash Generating Assets* or IPSAS 26, *Impairment from Cash Generating Assets*, as appropriate.

BC146. Following a cost measurement basis for concessionary leases, the IPSASB noted that lessors recognize the loss related with the derecognition of the underlying asset in a concessionary finance lease in accordance with the applicable IPSAS. This means that the cost of the concession would be the difference between the value of the carrying amount of the underlying asset derecognized and the value of the recognition of the net investment in the lease, if any.

BC147. For concessionary operating leases, the IPSASB noted that lessors continue recognizing as revenue the cash received in the form of lease payments made by lessees and there would be no separate recognition of the concession. This situation occurs because the concession is related to the foregone revenue related to the lease payments. As foregone revenue is not recognized under IPSAS 9, the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC148. The IPSASB concluded that the cost of the concession will be the difference between the:

- (a) Depreciation of the underlying asset, other expenses related to the underlying asset, and the impairment charge related to the underlying asset, if any; and
- (b) Revenue obtained in the lease payments received from the lessee.

Disclosures

BC149. Similar to lessees, the IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms for lessors. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases for both concessionary finance leases and concessionary operating leases and related to the dual accounting model.

Sale and Leaseback Transactions

BC150. The IPSASB considered whether to amend the requirements in IPSAS 43 on sale and leaseback transactions at below-market terms to be consistent with the requirements of concessionary leases.

BC151. The IPSASB noted that, in principle, from a conceptual perspective concessionary leases and leasebacks at below-market terms have two key differences:

- (a) Different starting points—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and
- (b) Different objectives—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a concessionary lease has the objective of conveying a concession through the right to use an underlying asset at below-market terms.

BC152. However, there might exist leasebacks at below-market terms in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback as the agreed purchase price of the underlying asset is the same as its fair value.

BC153. The IPSASB noted that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not only the leaseback being at below-market terms.

BC154. Therefore, the IPSASB decided to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback are not linked to a prepayment.

Transition

BC155. The IPSASB considered the transition requirements for concessionary leases. The IPSASB decided to propose transition requirements on concessionary leases similar to leases at market terms, where applicable, in order not to require extra efforts by preparers in applying the new proposed guidance on concessionary leases.

BC156. The IPSASB encourages preparers to apply IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* on transition because of the prevalence in the public sector of concessionary leases with very long terms.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 43

...

Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A–AG32B, and AG60–AG62)

IE2A. The following examples illustrate how an entity assesses whether a lease is at market terms or at below-market terms.

Example 10A—Assessing Whether the Lease is at Market Terms or at Below-Market Terms

Municipality A (Lessee) enters into a lease contract with Government agency B (Lessor) to use ten units in a building for its office operations for a ten-year period. The lease contract states that Municipality A agrees to pay government agency B CU100,000 per month. Government agency B usually leases those units for CU185,000 per month to private sector entities for the same purpose. Government agency B decided to lease those units at below-market terms because municipality A is running a specific sports program for youth.

The lease is at below-market terms.

Leases Incentives and Lease Concessions (see paragraphs 5, 18A–18D, AG32A–AG32B, and AG60–AG62)

IE2B. The following examples illustrate how an entity distinguishes a lease incentive from a lease concession.

Example 10B—Lease Incentives

Private sector entity Y (Lessor) has for lease ten units in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested to lease those ten units because it is vacant for a prolonged period of time, and the Government entity has lesser credit risk. Government agency X (Lessee) ended up entering into the lease because private sector entity Y (Lessor) reduced the price of the lease payments by CU5,000 per month.

The CU5,000 per month reduction is a lease incentive.

Example 10C—Lease Concessions

Government agency Z (Lessor) has built and has for lease a multi-purpose sports complex for youth. The local sports club W (Lessee) wants to expand its activities in terms of numbers of athletes and types of sports being offered by the club. Government agency Z intends to expand the sports activity among youth in the area of the multi-purpose sports complex as a way to support its goals in terms of youth from low-income households. By leasing out the sports complex to sports club W, it would meet its policy objectives. However, the local sports club W does not have the financial capacity to pay the lease payments of CU150,000 per month, which are the market terms for a similar multi-purpose sports complex with the same dimension, and pay, at the same time, the costs of managing such a large facility. Government agency Z and local sports club W ended up signing up the lease contract for CU45,000 per month because local sports club W was the right partner to achieve Government agency Z's goals.

The CU105.000 per month reduction is a lease concession.

Lessee Measurement (see paragraphs 19–42, and AG35–AG42, and AG60–AG61)

IE5. The following example illustrates how a lessee measures right-of-use assets, and lease liabilities, and concessionary leases. It also illustrates how a lessee accounts for a change in the lease term.

...

Example 13B–Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.
- Depreciation of the right-of-use asset is not considered in the example for simplification purposes.

Analysis

It is a concessionary lease as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates—see Table 1 below—and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with IPSAS 23, and the present value of annual contractual payments of CU16,100,000 in accordance with this Standard.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the entity recognizes the following (the entity subsequently measures concessionary lease at amortized cost):

Dr	<u>Right-of-use asset</u>	<u>23,000,000</u>	-
	Cr <u>Lease liability (refer to Table 1 below)</u>	-	<u>16,100,00</u>
	Cr <u>Liability (refer to Table 1 below)</u>	-	<u>6,900,000</u>

Recognition of the lease at the present value of payments for the lease at market rates based on the current use of the asset

IPSAS 23 is considered in recognizing either a liability or revenue for the non-exchange component of the lease. Paragraph IG60 of that Standard provides journal entries for the recognition and measurement of the non-exchange component of the lease.

2. Year 1: The entity recognizes the following:

Dr	<u>Interest expense (refer to Table 2 below)</u>	<u>805,000</u>	-
	Cr <u>Lease liability</u>	-	<u>805,000</u>

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr	<u>Lease liability (refer to Table 2 below)</u>	<u>3,718,694</u>	-
	Cr <u>Bank</u>	-	<u>3,718,694</u>

Recognition of lease payment

3. Year 2: The entity recognizes the following:

Dr	<u>Interest expense</u>	<u>659,315</u>	-
	Cr <u>Lease liability</u>	-	<u>659,315</u>

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr	<u>Lease liability</u>	<u>3,718,694</u>	-
	Cr <u>Bank</u>	-	<u>3,718,694</u>

Recognition of lease payment

4. Year 3: The entity recognizes the following:

Dr	<u>Interest expense</u>	<u>506,346</u>	-
	<u>Cr Lease liability</u>	-	<u>506,346</u>

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr	<u>Lease liability</u>	<u>3,718,694</u>	
	<u>Cr Bank</u>	-	<u>3,718,694</u>

Recognition of lease payment

5. Year 4: The entity recognizes the following:

Dr	<u>Interest expense</u>	<u>345,729</u>	-
	<u>Cr Lease liability</u>	-	<u>345,729</u>

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr	<u>Lease liability</u>	<u>3,718,694</u>	
	<u>Cr Bank</u>	-	<u>3,718,694</u>

Recognition of lease payment

6. Year 5: The entity recognizes the following:

Dr	<u>Interest expense</u>	<u>177,081</u>	-
	<u>Cr Lease liability</u>	-	<u>177,081</u>

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr	<u>Lease liability</u>	<u>3,718,694</u>	
	<u>Cr Bank</u>	-	<u>3,718,694</u>

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	<u>Undiscounted Annual Payments for the Lease at Market Rates</u>	<u>Present Value of Payments for the Lease at Market Rates</u>	<u>Undiscounted Annual Contractual Payments</u>	<u>Present Value of Annual Contractual Payments</u>	<u>Non-exchange component of the lease to be recognized as non-exchange revenue</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>5=(2)-(4)</u>
<u>Year 1</u>	<u>5,312,420</u>	<u>5,059,448</u>	<u>3,718,694</u>	<u>3,541,614</u>	<u>1,517,834</u>
<u>Year 2</u>	<u>5,312,420</u>	<u>4,818,522</u>	<u>3,718,694</u>	<u>3,372,965</u>	<u>1,445,557</u>
<u>Year 3</u>	<u>5,312,420</u>	<u>4,589,068</u>	<u>3,718,694</u>	<u>3,212,348</u>	<u>1,376,721</u>
<u>Year 4</u>	<u>5,312,420</u>	<u>4,370,541</u>	<u>3,718,694</u>	<u>3,059,379</u>	<u>1,311,162</u>

Year 5	<u>5,312,420</u>	<u>4,162,420</u>	<u>3,718,694</u>	<u>2,913,694</u>	<u>1,248,726</u>
Total	<u>26,562,102</u>	<u>23,000,000</u>	<u>18,593,471</u>	<u>16,100,000</u>	<u>6,900,000</u>

Table 2: Calculation of Lease Liability Balance and Interest Using the Effective Interest Rate

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>	<u>CU</u>	
Beginning balance	<u>16,100,000</u>	<u>13,186,306</u>	<u>10,126,927</u>	<u>6,914,579</u>	<u>3,541,614</u>	
Interest expense	<u>805,000</u>	<u>659,315</u>	<u>506,346</u>	<u>345,729</u>	<u>177,081</u>	<u>2,493,471</u>
Contractual payments	<u>(3,718,694)</u>	<u>(3,718,694)</u>	<u>(3,718,694)</u>	<u>(3,718,694)</u>	<u>(3,718,694)</u>	
Ending balance	<u>13,186,306</u>	<u>10,126,927</u>	<u>6,914,579</u>	<u>3,541,614</u>	<u>0</u>	
Right-of-use asset						<u>23,000,000</u>
Less: Present value of cash outflows (lease liability on initial recognition)						<u>16,100,000</u>
Non-exchange component of the lease to be recognized as non-exchange revenue over five years.						<u>6,900,000</u>

Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG62)

IE10A. The following example illustrates how a lessor measures and accounts for concessionary leases.

Example 23A—Concessionary Lease (Lessor)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Municipality Y (Lessor) enters into an operating lease with public sector not-for-profit entity X (Lessee) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,000,000.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

Year 1: CU3,500,000

Year 2: CU3,500,000

Year 3: CU3,500,000

Year 4: CU3,500,000

Year 5: CU3,500,000

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.

Analysis

As the lease payments at market rates based on the current use of the underlying asset are higher than the contractual payments, the lease is a concessionary lease. The annual payments for the lease at market rates represent the total economic value created by the lease contract and is divided in two components:

- (a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as revenue; and
- (b) A non-exchange component—Representing the portion of the foregone revenue, which is not accounted for as revenue.

The non-exchange component of CU1,500,000 per month is disclosed in accordance with IPSAS 23, and the lease payments are accounted for in accordance with this IPSAS.

The monthly journal entries to account for the concessionary lease are as follows:

<u>Dr Cash</u>	<u>CU3,500,000</u>	
	<u>Cr Lease revenue</u>	<u>CU3,500,000</u>

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Examples 24 and 25 illustrates the application of the requirements in paragraphs 97–102 of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 25—Sale at Market Terms and Leaseback at Below-Market Terms

Museum A (Seller-lessee) has run into some financial difficulties due to expected increasing maintenance costs to fulfill new safety requirements due to their unique architectural building. Therefore, museum A sells the building to local government X (Buyer-lessor) at its actual market price. Seller-lessee enters into a contract with buyer-lessor for the right to use the building for 18 years with an annual payment which is at below-market terms. Buyer-lessor ensures, with this contract, that the main tourist attraction in the region keeps open for all visitors.

Museum A (Seller-lessee) sells the building to local government X (Buyer-lessor) at fair value for cash of CU1,800,000, which corresponds to a total useful life of 25.5 years. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Museum A (Seller-lessee) enters into a contract with local government X (Buyer-lessor) for the right to use the building for 18 years, with annual payments of CU103,553 at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IFRS 15, *Revenue from Contracts with Customers*. This example ignores any initial direct costs. The annual payment at market rates is CU120,000 payable.

As the sale is at fair value, the sale is at market terms. As the lease payments are at below-market terms, the leaseback has an embedded concession.

Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale at market terms and a leaseback at below-market terms.

The interest rate implicit in the lease is 4.5 percent per annum, which is readily determinable by Seller-lessee. The present value of the contractual annual payments (18 payments of CU103,553 discounted at 4.5 percent per annum), amounts to CU1,259,204.

There are no conditions attached to the leaseback transaction.

Seller-lessee

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU810,667. This is calculated as: CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,459,199 (the discounted payments for the lease at market rates for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU151,467 calculated as follows. The gain on sale of building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

- (a) CU648,533 (CU1,459,200 × CU800,000 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and
- (b) CU151,467 (CU340,801 × CU800,000 ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

Further calculations:

- (c) CU340,801 (CU1,800,000-CU1,259,204) related to rights retained by the buyer-lessor (unguaranteed residual value at the beginning of the lease).
- (d) CU199,995 (CU1,459,199-CU1,259,204) related to the concession.

At the commencement date, Seller-lessee accounts for the transaction as follows.

<u>Dr Cash</u>	<u>CU1,800,000</u>	
<u>Dr Right-of-use asset</u>	<u>CU810,666</u>	
	<u>Cr Building</u>	<u>CU1,000,000</u>
	<u>Cr Lease liability</u>	<u>CU1,259,204</u>
	<u>Cr Revenue</u>	<u>CU199,995</u>
	<u>Cr Gain on rights transferred</u>	<u>CU151,467</u>

Buyer-lessor

The buyer-lessor classifies the lease as a finance lease.

At the commencement date, Buyer-lessor accounts for the transaction as follows.

<u>Dr Building</u>	<u>CU1,800,000</u>
<u>Dr Financial asset</u>	<u>CU1,600,005 (18 payments of CU103,553, discounted at 4.5 per cent per annum)</u>

(CU1,259,204) + unguaranteed residual value
(CU340,801))

Dr <u>Concession expense</u>	<u>CU199,995</u>	
<u>Cr Cash</u>		<u>CU1,800,000</u>
<u>Cr Building (value of the rights transferred to the seller-lessee)</u>		<u>CU1,459,199</u>
<u>Cr Building (unguaranteed residual value)</u>		<u>CU340,801</u>

After the commencement date, the Seller-lessee and Buyer-lessor account for the lease by treating CU103,553 as lease payments.

Comparison with IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases*, including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms “revenue”, “operation”, “accumulated surpluses/(deficits)” and “segment”, while IFRS 16 uses the terms “income”, “business unit”, “retained earnings” and “business segment”, respectively.
- IPSAS 43 refers to both “economic benefits” and “service potential”, where appropriate, in the section on identifying a lease, while IFRS 16 refers only to “economic benefits”.
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas IFRS 16 does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas IFRS 16 does not.

Comparison with GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas GFS does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas GFS does not.

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 83, 93, 96, and 107 are amended. Paragraphs 28A, 43A–43B, 105C–105F, 107A–107C, 123A and 124H are added. The headings above paragraph 43B, 105C, and 105E are added. New text is underlined.

Definitions

...

Right-of-use Assets In-kind

28A. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, *Leases* for identifying a lease, with the necessary adaptations in the absence of lease payments.

Recognition of Assets

...

Measurement of Assets on Initial Recognition

...

43A. Right-of-use assets held by a lessee acquired through a concessionary lease and right-of-use assets in-kind acquired through a transaction that transfers the right to use an underlying asset for zero consideration are initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with the requirements of IPSAS 43.

Subsequent Measurement of Right-of-Use Assets In-kind

43B. After the commencement date, an entity shall measure the right-of-use asset in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets.

...

Transfers

...

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Right-of-use assets held by a lessee and right-of-use assets in-kind acquired through non-exchange transactions are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in

accordance with IPSAS 43. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

...

Gifts and Donations, including Goods In-kind and Right-of-Use Assets In-kind

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, right-of-use assets in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets, ~~and goods in-kind, and right-of-use assets in-kind~~, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.

...

96. Goods in-kind and right-of-use assets in-kind are recognized as assets when the goods and right-of-use assets in-kind, are received, or there is a binding arrangement to receive the goods or the right-of-use assets in-kind. If goods in-kind and right-of-use assets in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

...

Concessionary Leases

105C. Concessionary leases are leases granted to or received by a lessee at below-market terms. The portion of the lease that is payable, along with interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue that should be accounted for in accordance with this Standard.

105D. Where a lessee determines that the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the lessee result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the lessee satisfies the present obligation, the liability is reduced, and an equal amount of revenue is recognized.

Presentation of Right-of-Use Assets In-kind

105E. An entity shall present in the statement of financial position or disclose in the notes right-of-use assets in-kind separately from other assets. If an entity does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:

- (a) Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

- (b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

105F. An entity may present right-of-use assets in-kind together with other right-of-use assets.

Disclosures

...

107. An entity shall disclose in the notes to the general purpose financial statements:

- (a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- (b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
- (c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
- (d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind and right-of-use assets in-kind received.

107A. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

- (a) Depreciation charge; and
- (b) Carrying amount at the end of the reporting period by class of underlying asset.

107B. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in 107A for those right-of-use assets in-kind.

107C. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 17, an entity shall disclose the information required by paragraph 92 of IPSAS 17 for those right-of-use assets in-kind.

Transitional Provisions

...

123A. The transitional provisions for right-of-use assets in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Effective Date

...

124H. Paragraphs 83, 93, 96, and 107 were amended and paragraphs 28A, 43A–43B, 105C– 105F, 107A–107C, and 123A were added by [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after [MM DD, YYYY]. Earlier application is permitted. If an

entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43 at the same time.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

...

Revision of IPSAS 23 as a result of [draft] IPSAS [X] (ED 84), Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23) issued in [Month and Year]

BC28. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics in that Request for Information based on the information received from respondents.

Right-of-Use Assets In-kind

BC29. The IPSASB noted that some respondents to the Request for Information had identified in their jurisdiction arrangements that conveyed the right to use an underlying asset for zero consideration. As this type of arrangement does not meet the definition of a lease because they lack consideration and with the approval of IPSAS 43 it was decided to create a new type of asset –the right-of-use asset in-kind– that did not exist at the time of approval of IPSAS 23, the IPSASB decided to amend this Standard to provide guidance on accounting for this type of arrangement.

BC30. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both are non-exchange transactions.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 23

...

Concessionary leases (paragraphs 105C and 105D)

Concessionary Lease (Lessee)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IG60. Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.

Analysis

It is a concessionary lease as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with this Standard, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the entity will recognize the following:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>	
	<u>Cr</u>	<u>Lease liability</u>	<u>CU16,100,000</u>
	<u>Cr</u>	<u>Liability</u>	<u>CU6,900,000</u>

2. Year 1: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met by the lessee CU6,900,000)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the entity will recognize the following (the entity subsequently measures the concessionary lease at amortized cost):

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

4. Year 3: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

5. Year 4: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

6. Year 5: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

If the concessionary lease was granted with no conditions, the entity would recognize the following on initial recognition:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>	
	<u>Cr</u>	<u>Lease liability</u>	<u>CU16,100,000</u>
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU6,900,000</u>

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Date: 2 Feb 2023

To: NZASB Members

From: Gali Slyuzberg and Charis Halliday

Subject: **PBE IPSAS 43 Leases: Analysis of submissions and discussion on project direction**

COVER SHEET

Project priority and complexity

Project priority	<p>Medium</p> <ul style="list-style-type: none"> The IPSASB issued IPSAS 43 <i>Leases</i> in January 2022, which introduces a new lessee accounting model aligned with IFRS 16 <i>Leases</i>. PBE Standards are currently not aligned with these updated international requirements. Leases are prevalent and significant across both the public and NFP sectors.
Complexity of Board decision-making at this meeting	<p>High</p> <p>The Board is being asked to decide on the strategic direction of this project, including whether to:</p> <ul style="list-style-type: none"> defer the finalisation of PBE IPSAS 43 (until it can be finalised together with New Zealand requirements for concessionary leases); and explore different lessee accounting requirements for NFP PBEs in contrast to public sector entities.

Overview of agenda item

Project status	<ul style="list-style-type: none"> Feb 2022: NZASB agreed to propose incorporating IPSAS 43 into PBE Standards. Aug 2022: XRB issues ED PBE IPSAS 43 <i>Leases</i>, which is based on IPSAS 43 and introduces the right-of-use model for lessees (comments closed Nov 2022). Feb 2023: NZASB to consider ED feedback and provide direction on next steps.
Project purpose	<ul style="list-style-type: none"> International alignment with IPSASB (as per our PBE Policy Approach) and IASB – allowing PBEs to benefit from the latest international thinking on lease accounting. Enhance transparency around leases in the financial statements of PBE lessees. Easier reporting for ‘mixed groups’ containing PBEs and for-profit entities.
Board action required at this meeting	<p>CONSIDER the feedback received on the ED and AGREE on the strategic direction of this project.</p> <p>We will ask for Board feedback on the questions raised in this memo.</p> <p>We encourage any editorial comments to be sent directly to staff - gali.slyuzberg@xrb.govt.nz</p>

Purpose and introduction¹

1. The IPSASB's overall project on leases has two parts. The first part resulted in the issuance of IPSAS 43 *Leases*, which is aligned with IFRS 16 *Leases*, in January 2022. The focus of this paper is on the development of a PBE Standard based on IPSAS 43. The second part of the IPSASB's project is ongoing and relates to developing specific requirements for concessionary leases. This second part of the IPSASB's project is covered in Agenda Item 6.1.
2. The XRB's consultation on Exposure Draft (ED) PBE IPSAS 43 *Leases* closed on 25 November 2022. The ED proposed a new lessee accounting model for Tier 1 and Tier 2 PBEs. The proposals, which are based on IPSAS 43 and aligned with IFRS 16, would require lessees to recognise most leases on the balance sheet, using the 'right of use' (ROU) model. The proposals would align the requirements in PBE Standards with the IPSASB's requirements (and the IASB's), allowing PBEs and users of their financial statements to benefit from the latest international thinking on leases. The proposals are intended to enhance transparency around leases in the financial statements of PBE lessees and improve comparability between PBEs that lease assets and those that purchase them.
3. Feedback received on the New Zealand ED was mixed. While there was general support for the proposals from the public sector, respondents from the not-for-profit (NFP) sector expressed concerns regarding the cost/benefit aspect of the proposals.
4. The purpose of this paper is to provide staff analysis of the ED feedback received, and to seek strategic direction from the Board on how to take this project forward.
5. It is important that Board Members read Agenda Item 6.1 before reading this memo. Agenda Item 6.1 seeks the Board's agreement on the approach to IPSASB ED *Concessionary Leases and Other Lease-type Arrangements*— which is expected to inform the Board's discussion on the questions raised in this memo.
6. In forming the strategic questions for the Board and the staff recommendations in this paper, we have had to consider multiple factors that were often interdependent. To help the Board navigate through these matters, and to provide the Board with a 'big picture' view of what we are asking for direction on, we have provided an Executive Summary on the next page.

Recommendation

7. We recommend that the Board:
 - (a) CONSIDERS the feedback received on ED PBE IPSAS 43 *Leases* (Agenda Item 6A.2); and
 - (b) AGREES on the strategic direction of this project.

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

EXECUTIVE SUMMARY	
Original project plan for updating the lease accounting requirements for New Zealand PBEs (Tiers 1 and 2)	
<ul style="list-style-type: none"> Phase 1: To propose incorporating IPSAS 43 into PBE Standards– resulting in issuing ED PBE IPSAS 43 Leases for public consultation in August 2022 <ul style="list-style-type: none"> ED proposed ROU model for lessees – with NZ scope clarification: concessionary leases are in the scope of the Standard, but accounted for ‘at cost’ Phase 2: After PBE IPSAS 43 is issued, to consider amendments to this Standard with respect to concessionary leases and other lease-type arrangements once the IPSASB finalises its project on this topic – but before the new Standard becomes effective. 	
ED feedback	Strategic questions
<p><u>Matters interconnected with concessionary leases</u>: Some of the feedback highlighted:</p> <ul style="list-style-type: none"> <u>significant interconnectivity</u> between ‘general’ lease accounting requirements and any specific requirements for concessionary leases; benefits of finalising requirements for ‘general’ and concessionary leases together. 	<p>Issue 1: Deferring the finalisation of PBE IPSAS 43</p> <p>In Agenda Item 6.1 we recommend developing New Zealand-specific requirements on concessionary leases. We consider it possible to finalise New Zealand disclosure requirements for concessionary leases and address the other feedback received on ED PBE IPSAS 43 within one year. Deferring the finalisation of PBE IPSAS 43 by a maximum of one year is not a significant delay, and is justified by the benefits of issuing a ‘complete’ standard on leases (and a certain amount of additional time would be required in any case, to address feedback unrelated to concessionary leases).</p> <p>If the Board agrees to develop New Zealand-specific disclosure requirements for concessionary leases, then we recommend <u>deferring the finalisation of PBE IPSAS 43 – and issuing this Standard in a more ‘complete’ form once additional specific requirements for concessionary leases have been developed</u>. This should not impact the proposed effective date of 1 January 2027, as this long lead time allowed for finalisation of concessionary leases.</p> <p>Question for the Board</p> <p>Q1. Does the Board agree to defer the finalisation of PBE IPSAS 43 until it can be finalised together with NZ requirements for concessionary leases?</p>
<p><u>Feedback was mixed – support from public sector but concern from NFPs</u>:</p> <ul style="list-style-type: none"> from a public sector perspective, there is general support for incorporating IPSAS 43-based requirements into PBE Standards; NFP respondents have concerns that the proposed requirements are overly complex and the cost of applying them would outweigh the benefits for NFP PBEs and the users of their financial statements. 	<p>Issue 2: Exploring an exemption for NFP PBEs</p> <p>We think that the feedback warrants exploring different recognition and measurement requirements for NFP PBEs, as disclosure concessions and/or staff guidance seem unlikely to adequately address the NFP respondents’ concerns. Our usual approach under the New Zealand Accounting Standards Framework and the PBE Policy Approach is to have consistent recognition and measurement requirements in PBE Standards for public sector and NFP PBEs; however, these documents do not expressly prohibit recognition and measurement differences for NFP PBEs.</p> <p>To address the concerns that we received from NFP respondents, we recommend <u>exploring the development of a temporary exemption from the proposed ROU model for NFP PBEs in Tiers 1 and 2, for their ‘operating’ leases</u>. The exemption would be <u>reconsidered following a future PIR of PBE IPSAS 43</u>.</p> <p>We recommend making the exemption <u>optional</u> (rather than mandatory) – because this would allow NFP PBEs to be responsive to the needs of their users, and would cater for NFP PBEs that are part of a ‘mixed group’ and therefore may prefer to use the ROU model.</p> <p>Questions for the Board</p> <p>Q2. Does the Board agree that we should explore developing an exemption for NFP PBEs, that would allow them to account for their ‘operating’ leases in which they are lessees as an <i>expense over the lease term</i> – rather than applying the ROU model as per PBE IPSAS 43?</p> <p>Q3. Does the Board agree that the temporary exemption for NFP PBEs should be <i>optional</i>, rather than mandatory?</p> <p>Q4. If the answer to Question 2 is ‘yes’, does the Board agree that we should ask New Zealand constituents for feedback on a temporary exemption for NFP PBEs?</p> <p>Q5. If the answer to Question 2 is ‘no’, should staff consider any of the other options in Appendix One for addressing the concerns raised by NFP sector respondents?</p>

Structure of this memo

8. This memo includes the following sections.
 - (a) [Background](#)
 - (b) [ED feedback](#)
 - (c) [Strategic direction of project](#)
 - (d) [Next steps](#)
 - (e) [Appendix One: Options considered by staff for addressing concerns from NFP respondents](#)
 - (f) [Appendix Two: PBE Policy Approach and Accounting Standards Framework Considerations for a NFP exemption](#)
 - (g) [Appendix Three: Options for Operationalising a Temporary Exemption for NFPs](#)

Background

9. The table below summarises the progress to date and expected future steps. It is useful to note we have previously consulted on two IPSASB EDs on *Leases* in New Zealand before issuing ED PBE IPSAS 43 in August 2022.

Table 1 PBE Leases project timeline

Date	Project activity
Jan 2018	IPSASB issues IPSASB ED 64 <i>Leases</i> – which includes lessee accounting proposals aligned with IFRS 16 <i>Leases</i> , but also proposals to introduce the ROU model for lessors, and proposals for the fair value measurement of concessionary leases.
Feb-May 2018	XRB carried out broad outreach in New Zealand on IPSASB ED 64 (including roundtables, etc.) Feedback indicated broad support for the proposed ROU model for PBE <i>lessees</i> , except in relation to concessionary leases and other lease-type arrangements
Jun 2018	NZASB submitted comments on IPSASB ED 64 <i>Leases</i>
Jan 2021	IPSASB issued IPSASB ED 75 <i>Leases</i> – proposals aligned with IFRS 16 <i>Leases</i> (for lessees and lessors) Separate Request for Information (RFI) issued on <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
Feb 2021	XRB carried out broad outreach in New Zealand on IPSASB ED 75 <i>Leases</i> and received feedback on the RFI
May 2021	NZASB submitted comments on IPSASB ED 75 <i>Leases</i> and the RFI
Jan 2022	IPSASB issued IPSAS 43 <i>Leases</i> – aligned with ED 75 proposals and IFRS 16 No specific requirements for concessionary leases, and public sector arrangements that are similar to leases are scoped out – considered separately under the project <i>Other Lease-type Arrangements</i> .

Date	Project activity
Feb 2022	<p>NZASB applied the PBE Policy Approach and agreed that it should propose incorporating the requirements in IPSAS 43 into PBE Standards – and not wait for the project on concessionary leases and public sector arrangements that are similar to leases to be completed.</p> <p>The NZASB agreed in principle to allow for a long effective date to enable PBEs the option to adopt the new lease accounting requirement early (this was considered important for mixed group entities).</p>
Apr 2022	<p>NZASB discussed whether to make certain modification to IPSAS 43 – to enhance the appropriateness and usefulness of this standard for New Zealand PBEs and the users of their financial statements</p>
Jun 2022	<p>NZASB discussed a working draft of the ED and Consultation Document</p>
August 2022	NZASB APPROVED ED PBE IPSAS 43 Leases and Consultation Document for publication
Aug–Nov 2022	<p>Staff undertook outreach activities – including:</p> <ul style="list-style-type: none"> • publicising the consultation in our newsletter and on LinkedIn; • recording and publishing a ‘walkthrough webcast’ on the consultation; and • reaching out to key PBE stakeholders, including those who previously made submissions on the IPSASB <i>Leases</i> EDs.
25 Nov 2022	Consultation closed – 11 formal and informal submissions received
Dec 2022 – Jan 2023	<p>Staff analysed feedback received on the EDs</p>
Jan 2023	<p>IPSASB issued ED 84: <i>Concessionary Leases and Other Lease-type Arrangements</i></p>
This meeting	<ul style="list-style-type: none"> • NZASB to decide on approach in response to IPSASB ED 84: <i>Concessionary Leases and Other Lease-type Arrangements</i> [Agenda Item 6.1] • Staff presents analysis of feedback received on ED PBE IPSAS 43 <i>Leases</i> and seeks NZASB’s strategic direction for this project [this agenda item]
FUTURE:	<p>The expected timing of future milestones depends on the strategic decisions to be made by the Board at this meeting. See the <i>Strategic Questions</i> section below.</p>
1 Jan 2027	<p>PBE IPSAS 43 becomes effective for periods beginning on or after this date as currently proposed.</p>

10. The table on the next page provides a recap of the NZASB ED PBE IPSAS 43 *Leases* and the accompanying Consultation Document.

Table 2 The ED and the Consultation Document

<p>ED (To view the ED in full, click here)</p>	<ul style="list-style-type: none"> • Main proposal: PBE <i>lessees</i> to account for most leases using the ROU model, where the lessee recognises on the balance sheet: <ul style="list-style-type: none"> ○ a lease liability, representing the obligation for the future lease payments (based on lease payments discounted to present value); and ○ a ROU asset, representing the right to use the leased asset for a specified period of time (based on the lease liability with adjustments where relevant) • Exemptions from the ROU model for lessees: <ul style="list-style-type: none"> ○ Short-term leases (lease term shorter than 12 months); and ○ Leases of low-value assets (consistent with IPSAS 43, ‘low value’ is determined for each individual leased asset and on absolute basis, examples are provided but a monetary threshold is not indicated). • Proposals are based on IPSAS 43 <i>Leases</i>, with limited NZ modifications: <ul style="list-style-type: none"> ○ Clarification for concessionary leases (see below); ○ RDR concessions for Tier 2 PBEs, aligned with Tier 2 for-profit RDR concessions in NZ IFRS 16; ○ Minor modification to align with PBE Standards terminology and to take into account differences between IPSAS and PBE Standards (e.g. consequential amendments to those PBE Standards that are not based on IPSAS, etc). • NZ clarification for concessionary leases: <ul style="list-style-type: none"> ○ Concessionary leases that meet the definition of a lease are within the scope of the proposed Standard; ○ However, concessionary leases are accounted for based on the lease payments as per the lease agreement (rather than the payments that would have been charged had the lease been at market terms); ○ Furthermore, concessionary leases and arrangements to use an asset for a specified period for no consideration are excluded from the scope and fair value measurement requirements of PBE IPSAS 23. ○ The above clarifications will be reconsidered once the IPSASB finalises its project on <i>Concessionary Leases and Other Lease-type Arrangements</i>
<p>Consultation Document (To view the document in full, click here)</p>	<ul style="list-style-type: none"> • Highlighted the benefits of the proposals, including: <ul style="list-style-type: none"> ○ International alignment with IPSASB and IASB – allowing PBEs to benefit from the latest international thinking on lease accounting. ○ Greater transparency around leases in lessees’ financial statements, ○ Easier reporting for ‘mixed groups’ containing PBEs and for-profit entities (due to alignment with NZ IFRS 16). • Asked specific questions about: <ul style="list-style-type: none"> ○ The proposed New Zealand clarification for concessionary leases (see above); ○ Whether to modify the IPSASB’s requirements for low-value leased assets (no modifications proposed in the ED); ○ The proposed RDR concessions (see the left column); ○ The proposed ‘long’ effective date – 1 January 2027; and • Any other comments on the ED.

ED feedback

11. We have received formal and informal/online submissions on ED PBE IPSAS 43 *Leases* from 11 respondents. The respondents and a high-level summary of their response is shown below. The full submissions are included in Agenda Item 6A.2. In summary, the responses indicate that:

- (a) from a public sector perspective, there is general support for incorporating IPSAS 43-based requirements into PBE Standards (with some suggested refinements and additional considerations);
- (b) By contrast, NFP respondents have concerns that the proposed requirements are overly complex and the cost of applying them would outweigh the benefits for NFP PBEs and the users of their financial statements.

Table 3 Summary of respondents to ED PBE IPSAS 43

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
Formal submissions				
R1	Auckland Council	Public sector PBE preparer, Tier 1	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> • Supports the scope clarification for concessionary leases (and would not support fair value measurement for concessionary leases) • Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset, but recommends: <ul style="list-style-type: none"> ○ adding a monetary threshold for low value; and ○ specifying that photocopiers are low-value leased assets. • Supports the proposed RDR concessions. • Supports the proposed effective date of 1 Jan 2027.
R2	Charities Services	Charities regulator	Passed on comments from its constituents (charities) – who generally do not support the proposed new Standard	<p>Charities Services’ constituents noted that the proposed requirements are complex and the costs would exceed the benefits for charities.</p> <p>See the section ‘Strategic Issue 2’ below for further analysis.</p> <p>(Respondent did not answer the specific questions in the Consultation Document)</p>

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
R3	New Zealand Family Planning	NFP PBE preparer, Tier 2	Does not support the proposed new Standard for NFPs (particularly Tier 2 NFPs such as itself)	Considers the proposed requirements to be complex and that the costs would exceed the benefits for NFPs. See the section 'Strategic Issue 2' below for further analysis. (Respondent did not answer the specific questions in the Consultation Document)
R4	Ministry of Education	Public sector PBE preparer, Tier 1	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> • Supports the scope clarification for concessionary leases – but, raises an issue relating to sale and leaseback transactions (the sale and leaseback requirements as currently drafted could be read as requiring the recognition of the ROU asset arising from a leaseback at fair value); • Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset – but, recommends adding a monetary threshold. • Supports the proposed RDR concessions. • Supports the proposed effective date of 1 Jan 2027. • Makes additional recommendations, e.g. around the Treasury setting discount rates. • Would not support fair value measurement for concessionary leases.
R5	OAG	Public sector agency	Supports the proposed new Standard in general, with some recommended changes	<ul style="list-style-type: none"> • Supports the scope clarification for concessionary leases, but: <ul style="list-style-type: none"> ○ Recommends clarifying in the BC that PBEs who currently measure concessionary leases at fair value can continue this practice until PBE IPSAS 43 becomes effective and specific requirements for concessionary leases are developed. • Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset. • Supports the proposed RDR concessions for now – but suggests revisiting the suite of RDR concessions at a later stage. • Supports the proposed effective date of 1 Jan 2027.

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
R6	PwC	Accounting firm – various clients	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> • Supports the scope clarification for concessionary leases in general, but: <ul style="list-style-type: none"> ○ Notes that the scope clarification for concessionary leases is inconsistent with the general principle of PBE IPSAS 23 to use fair value measurement for non-exchange transactions wherever possible; and ○ Is concerned that the scope clarification for concessionary leases would provide structuring opportunities for entities wanting to avoid the fair value requirements of PBE IPSAS 23. • Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset- but, recommends adding a monetary threshold for low-valued leased assets. • Supports the proposed RDR concessions. • Supports the proposed effective date of 1 Jan 2027.
R7	The Treasury	Public sector agency – and public sector preparer, Tier 1 (NZ Government)	Supports the proposed new Standard in general, with some recommended amendments, with the understanding that this Standard represents an 'interim' step and concessionary leases are yet to be considered. Recommends deeper and broader consideration of concessionary leases and lease-type arrangements in Phase 2 of the project.	<ul style="list-style-type: none"> • Supports the scope clarification for concessionary leases, but as an interim solution only – with further work to be performed regarding concessionary leases and lease-type arrangements (see below). • Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset – but, recommends adding a monetary threshold. • Recommends further RDR concessions for Tier 2 PBEs. • Supports the proposed effective date of 1 Jan 2027. • Recommends deeper and broader consideration of concessionary leases and lease-type arrangements as part of Phase 2 of the project – specifically, to consider the following: <ul style="list-style-type: none"> ○ <u>Consider whether certain concessionary leases that meet the definition of a lease should nevertheless be excluded from the scope of PBE IPSAS 43:</u> This is because the IFRS 16-based ROU model is based on the 'foundational presumption' that leases are financing arrangements, whereas many concessionary leases are not financing arrangements, even though they meet the definition of a lease as per ED PBE IPSAS 43. The Treasury considers that "characterising a concessional lease as an operating subsidy is a more fair reflection of its economic substance than reporting it as a financial obligation". ○ <u>Consider broader range 'right to use' arrangements (which might not meet the definition of a lease) that the public sector is involved in:</u> The Treasury note that in the public sector, there are various 'rights to use' arrangements relating to property that involve transferring rights to a lessee, or to a proprietor/kaitiaki, or to a lessee. These rights may include a right to use the asset and direct its use, or just to use the asset but not direct its use, or both types of rights. The Treasury recommends taking a holistic approach to the development of financial reporting requirements for public sector arrangements that involve the transfer of rights over property (which may or may not meet the definition of a lease as per PBE IPSAS 43).

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
Online feedback				
R8	Professor Tom Scott, AUT	Academic	Shared research findings indicating that the proposals would result in benefits without material costs for Councils (public sector PBEs), but for charities there would be a material impact in terms of costs and challenges	<p>Research indicates that:</p> <ul style="list-style-type: none"> • For local councils (public sector PBEs), the proposed requirements would result in more information in the financial statements without material costs, and may be beneficial for those councils that access debt markets. • However, the proposed requirements would materially affect charities through both technical accounting challenges and operational challenges. <ul style="list-style-type: none"> ○ Technical challenges could arise due to difficulties in determining the discount rate, particularly given that charities tend to not have borrowings. ○ Operational challenges could arise because the proposed requirements are likely to cause charities to have 'debt' for the first time, which may either go against the charity's constitution, and/or it may be viewed unfavourably by the charity's stakeholders. <p>See the section 'Strategic Issue 2' below for further analysis. (Respondent did not answer the specific questions in the Consultation Document)</p>
R9	Nicol O'Donnell, Aviva (incorp. Christchurch Women's Refuge) Charitable Trust	NFP PBE preparer, Tier 2	Does not support the proposed new Standard	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits for NFPs. See the section 'Strategic Issue 2' below for further analysis. (Respondent did not answer the specific questions in the Consultation Document)</p>
R10	Anne Topham, Peak Chartered Accountants Limited	Accounting firm – clients include SMEs, NFPs, farms, Māori authorities and schools	Does not support the proposed new Standard for Tier 2 NFP and Tier 2 public sector PBEs	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits. See the section 'Strategic Issue 2' below for further analysis. (Respondent did not answer the specific questions in the Consultation Document)</p>
R11	Clare Randall, Arohanui Hospice	NFP Preparer, Tier 2	Does not support the proposed new Standard for NFPs	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits. See the section 'Strategic Issue 2' below for further analysis. (Respondent did not answer the specific questions in the Consultation Document)</p>

Strategic direction of project

12. In the sections that follow, we are seeking the Board's direction on certain strategic questions relating to the direction of taking the PBE *Leases* project forward.
13. The answers to the strategic questions in this memo will be impacted by the Board's decisions made under Agenda Item 6.1.
14. The main strategic questions in this memo are:
 - (a) Whether to defer the finalisation of PBE IPSAS 43 until it can be finalised together with requirements for concessionary leases; and
 - (b) Whether to explore the development of different accounting requirements for NFP PBEs as compared to public sector PBEs.

Strategic Issue 1: Whether to defer the finalisation of PBE IPSAS 43 until it can be finalised together with requirements for concessionary leases

Why did we expose ED PBE IPSAS 43 before completing a project on concessionary leases:

15. The IPSASB had decided to split its work on lease accounting into two phases:
 - (a) **Phase 1** involved developing an IFRS 16-aligned IPSAS that introduces the ROU model for lessees. The final stage of this phase was the issuance of IPSAS 43 *Leases* in January 2022. IPSAS 43 does not include specific requirements for concessionary leases or lease-type arrangements.
 - (b) **Phase 2** is a separate IPSASB project to consider requirements for concessionary leases and lease-type arrangements. This phase was focused on public-sector specific issues. The IPSASB issued an ED on this topic in January 2023. A final pronouncement is expected in March 2024.
16. After the IPSASB issued IPSAS 43 *Leases*, in February 2022 the NZASB discussed the timing of incorporating the requirements of IPSAS 43 into PBE Standards. Ultimately, the NZASB agreed to the following two-phase approach:
 - (a) **Phase 1:** To propose incorporating IPSAS 43 into PBE Standards in the short term – rather than waiting for the IPSASB to finalise its project on concessionary leases – but to provide a long effective date for the Standard; and
 - (b) **Phase 2:** After PBE IPSAS 43 is issued, to consider amendments to this Standard with respect to concessionary leases and lease-type arrangements once the IPSASB finalises its project on this topic – but before the new Standard becomes effective.
17. A key rationale for the above approach was that under this option, PBEs will be able to start considering the new lease accounting requirements and plan for their implementation with respect to commercial leases, with plenty of time to do so until the mandatory effective date. PBEs are unlikely to start such planning work until a Standard is issued. While the new leases

standard will be subject to future amendments relating to concessionary leases, these amendments are expected to be available before the standard becomes effective.

18. A consequence of the above decisions is that when PBE IPSAS 43 is first issued, it would be somewhat ‘incomplete’ – due to the need to further consider specific requirements for concessionary leases. However, deferring the development of a new PBE IPSAS 43 until after the IPSASB finalises its project on concessionary leases would mean that there will not be a new PBE Standard on leases until around 2025 – and PBEs will need to be given sufficient time to implement the new Standard. Therefore, not issuing a new PBE Standard on leases until the IPSASB finalises its project on concessionary leases would mean that PBEs and the users of their financial statements have to wait longer until they can enjoy the benefits of the new Standard, including greater transparency around leases, alignment with international best practice and easier reporting for mixed groups.
19. As a result, ED PBE IPSAS 43 was published for comment in August 2022.
20. ED PBE IPSAS 43 was substantially the same as IPSAS 43, with the main difference being an additional New Zealand scope clarification for concessionary leases. This scope clarification was added as an interim measure, until specific requirements for concessionary leases are developed. The NZASB previously recommended to the IPSASB to include such a clarification in IPSAS 43, but the IPSASB has not done so. The ED clarified that concessionary leases (that meet the definition of a lease) are within the scope of PBE IPSAS 43 – but are to be accounted for based on the lease payments as per the lease agreement, rather than at market terms or at fair value. The ED also clarified that arrangements to use an asset for a specified period of time for no consideration do not meet the definition of a lease – but they are also excluded from the fair value measurement requirements of PBE IPSAS 23.
21. The ED’s Basis for Conclusions and the Consultation Document noted that the scope clarifications regarding concessionary leases will be reconsidered when the IPSASB finalises its project on concessionary leases.
22. The Consultation Document indicated the PBE IPSAS 43 is expected to be finalised and issued around April 2023 – with amendments for concessionary leases (if any) to be issued at a future date, when the IPSASB finalises its project on concessionary leases.

New recommendation: To defer the finalisation of PBE IPSAS 43 and finalise it together with specific requirements for concessionary leases.

23. With the IPSASB issuing ED 84 *Concessionary Leases and Right-of-Use Assets In-kind*, we now have greater clarity in relation to the IPSASB’s project on concessionary leases. In light of this greater clarity, Agenda Item 6.1 discusses options to develop New Zealand requirements for concessionary leases in the relatively short term.
24. If the Board agrees with one of the options in Agenda Item 6.1 to develop New Zealand proposals for concessionary leases while the IPSASB is still working on their concessionary leases project, then we recommend deferring the finalisation of PBE IPSAS 43 – and issuing this Standard in a more ‘complete’ form once additional specific requirements for concessionary leases have been developed.

25. The reasons for our recommendations are explained in the table below. The table also clarifies what prompted us to reconsider the original plan of first issuing PBE IPSAS 43 with an ‘interim’ scope clarification for concessionary leases, and then develop at a later stage amendments regarding specific requirements for concessionary leases and lease-like arrangements.

Table 4 Reasons for recommendation to defer the finalisation of PBE IPSAS 43 and finalise it together with disclosure requirements for concessionary leases

What changed	Rationale for deferring finalisation of PBE IPSAS 43
<p>While we were aware of the matters listed below in the past, our analysis of the feedback received on ED PBE IPSAS 43 and our considerations on how to proceed in New Zealand with respect to IPSASB ED 84 have <u>further highlighted</u> for us the following matters:</p> <ul style="list-style-type: none"> • the <u>significant interconnectivity</u> between the ‘general’ lease accounting requirements in ED PBE IPSAS 43 and the development of specific requirements for concessionary leases; and • the <u>benefits of taking a ‘complete’ approach</u> to the finalisation of requirements for ‘general’ leases and concessionary leases, both from the perspective of <u>convenience for preparers</u>, and from a <u>standard-setting efficiency</u> perspective. 	<p>Providing a new lease accounting standard that is <u>complete from the start is arguably more convenient for New Zealand PBEs</u>, in terms of their planning and preparation for applying the new Standard.</p> <p>Furthermore, it would be <u>more efficient and ‘cleaner’ to address certain matters raised by respondent to ED PBE IPSAS 43 at the same time as developing requirements for concessionary leases</u>.</p> <p>For example:</p> <ul style="list-style-type: none"> • ED respondent R4 raised an issue regarding the proposed requirements for sale and leaseback transactions, which could be interpreted as requiring entities to measure the concessionary portion of a concessionary lease at fair value. Addressing this issue concurrently with the development of specific accounting requirements for concessionary leases may be more efficient and arguably more convenient for stakeholders than attempting to develop a solution in light of the ‘interim’ approach to concessionary leases, and then developing a potentially different solution as part of the project on concessionary leases. • If we develop different ‘general’ lease accounting requirements for NFP PBEs to address concerns raised by NFP stakeholders with respect to the ROU model, arguably there is merit in considering the ‘general’ lease accounting requirements and the concessionary lease accounting requirements for NFPs concurrently.
<p>In light of the IPSASB’s recent publication of ED 84 and our recommendations to develop New Zealand requirements on concessionary leases while the IPSASB is still working on their concessionary leases project, we now think that it is <u>possible to finalise and issue PBE IPSAS 43 together with additional specific requirements for concessionary leases</u> with <u>relatively minimal delay</u> compared to the date indicated during the consultation on ED PBE IPSAS 43.</p>	<p><u>The above benefits can be achieved with minimal delay</u> to the issuance of PBE IPSAS 43, if the Board agrees to develop New Zealand proposals for concessionary leases in the short term ahead of the IPSASB’s final pronouncement.</p> <ul style="list-style-type: none"> • In the Consultation Document accompanying ED PBE IPSAS 43, the indicative issue date of PBE IPSAS 43 was April 2023. If the NZASB agrees to develop New Zealand requirements for concessionary leases in the short term ahead of the IPSASB’s final pronouncement, then we believe that it is possible to finalise New Zealand requirements for concessionary leases by the end of 2023 or first quarter of 2024. • Therefore, <u>if we defer the issuance of PBE IPSAS 43 until we have also finalised the specific New Zealand requirements for concessionary leases</u> (as discussed in Agenda Item 6.1), <u>the delay will only be around one year</u>. Arguably, such a delay is not significant, particularly given the effective date of 1 January 2027. <u>PBEs will still have sufficient time to implement the new Standard by the effective date</u>.

What changed	Rationale for deferring finalisation of PBE IPSAS 43
<p>Feedback on previous consultations indicated that in general, there was support in New Zealand for aligning lessee accounting requirements for PBEs with the IFRS 16-based ROU model. However, <u>feedback received on ED PBE IPSAS 43 indicates concerns about the ROU model from the NFP sector.</u></p>	<p>Deferring the finalisation of PBE IPSAS 43 would give staff and the Board more time to consider and deliberate how to address the feedback received from the NFP sector, including any changes to lease accounting requirements for NFPs.</p>

Question for the Board

- Q1. Does the Board agree to defer the finalisation of PBE IPSAS 43 until it can be finalised together with New Zealand requirements for concessionary leases?

Strategic issue 2: Whether to explore different requirements for NFP PBEs

What is the issue?

26. As explained in the 'ED feedback summary' section above, the feedback received from a public sector perspective was notably different from the feedback we received from an NFP perspective.
27. Public sector respondents disagreed with certain aspects of the ED proposals – for example, some preferred to add a monetary threshold for 'leases of low-value assets', some called for more RDR concessions, and some made recommendations relating to 'Phase 2' of the project on concessionary leases. However, subject to these comments, the public sector respondents generally agreed with the proposals to introduce an IPSAS 43-based and IFRS 16-aligned PBE Standard, which introduces the ROU model for lessees.
28. By contrast, ED respondents from the NFP sector expressed concerns about the proposed new ROU model for lessees and did not support its introduction. A key concern among these respondents was that the new lessee accounting requirements were *overly complex* and that *the costs of applying these requirements would outweigh the benefits for NFP PBEs*. Furthermore, respondents from the NFP sector noted that *cost/benefit 'equation' is different for NFP PBEs as compared to for-profit entities and public sector PBEs*.
29. Further explanation is included in the table on the next page.

Table 5 Concerns from NFP sector regarding the proposed PBE IPSAS 43

Key NFP theme 1: The new requirements are complex and the costs to NFPs will outweigh the benefits	
Comments on complexity and costs for NFPs	Comments on benefits
<ul style="list-style-type: none"> • The constituents of Charities Services (R2), as well as R3, R9, R10, and R11, expressed concerns about the complexity of the proposed Standard and the associated increase in costs. These respondents referred to increases in both financial statements preparation costs and audit costs. • In addition, R8 shared his research findings, indicating that the proposed requirements would materially affect charities through both technical accounting challenges and operational challenges. Technical challenges could arise due to difficulties in determining the discount rate (see below). Operational challenges could arise because the proposed requirements are likely to cause charities to have ‘debt’ for the first time, or to significantly increase their level of perceived ‘debt’. This may either go against the charity’s constitution, and/or it may be viewed unfavourably by the charity’s stakeholders, as it may seem that the charity is not acting in the best interests of its beneficiaries by taking on perceived debt. R8’s full research papers are attached as agenda items 6A.3 and 6A.4, in the Supplementary Papers (Board-only). • The most common area of concern in terms of complexity and cost was the determination of the discount rate for leases. R8 noted that charities often do not have borrowings, meaning that they would not have readily available inputs for calculating the incremental borrowing rate for discounting their leases. R3 confirmed this point from a preparer’s perspective, noting that they would need to pay a third party for inputs into the discount rate calculation. • R3 noted that it maintains leases across the country, therefore implementing the new requirements would be a major expense for this NFP organisation. • External consequences of the increased costs for NFPs: <ul style="list-style-type: none"> ○ R11 noted that the increase in costs would have to ‘come out of community money’ – implying that NFPs will have less funds available to carry out work for the benefit of the community. ○ Charities Services noted that the concerns about the new requirements may possibly lead to a decrease in compliance with PBE Standards among charities. However, the proposed long effective date for the new requirements mitigates this risk. 	<ul style="list-style-type: none"> • Charities Services’ constituents, as well as R3, R9 and R10, expressed the view that the proposed requirements would have either no benefits or limited benefits for charities and their users. • A key benefit of the proposed requirements is increased transparency around leases in PBE lessees’ financial statements. However, R3 considers that financial reporting under current GAAP already requires charities to report in a way that is transparent and comparable. R11 similarly emphasised that as a Tier 2 NFP PBE they already provide information about all of their leases (unless immaterial) under the current disclosure-only requirements for operating leases. • Another benefit of the proposed requirements was international alignment and allowing PBEs and the users of their financial statements to benefit from the latest international thinking on lease accounting. However, Charities Services noted that its constituents did not consider international alignment (with IPSAS) to be important. • Furthermore, Charities Services noted constituents’ feedback that the new requirements ‘will make financial statements harder to understand’ for users.
<p>Therefore: The constituents of Charities Services (R2), as well as R3, R9, R10, and R11, considered that the abovementioned costs of applying the new requirements would outweigh the benefits.</p>	

Key NFP theme 2: The cost/benefit 'equation' is different for NFP PBEs compared to for-profit entities and public sector PBEs	
Points raised	Further explanation
Charities tend to have fewer resources than entities in the for-profit and public sectors	R3 noted that charities tend to have fewer resources than for-profit entities and government (public sector) entities – therefore, “it is not always justifiable or beneficial to apply the same standards across these sectors”.
Research indicates different impacts of the new requirements for charities as compared to local councils	R8 shared the findings of his research regarding lease accounting for PBEs. The research indicated that for local councils (public sector PBEs), the proposed requirements would result in more information in the financial statements without material costs, and may be beneficial for those councils that access debt markets. However, for charities (NFP PBEs), the proposed requirements could result in both technical accounting challenges and operational challenges (see 'key NFP theme 1' above).
Due to differences in <i>statutory</i> financial reporting frameworks, a larger number of smaller NFP PBEs (and public sector PBEs) would be affected by the new requirements as compared to for-profit entities	R10 noted that due to the differences in the <i>statutory</i> financial reporting requirements for for-profit entities as compared to PBEs, the proposed new lease accounting model will <i>affect a larger number of smaller PBEs as compared to affected for-profit entities</i> . This is because for-profit entities tend to be companies – and generally speaking, companies do not have a statutory requirement to report in accordance with XRB accounting standards at all unless they are FMC reporting entities, or unless they are 'large' for the purpose of the Companies Act 1993. For a New Zealand company, being 'large' for the purpose of the Companies Act involves having assets above \$66 million or revenue above \$33 million. By contrast, for PBEs, the <i>statutory</i> requirement to report in accordance with XRB standards is based on the nature of the PBE and not on size – e.g. all schools have a requirement to report in accordance with XRB accounting standards, and so do all registered charities. The <i>Accounting</i> Standards Framework does have tier size thresholds for PBEs. However, this still means that all PBEs that have a statutory financial reporting requirement and <u>expenses above \$2 million</u> will have to apply the new lease accounting model – whereas for-profit companies do not have to apply the equivalent model in IFRS 16 unless they have <u>revenue above \$33 million or assets above \$66 million</u> , or they are an FMC reporting entity.
Therefore: it is implied that what might work for for-profit entities and public sector PBEs in terms of cost/benefit considerations might not work for NFP PBEs.	

Initial staff considerations

30. We consider that the benefits of the proposed new ROU model for PBE lessees and the rationale for proposing the new requirements, as outlined in the Consultation Document accompanying PBE IPSAS 43, are equally as applicable to public and NFP sector.
31. However, on balance we agree with respondents that the cost/benefit considerations for NFPs is different than the public sector, including the importance of maintaining alignment with IPSAS. These concerns are valid and merit consideration before proceeding with the finalisation of PBE IPSAS 43. In particular, we note the following:
 - (a) The message from representatives of the NFP sector were consistent in their concerns about, and lack of support for, the proposed ROU model.
 - (b) The concerns from the NFP respondents were aligned with the findings of R8's academic research, which indicated that the ROU model could provide benefits for councils for no material increase in costs, but would have a material impact on NFP PBEs in terms of technical accounting challenges and operational challenges.
32. Therefore, we have considered how best we could address the concerns raised by the NFP respondents.
33. Our starting point was to consider the applicable foundational guidance in our New Zealand Accounting Standards Framework and PBE Policy Approach about the extent to which our frameworks allow for (1) significant departures from IPSAS; and (2) significant difference between NFP PBE Standards and PBE Standards. The PBE Policy Approach says it is expected that recognition and measurement requirements will be common to all PBEs and care should be taken to minimise the impact of inconsistencies, if they cannot be eliminated. However, while the New Zealand Accounting Standards Framework (ASF) provides for a single suite of PBE Standards for public sector and NFP PBEs in Tiers 1 and 2, it does not expressly prohibit different measurement and recognition requirements for NFP PBEs as compared to public sector PBEs. The ASF acknowledges the possibility of differences in accounting requirements for NFP PBEs as compared to public sector PBEs. Refer to [Appendix Two](#) for further analysis on these points.

Staff recommendations

34. We have considered several different ways in which we could address the concerns raised by representatives of the NFP sector. Please refer to [Appendix One](#) for a summary of our considerations.
35. On balance, we recommend *exploring a temporary exemption from the ROU model for NFP PBEs*, for leases currently classified as 'operating'. [Appendix Three](#) outlines two possible options for operationalising such an exemption. Both options effectively allow NFP PBEs to temporarily retain their current treatment of operating leases, i.e. accounting for such leases as an expense over the lease term.

36. As noted above, we recommend that the exemption for NFP PBEs would be a *temporary exemption*. This means that the exemption would be subject to review as part of a future post-implementation review (PIR) of PBE IPSAS 43. At the time of that future review, the Board would decide whether to revoke the exemption, or make it permanent, or make changes to the exemption, etc.
- (a) We expect that the IASB's PIR of IFRS 16 *Leases* will have been completed by the time the Board reconsiders the temporary exemption for NFPs – meaning that the outcomes of that PIR could help inform the Board's deliberations.
 - (b) We also note Charities Services' comment that due to the current shortage of accountants and auditors in New Zealand, the proposed new ROU model for lessees "may create extra strain on the workforce because of the time required to upskill and account for leases using more complex methods". The current economic situation and related strain on the work force may be temporary and may improve in the future. A temporary exemption for NFPs (either from the ROU model or from PBE IPSAS 43 in full) would help avoid the challenges mentioned by Charities Services while the current work force situation is in place – but will allow the Board to make a re-assessment once circumstances change.
37. We also propose that NFP PBEs that use the abovementioned exemption be required to provide certain additional disclosures about their 'operating' leases. We have not yet developed a view as to the specific nature of such disclosures. However, we suggest we look at adding disclosure requirements which align with some of the concepts in PBE IPSAS 43; we will propose options to the NZASB at a future meeting should the NZASB be supportive of exploring the NFP exemption approach.
38. The advantages of the suggested 'NFP exemption' are as follows.
- (a) The exemption would help address the concerns raised by NFP respondents to ED PBE IPSAS 43 regarding the cost and complexity of applying the ROU model – in a way that other options (such as disclosure concessions only or staff guidance only) would not be able to.
 - (b) Being targeted at NFP PBEs, the exemption will take into account the differences between NFP PBEs and public sector PBEs as highlighted by the responses to ED PBE IPSAS 43.
 - (i) It addresses the argument raised by some NFP ED respondents that the cost/benefit equation is different for NFPs as compared to for-profit entities and public sector PBEs.
 - (ii) At the same time, it takes into account the fact that public sector respondents generally supported introducing IPSAS 43 requirements into PBE Standards – by ensuring that public sector PBEs are required to apply the ROU model as aligned with IPSAS 43.
 - (iii) In addition, it takes into account comments that we heard from the public sector during the *Targeted Review of the New Zealand Accounting Standards Framework*

in 2019 – namely, that alignment with international accounting standards that are set independently and reflect international best practice is beneficial from a public sector perspective. By contrast, based on responses to ED PBE IPSAS 43, it appears that international alignment does not hold the same level of importance for NFP PBEs.

- (c) The temporary nature of the exemption would allow the Board to re-assess in a suitable timeframe – with the benefit of having observed the public sector’s experience in applying the standard, and with the ability to consider any improvements in IT solutions and any emerging accounting practice that may affect the cost/benefit balance for NFP PBEs.
39. We propose that the temporary exemption for NFPs from the ROU model be an *optional exemption*, rather than a mandatory exception. We acknowledge that an optional exemption could lead to some inconsistency in reporting on leases among NFP PBEs, and some users of NFPs’ financial statements (such as grantors/funders) may prefer consistent reporting on leases by all NFPs. However, an optional exemption would take into account the needs of PBEs that are part of a ‘mixed group’. For example, if an NFP has a for-profit subsidiary that prepares financial statements under NZ IFRS 16, that NFP may choose to apply the ROU model under PBE IPSAS 43 in the group financial statements. Furthermore, an optional exemption would give NFP PBEs the flexibility to transition to the ROU model when circumstances permit – and to be responsive to the needs of the users of their financial statements.

Question to include in the New Zealand consultation on concessionary leases

40. As noted above, introducing a recognition and measurement-related exemption for NFP PBEs only would be a departure from our usual approach to developing PBE Standards. Therefore, we think that we should check with New Zealand constituents whether they agree *in general* with this departure from our usual approach.
41. We think that we can draft the specific paragraph as part of updating [draft] PBE IPSAS 43 for the feedback received on the ED – without having to expose the exact wording of these paragraphs for public consultation in an additional ED.
42. The question for constituents could be worded along the following lines:

In 2022, the NZASB consulted on ED PBE IPSAS 43 *Leases*, a proposed new lease accounting standard aligned with NZ IFRS 16.

When we consulted on this ED, we heard concerns regarding the cost and complexity of the proposed right-of-use model for lessees from the perspective of not-for-profit PBEs. . We did not hear such concerns from the public sector.

The NZASB is proposing that the full requirements of PBE IPSAS 43 would be mandatory only for Tier 1 and Tier 2 public sector public benefit entities (PBEs).

We are proposing that:

- As a temporary approach, Tier 1 and Tier 2 not-for-profit lessees will be granted an exemption from the proposed right-of-use model for their operating leases.

- This temporary measure will be reconsidered at a later date after a future post-implementation review (PIR) of PBE IPSAS 43 *Leases*.
- Additional disclosures would be required if a not-for-profit PBE elects to apply the exemption.

Do you agree that not-for-profit PBEs should be permitted a temporary exemption from the new lease accounting requirements proposed in ED PBE IPSAS 43 for their operating leases (without a similar exemption for public sector PBEs)?

43. Regarding the specific wording of the paragraphs relating to the exemption for NFPs, the related disclosure requirements paragraphs: we propose to discuss these with key stakeholders via focus groups, to ensure that we develop appropriate wording.

Question for the Board

- Q2. Does the Board agree that we should explore developing an exemption for NFP PBEs, that would allow them to account for their 'operating' leases in which they are lessees as an expense over the lease term – rather than applying the ROU model as per PBE IPSAS 43?
- Q3. Does the Board agree that the temporary exemption for NFP PBEs should be optional, rather than mandatory?
- Q4. If the answer to Question 2 is 'yes', does the Board agree that we should ask New Zealand constituents for feedback on a temporary exemption for NFP PBEs?
- Q5. If the answer to Question 2 is 'no', should staff consider any of the other options in [Appendix One](#) for addressing the concerns raised by NFP sector respondents?

Next steps

44. The next steps depend on the Board's responses to the questions in this memo, as well as the Board's decisions under Agenda Item 6.1.
- (a) If the Board agrees to defer the finalisation of PBE IPSAS 43 and issue the Standard together with finalised requirements for concessionary leases, then:
- (i) If the Board agrees to explore the abovementioned exemption for NFPs, then staff will ask New Zealand constituents a *general question* on this topic.
- (ii) In future meetings, staff will bring to the Board recommended updates to draft PBE IPSAS 43 as a result of feedback on the 2022 ED. This will include draft updates relating not only to the 'NFP exemption', but also in relation to other comments raised by respondents to the 2022 ED (e.g. addressing the matter raised by R4 regarding sale and leaseback transactions, considering whether to add a monetary threshold for low value leased assets as recommended by some respondents, etc.) We expect to draft most of these updates after the consultation on the New Zealand proposals for concessionary leases have closed for comment – as we would be taking an integrated approach to finalising PBE IPSAS 43 together with specific requirements for concessionary leases. However, certain unrelated updates could be drafted and discussed with the Board earlier

(for example, possible updates regarding the threshold for leases of low value assets).

- (b) If the Board prefers a different approach, we will amend our next steps accordingly.

Attachments

Agenda item 6A.2: Submissions received on ED PBE IPSAS 43 *Leases*

Agenda item 6A.3: Research paper: Impact of Lessee and Lessor Accounting in Local Councils (in the supporting papers)

Agenda item 6A.4: Research paper: Effect for Capitalising Operating Leases on Charities (in the supporting papers)

Appendix One: Options considered by staff for addressing concerns from NFP respondents

	Possible course of action - type	Possible course of action - details	Staff comment
(a)	Staff guidance for NFP PBEs – does not affect the Standard	Develop non-authoritative staff guidance on the more challenging aspects of PBE IPSAS 43 – such as determining the lessee’s incremental borrowing rate (discount rate), determining the lease term (and whether a lessee is ‘reasonably certain’ to extend a lease), etc.	<p>Advantages</p> <ul style="list-style-type: none"> • Could help NFP PBEs with the application of the more complex areas of the Standard – without the need for changes to the drafting of the Standard itself. • Consistent with our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs. <p>Disadvantages</p> <ul style="list-style-type: none"> • Staff guidance may not be sufficient for addressing the issues raised by NFP respondents – they may still find the ROU model to be too complex, even if we provide guidance on how to go about determining their incremental borrowing rate, etc.
(b)	Relief for Tier 2 NFP and public sector PBEs – disclosure concessions	Provide additional Tier 2 disclosure concessions for NFP and public sector PBEs	<p>Advantages</p> <ul style="list-style-type: none"> • Consistent with our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs. • Both the OAG and Treasury commented on increasing disclosure concessions for Tier 2 PBEs. <p>Disadvantages</p> <ul style="list-style-type: none"> • Disclosure concessions may not be sufficient for addressing the issues raised by NFP respondents, as their concerns related to the complexity of the ROU model itself.
(c)	Relief for NFP PBEs (and possibly public sector PBEs) – retain the ROU model but introduce practical expedient for discount rate	Work with other agencies (e.g. Treasury, Charities Services) to provide discount rates that NFP PBEs could use for discounting lease payments under the ROU model – and allowing NFP PBEs to use these discount rates as a practical expedient when applying PBE IPSAS 43 (instead of calculating their lessee-specific incremental borrowing rate). This could involve publishing ranges of discount rates for ‘categories’ of assets such as land, buildings, vehicles and office equipment. The expedient could also be extended to public sector PBEs.	<p>Advantages</p> <ul style="list-style-type: none"> • This would address what seems to be a key concern among the respondents who commented on the cost and complexity of applying PBE IPSAS 43 in the NFP sector. • If the practical expedient is provided to both NFPs and public sector PBEs, this would be consistent with our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs. <p>Disadvantages</p> <ul style="list-style-type: none"> • A practical expedient relating to the discount rate may not fully address the concerns raised by NFP respondents regarding the complexity of the ROU model (there are other areas of complexity in this model, e.g. determining the lease term, lease modifications, lease payments etc.)

	Possible course of action - type	Possible course of action - details	Staff comment
(d)	Relief for NFP PBEs – retain the ROU model but introduce some recognition and measurement concessions when applying the ROU model	<p>Recognition and measurement concessions for NFP PBEs could include some or all of the following (in addition to the practical expedient for discount rates):</p> <ul style="list-style-type: none"> • Exempting a subset of leases, e.g. leases that are not ‘strategically significant’, from the ROU (in addition to the existing exemptions for low-value and short-term leases); • introducing a monetary threshold for ‘low value’ leases that is higher than the IASB’s, for the purpose of the ‘low value’ exemption; • increasing the lease term to which the ‘short-term lease’ exemption would apply, etc. 	<p>Advantages</p> <ul style="list-style-type: none"> • Targeted at NFP PBEs, taking into account the difference in ED feedback between respondents from the NFP sector vs the public sector. • Could go some way towards addressing NFP respondents’ concerns about the complexity and cost of applying the ROU model. <p>Disadvantages</p> <ul style="list-style-type: none"> • Partially departs from our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs. • Providing recognition and measurement concessions in relation to certain aspects of the ROU model may not go far enough to address the concerns raised by NFP respondents.
(e)	Relief for NFP and public sector PBEs – retain the ROU model but introduce some recognition and measurement concessions when applying the ROU model	Same as (d) above, except that the agreed-upon measurement concessions would apply to both public sector PBEs and NFP PBEs	<p>Advantages</p> <ul style="list-style-type: none"> • Consistent with our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs. • Could go some way towards addressing NFP respondents’ concerns about the complexity and cost of applying the ROU model. <p>Disadvantages</p> <ul style="list-style-type: none"> • Providing recognition and measurement concessions in relation to certain aspects of the ROU model may not go far enough to address the concerns raised by NFP respondents. • Public sector respondents have not called for recognition and measurement concessions, and may not wish to use such concessions.

	Possible course of action - type	Possible course of action - details	Staff comment
(f)	<p>Relief for NFPs – complete exemption from ROU model within PBE IPSAS 43, for ‘operating’ leases in which the NFP is a lessee.</p> <p>The exemption would be optional and temporary.</p>	<p>Add an exemption into PBE IPSAS 43 which would exempt NFP lessees from the ROU model for ‘operating’ leases. This would require NFP lessees to use the guidance for lessors in PBE IPSAS 43 on classifying new leases as ‘operating’ vs ‘finance’ (grandfathering rules would apply for existing leases).</p> <p>Similarly to the existing exemptions for short-term leases and leases of low-value assets, NFP lessees would have the option to account for all their ‘operating’ leases as an expense over the lease term.</p>	<p>Advantages</p> <ul style="list-style-type: none"> • The exemption would help address the concerns raised by NFP respondents regarding the cost and complexity of applying the ROU model – in a way that other options (such as disclosure concessions only or staff guidance only) would not be able to. • Being targeted at NFP PBEs, the exemption will take into account the differences between NFP PBEs and public sector PBEs as highlighted by the responses to ED PBE IPSAS 43. • The optional nature of the exemption – as opposed to a mandatory exception – would take into account the needs of PBEs that are part of a ‘mixed group’ (who may want to apply the ROU model). • Compared to option (g) below, there would be only one standard for leases – which is arguably simpler in the sense that preparers do not need to consider ‘which standard they are in’. • NFP PBEs applying this exemption would still need to apply the other requirements of PBE IPSAS 43, which would be helpful to those entities if and when they are required to apply PBE IPSAS 43 in full (if the Board subsequently removes the exemption). <p>Disadvantages</p> <ul style="list-style-type: none"> • Departs from our general approach whereby PBE Standards have the same recognition and measurement requirements for public sector and NFP PBEs.
(g)	<p>Relief for NFPs – complete exemption from the whole of PBE IPSAS 43.</p> <p>The exemption would be optional and temporary.</p>	<p>Exempt NFP PBEs from PBE IPSAS 43 altogether – allowing NFP lessees to continue applying PBE IPSAS 13, and therefore continue accounting for ‘operating’ leases in surplus/deficit only and not on the balance sheet.</p>	<p>Advantages</p> <ul style="list-style-type: none"> • Same as for (f) above, except it could also be argued that this option is simpler for NFPs, in the sense that they have the option to not consider any of the requirements in PBE IPSAS 43 (including the enhanced disclosure requirements for lessors, etc.) and will be able to continue with ‘business as usual’ under PBE IPSAS 13. <p>Disadvantages</p> <ul style="list-style-type: none"> • Same as for (f) above, except that challenges would arise for us as standard setters with respect to the consequential amendments of PBE IPSAS 43.

Appendix Two: PBE Policy Approach and Accounting Standards Framework Considerations for a NFP exemption

45. Our suggested temporary exemption for NFPs would constitute a recognition and measurement-related difference for NFP PBEs vs public sector PBEs.
46. The PBE Policy Approach says the following at paragraph 17, about striving to maintain the same recognition and measurement requirements for NFP and public sector PBEs:
- “In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as NFP entities. However, it is expected that recognition and measurement requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated”.
47. We note that in practice, differences between requirements for NFP PBEs as compared to public sector PBEs are currently limited to *presentation differences* (e.g. different options for presenting budget information in PBE IPSAS 1), *disclosure differences* (e.g. different related party disclosure requirements in PBE IPSAS 20), and *application guidance for NFPs* on how to apply the same recognition and measurement requirements as those that apply to public sector PBEs (e.g. application guidance in PBE IPSAS 35 for franchise-like network and partner agreements, which are more relevant to NFPs).
48. There is currently one temporary area of recognition and measurement differences for NFP PBEs vs public sector PBEs: PBE IFRS 17 *Insurance Contracts* currently applies only to NFP PBEs, with public sector PBEs still applying PBE IFRS 4 *Insurance Contracts*. However, the amendments recently approved by the Board will bring public sector PBEs into the scope of this Standard from 1 January 2026.
49. Introducing a recognition and measurement-related exemption for NFP PBEs would be different to our usual approach for Tier 1 and 2 PBEs. However, in our understanding, the New Zealand Accounting Standards Framework (ASF) does not expressly prohibit different measurement and recognition requirements for NFP PBEs as compared to public sector PBEs. The ASF acknowledges the possibility of differences in accounting requirements for NFP PBEs as compared to public sector PBEs. Paragraph 10 of the ASF says:
- “Some of the PBE Accounting Standards requirements may only apply to public sector PBEs or only apply to not-for-profit (NFP) PBEs. Where this is the case, the following definitions apply:”
- The ASF does not specify whether such differences must be limited to presentation and disclosure only, or whether they could also be recognition and measurement differences.
50. On balance, in light of the comments that we received on ED PBE IPSAS 43 from both the NFP sector and the public sector, we think that in this case there is merit in introducing the suggested temporary ‘NFP exemption’ from the ROU model, despite the fact that this would represent a recognition and measurement-related difference in requirements for NFP PBEs vs public sector PBEs. We also note that this difference would be subject to re-assessment.

Appendix Three: Options for Operationalising a Temporary Exemption for NFPs

51. To support our recommendation to *explore a temporary exemption from the ROU model for NFP PBEs*, for leases currently classified as ‘operating’, this Appendix outlines two possible options for operationalising such an exemption. Both options effectively allow NFP PBEs to temporarily retain their current treatment of operating leases, i.e. accounting for such leases as an expense over the lease term.
- (a) Option 1: Require NFP PBEs to apply PBE IPSAS 43, but temporarily exempt them from the ROU model for ‘operating’ leases in which they are lessees.
- (i) This exemption would be similar to the optional exemption from the ROU model that ED PBE IPSAS 43 proposed for all lessees with respect to short-term leases and leases of low-value assets – except that this exemption would apply to NFP PBEs only (for ‘operating’ leases only), and would be temporary, subject to future reconsideration.
- (ii) For greater simplicity and to avoid the risk of ‘cherry picking’, our view is that under this option, NFP lessees that wish to apply the exemption would need to do so to all of their operating leases. Under this option, lessees who elect to apply the exemption would be required to ‘grandfather’ their operating vs finance lease assessment (which would have been made under PBE IPSAS 13) for existing leases. PBE IPSAS 43 still includes guidance on operating leases for lessors. Under Option 1, NFP lessees would be able to apply this guidance to determine when entering into a new lease whether it is ‘operating’.
- (iii) NFP PBEs would still be required to apply the ROU model to those leases that they currently account for as ‘finance’ leases. We note that for a finance lease, the transition from the lessee accounting requirements in PBE IPSAS 13 to the ROU model in PBE IPSAS 43 is not expected to be complex, as these requirements are similar.
- (b) Option 2: Temporarily allow NFP PBEs not to apply PBE IPSAS 43 but rather to continue applying PBE IPSAS 13.
- (i) Under this option, the scope section of PBE IPSAS 43 would indicate that NFP PBEs in Tiers 1 and 2 need not apply this Standard – and if they elect not to apply this Standard, they are required to apply PBE IPSAS 13 *Leases* (which is the lease accounting standard that currently applies to Tier 1 and Tier 2 PBEs).
52. Both options have advantages and disadvantages relative to each other which can be discussed in further detail with the Board if we explore a temporary NFP exemption.

Submissions Cover Sheet: ED PBE IPSAS 43 Leases

Reference	Respondent	Date
Formal submissions		
R1	Auckland Council	25 November 2022
R2	Charities Services	25 November 2022
R3	New Zealand Family Planning	9 November 2022
R4	Ministry of Education	22 November 2022
R5	OAG	9 November 2022
R6	PwC	25 November 2022
R7	The Treasury	2 December 2022
Online feedback		
R8	Professor Tom Scott, AUT	12 September 2022
R9	Nicol O'Donnell, Aviva (incorp. Christchurch Women's Refuge) Charitable Trust	2 November 2022
R10	Anne Topham, Peak Chartered Accountants Limited	7 November 2022
R11	Clare Randall, Arohanui Hospice	25 November 2022

25 November 2022

By email: accounting@xrb.govt.nz

Auckland Council's feedback provided on the NZASB Consultation Document and the Accompanying Exposure Draft (ED) for the proposed new lease accounting standard (PBE IPSAS 43 Leases) for Tier 1 & 2 Public Benefit Entities.

Thank you for providing Auckland Council Group (the group) with the opportunity to provide on the Consultation Document and the Accompanying Exposure Draft (ED) for the proposed new lease accounting standard (PBE IPSAS 43 Leases) for Tier 1 & 2 Public Benefit Entities.

We have read the consultation document and provided our responses to the specific matters for the respondents in the appendix to this letter along with our additional comments for the NZASB's (the Board) consideration. In summary, we are supportive of the Board's decision with the proposed scope of PBE IPSAS 43.

We anticipate the Board to finalise the project on concessionary leases and provide clear guidance for us to prepare ourselves in complying the accounting standards.

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

Yours sincerely

John Bishop
Group Treasurer
john.bishop@aucklandcouncil.govt.nz

Yvonne Teo
Senior Group Reporting Technical Accountant
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Appendix 1

Clarification of the scope of PBE IPSAS 43 with respect to concessionary leases (Section 4.4)

1. Do you agree with the proposed scope clarification with respect to concessionary leases? That is, do you agree with the clarification that:

- Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43;
Yes, we agree that the concessionary leases meeting the definition of a lease should be in the scope of the proposed PBE IPSAS 43.
- Arrangements that convey the right to use an asset for a specified period for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and
Yes, we agree that the right to use an asset for no consideration does not meet the definition of a lease under paragraph 10 of the proposed PBE IPSAS 43: *'A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.'*
- In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?*
- Yes, we agree that the entity should take into account the lease payments as per the lease agreement. For concessionary leases, there may be instances where some buildings are leased out and have non-monetary/ indirect benefits to the lessor such as building a relationship with a potential buyer, having other commercial benefits behind the contract or helping the lessor to achieve its objectives. In such instances, the lease payments on market terms will not capture all the economic benefits of the lease anyway and hence it would be more appropriate to take into account the lease payments as per the agreed lease arrangement.

Also, we believe it is not economically beneficial (based on a cost-benefit assessment) to put excessive focus to determine the market rate of the leases which are not commercially focused.

* Except when PBE IPSAS 43 or another Standard requires or permits a different accounting treatment (for example, if right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in PBE IPSAS 17, a lessee may elect to apply that revaluation model to all of the right-of use assets that relate to that class of property, plant and equipment).

Appendix 1

Leases of low-value assets (Section 4.5)

2. Do you agree that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED? If not, on what basis should this assessment be performed? In the example provided under paragraph IE3 on page 89 in the Exposure draft "*Example 11— Leases of Low-Value Assets and Portfolio Application*", we understand that desktop printers can be considered low-value assets but high-capacity multifunction photocopier devices do not qualify as leases of low-value assets. It appears unclear under the standard of the reason why high-capacity multifunction photocopier devices do not qualify as leases of low-value assets. Even from a real-world perspective considering an organisation that applies Tier 1 or 2 PBE standards, such assets would always be amongst its low-value assets.

The above scenario has shown that there will be inconsistencies in the accounting treatment without a threshold used for low-value assets. There are other examples such as conference room HD camera/webcam systems, conference room speaker systems, smartboards, and Electric Vehicle chargers for which it is debatable if they could be categorised as low-value assets. Their price is similar to the high-capacity multifunction photocopier devices. Hence, our preference is that the Board to follow IASB's path to include US\$5,000 as the threshold for low-value assets.

Not having a threshold for low-value assets would create inconsistent treatment given different preparers and auditors interpretations and risk appetites. The inclusion of monetary value would eliminate any debate, and reassessment of threshold for every reporting period. We believe it is not economically beneficial to put excessive focus and time on deciding the treatment of low-value assets. Further, having a threshold for the low-value assets assessment would enhance the comparability of different entities' financial statements within the same sector. Should the Board be averse to including a threshold, we suggest that entities are required to disclose their threshold. Although this would not assist with comparability of different entities' financial statements, it would reduce the debate between preparers and auditors, and over time, it is likely that industries would align on similar thresholds.

RDR concessions (Section 4.6)

3. Do you agree with the proposed RDR concessions for Tier 2 PBEs?
We agree with the proposal for RDR concessions for Tier 2 PBEs.

Appendix 1

Effective date and other comments (Section 4.7)

4. Do you agree with the proposed effective date of 1 January 2027?
We agree with the proposed effective date of 1 January 2027. The date should align with the date when the concessionary leases standard (i.e.: the project on *Other Lease-type Arrangements*) is finalised and concessionary leases are included within the scope of PBE IPSAS 43. Auckland Council has many concessionary leases and sufficient time would be required to fulfil the requirements.

5. Do you have any other comments on the ED?
We do not have any further comments on the ED.



25 November 2022

New leases standard for Public Benefit Entities

I am pleased to provide a submission to the External Reporting Board (the XRB) on the consultation and exposure draft of the proposed accounting standard *PBE IPSAS 43 Leases*. Charities Services' functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to prepare financial statements that comply with these standards.

Charities Services considers that the Specific Matters for Comment (SMC) are technical matters that would be more appropriately answered by professionals involved in the preparation and audit of financial statements, due to their experience and understanding of the sector's needs. Rather than comment on the SMC, we appreciate the opportunity to provide general comments and to share the feedback received from the sector.

General comments

We understand and appreciate the approach to developing PBE IPSAS 43, the desire to align this standard with IPSAS 43 and NZ IFRS 16 and can see value in the benefits the standard is expected to achieve.

We consider the alignment of this standard with for-profit and international standards would be beneficial for some entities. However, it is our experience that most registered charities place more importance on the financial reporting standards reflecting the environment in which they operate over alignment with international reporting standards.

Sector feedback and comments

During this consultation period, we have received comments and feedback from members of the sector, mostly from professional Accountants or Auditors. Most of the comments we have received either raise specific concerns or were not in support of the proposed changes. While some commenters understood the benefits of aligning this standard with for-profit and international standards, the concerns shared are that:

- The standard will take a simple concept such as rent expenses and disclosed liabilities and make it too complex.
- The changes may create extra work for PBEs and their auditors with little tangible benefit, and that it will make financial statements harder to understand.
- It will be too complicated to determine the effective interest rate and to discount the assets and liabilities to present value.
- More time and resources (cost) will be required to calculate the present value discount, and for auditors to gain assurance over the recognised values.
- Due to the current shortage of accountants and auditors, the changes may create extra strain on the workforce because of the time required to upskill and account for leases using more complex methods.

It is possible that increasing the complexity of reporting requirements may result in lowered compliance with the reporting standards and increase costs as charities start applying the new way of accounting for leases. The risk of lowered compliance may be mitigated by the fact that the proposed standard will be applied by professionals with appropriate capability.



There is a significant amount of time to prepare for the changes, which will be further facilitated by sufficient professional support and guidance provision in the lead up to, and into the mandatory adoption period. We will continue our commitment to sharing all resources that will be made available to the sector in support of any changes to accounting standards.

Thank you for the opportunity to comment.

Nga mihi,

Stephen Reilly

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

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Charities # CC11104

9 November 2022

External Reporting Board
PO Box 11250
Manners St Central
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email: accounting@xrb.govt.nz

Tēnā koutou

Thank you for the opportunity to provide comment on the proposal to change lease accounting standards for public benefit entities (PBE IPSAS 43 Leases). Family Planning provides brief, high level comment on this proposal. Overall, Family Planning is concerned that this proposal will not provide any benefit to charitable organisations such as ours but will instead result in increased costs and complexity related to accounting and audit processes.

Family Planning is New Zealand's largest provider of sexual and reproductive health services and information. We are a non-governmental organisation (NGO) and a charity operating 28 health care clinics throughout Aotearoa New Zealand, as well as services in schools and through community partnerships. We offer accredited clinical courses and training workshops for doctors, nurses, midwives, and other clinicians working in sexual and reproductive health, as well as professional development for teachers providing relationships and sexuality education in schools. Family Planning is a Tier 2 public benefit entity (PBE).

Family Planning maintains leases across Aotearoa. If the proposed accounting standard for leases is adopted, it will result in our organisation needing to recalculate liabilities and assets. This will be a major expense for our organisation. It will require significant staff time, and we will also need to pay for third-party input into the relevant interest rate to be relied by the auditors. Additionally, the proposed change in accounting standards will result in a highly

complex accounting process and, therefore, annual audit process, taking more time, money, and staff time than the current accounting standard.

Family Planning raises questions about the benefit of this new approach for the charities sector. We note the consultation document indicates that greater transparency and comparability is considered a leading benefit of the new approach. Charitable organisations are already required to prepare financial reports under GAAP for public readership and transparency.

If Charities Services is concerned about the use of funds by a particular charity, the Charities Services already has broad powers to investigate.¹ We note that charities often have far fewer resources than for-profit organisations and government entities and so it is not always justifiable or beneficial to apply the same standards across these sectors.

Thank you again for the opportunity to comment.

Ngā mihi nui

Jackie Edmond
Chief Executive

¹ Charities Services (2019) Charities Services Compliance Approach.
<https://www.charities.govt.nz/assets/Charities-Services-Compliance-Approach-V1.0.pdf>



22 November 2022

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

Tēnā koe

Feedback for Consultation PBE IPSAS 43 – Lease.

Thank you for the opportunity to submit our feedback of proposed PBE IPSAS 43 – Lease.

In responding, we have provided the appendix one to address the specific questions in the consultation document.

We are giving our consent to publish our submission as part of the NZASB consultation process.

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

Nāku noa nā

Shirley Long

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Appendix One

Questions 1: Do you agree with the proposed scope clarification with respect to concessionary leases? That is, do you agree with the clarification that:

- Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43;
- Arrangements that convey the right to use an asset for a specified period of time for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and
- In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?

Answer: We agree with the proposed scope clarification with respect to concessionary leases and support the decision that PBEs are not required to measure the 'concessionary portion' of their concessionary leases at fair value. If the decision is reverse, it would have a significant impact to the Ministry and may not be practical to determine the market fair value for all the leases which are listed in appendix two.

Question 2: Do you think that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED? If not, on what basis should this assessment be performed?

Answer: We agree the assessment of a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset which and this is consistent to NZ IFRS 16.

However, a specific monetary threshold would be helpful for making decisions for the 'low value' leased assets.

Question 3: Do you agree with the proposed RDR concessions?

Answer: We agree with the proposed RDR concessions.

Questions 4: Do you agree with the proposed effective date of 1 January 2027, with early adoption permitted?

Answer: We agree with the proposed effective date of 1 January 2027, with early adoption permitted.

Question 5: Do you have any other comments on the ED?

Answer: As the proposed PBE IPSAS 43 does not require PBEs to measure the 'concessionary portion' of their concessionary leases at fair value, but rather measure the lease at amounts of lease payments as per the lease agreement. Are PBEs still required to follow paragraph 100 and 101 under the circumstances that payments for the lease are not at market rates (i.e., fair value)? we recommend revising the following two paragraphs to reflect the recent change in the proposed PBE IPSAS 43.

100. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

- (a) Any below-market terms shall be accounted for as a prepayment of lease payments; and
- (b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

101. The entity shall measure any potential adjustment required by paragraph 100 on the basis of the more readily determinable of:

- (a) The difference between the fair value of the consideration for the sale and the fair value of the asset; and
- (b) The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

As PBEs are not required to follow IFRS which are designed for the “for-profit” entities, for determining whether the transfer of an asset is a sale, we agree with NZASB’s intention to develop the IPSAS standards and include them into IPSAS 43, rather than refer to NZ IFRS 15 per paragraph 99.

In addition, we suggest the NZASB/representatives from New Zealand Treasury to consider the following practical issues to the Ministry of Education or other PBEs.

Notional Lease

Ministry of Education owns and provides the land and buildings to schools to be used for education purpose with no end term. The schools do not pay any rents for this arrangement.

Currently no accounting entry has been recorded in the Ministry’s financial statement however, schools recognise the grant income and operating lease expenses in the financial statements. Both entries are calculated at 8% of the annual land and building valuations, plus the adjustments that the Ministry made to 3rd parties.

The proposals in ED PBE IPSAS 43 clarify that while concessionary leases that involve the lessee paying consideration are within the scope of the standard (as they meet the definition of a lease, which a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration).

Page 13 staff note of the consultation document explains that “an arrangement that conveys a right to use an asset for a period of time for no consideration does not meet the definition of a lease and is outside the scope of the proposed PBE IPSAS 43. The term ‘consideration’ in the definition of a lease includes consideration at below-market terms (even if it is nominal).”

Our interpretation of the meaning for “nominal” is very small and far below the market value of the lease. However, as the schools doesn’t pay any consideration for using Ministry of Education’s assets, we are seeking clarification if the Notional Lease arrangement is still within the scope of the lease under PBE IPSAS 43?

Please note, if the Notional Lease arrangement is within the scope of PBE IPSAS 43, we anticipate the following complications for the schools which most of them are tier 1 and 2.

- Difficult to determine the lease term, the fair value of assets and liabilities as all Notional Leases are perpetual to the schools.
- Administrative burdens for schools who have limited financial resource.
- All school financial statements templates need to be amended and communicated.

If the Notional lease is not within the scope of PBE IPSAS 43, we are seeking clarification if the current operating lease accounting entries recognising the grant income and operating lease expenses in school’s financial statements are still needed?

Appropriation implications

Currently all finance leases are treated as borrowings and must be signed by the Minister of Finance in accordance with the Public Finance Act. We are seeking clarification from the Treasury representative if the operating lease arrangements under the proposed PBE IPSAS 43 will be treated the same way which requires the sign-off from the Minister of Finance.

Currently operating leases are accounted through the operating output or other expense appropriations. With transition of leases to the balance sheet, agencies will require to consider if they have existing capital expenditure appropriations with a scope wide enough to accommodate the lease costs or whether the creation of new appropriations will be necessary. Implementation timeframe should take into account the public sector budgeting and planning cycle to allow agencies to work through the appropriation implications.

Discount rate

The standard defines a discount rate as “the interest rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment”. Public sector would benefit from a single discount rate as most departments and agencies will not have any borrowings and may use different methodology for determining their discount rate, leading to differences in the valuation of the finance lease asset and liability for the same class of assets across the sector. This may also distort the balance sheet of New Zealand government when Treasury consolidating all PBEs financials.

Key ratios analysis

Change in the standard will have a significant impact on the key balance sheet ratios (such as leverage and liquidity ratios). This may have a negative impact on the public sector entities with borrowings and any related covenants as well on the fiscal ratios monitored at the all-of-government level (such as debt to GDP ratio). If PBE IPSAS 43 is implemented, we suggest to re-consider the threshold for the key balance sheet ratios for borrowings.

Appendix two

Nature of the concessionary leases	Accounting treatment
<p>Notional Leases for School's land and buildings MOE owns and provides the land and buildings to schools to be used for education purpose with no end term. The schools do not pay any rents for this arrangement.</p>	<p>MOE: no accounting entry has been made to the financial statements.</p> <p>Schools: recognise the grant income and rent expenses entries in the financial statements. Both entries are calculated at 8% of the annual land and building valuations.</p>
<p>Lease of houses to teachers MOE owns houses and provides accommodation to schools/teachers in certain communities under a variety of terms and conditions, including discounted rents and in some cases no end term.</p> <p>Please refer to the website for further details: https://www.education.govt.nz/school/property-and-transport/school-facilities/teacher-caretaker-housing/</p>	<p>MOE: recognise rental income in the financial statements.</p> <p>Schools/teacher: recognise lease expense in the financial statements.</p>
<p>Peppercorn Leases (MOE as "lessee") These (26 approximately) are leases with a nil, nominal or a token payment.</p> <p>Various local governments or 'not for profit' organisations 'lease' their premises to MOE to support communities and education services with varied terms. MOE does not typically pay any rent for these arrangements or pays only a nominal or token amount.</p>	<p>MOE: no accounting entry has been made to the financial statements (other than the cash entry if a nominal amount is paid).</p> <p>Not for profit' organisations: most likely no accounting entry has been made to the financial statements.</p>
<p>Sale and lease back of land from Treaty settlements Under the Ministry's Treaty Settlements Property Redress programme, designated land is sold to an iwi and leased back with no specific lease term or termination date; the Ministry can keep leasing the land for as long as it is needed for education purposes (or any other public work) and only the Ministry can end the lease. Also, depending on values attributed to the sale, and the subsequent rental amount, it's possible some of those values and terms may be consider as "below the market".</p> <p>Please refer to the website for further details: https://www.education.govt.nz/school/property-and-transport/leasing-and-hiring/iwi-leased-school-sites/</p>	<p>MOE: Sells of land: de-recognises the land per the carrying value, recognises the cash received and the difference between the selling price and carry value as a gain. Lease: recognises the lease as an operating lease and a lease expense in the financial statements.</p> <p>Iwi: Purchases of land: most likely recognise the land per purchase price, and the cash paid. Lease: most likely recognises the lease as an operating lease and a lease revenue in the financial statements.</p>
<p>MOE has a mixture of formal and informal arrangements (26 approximately) with various entities and the terms vary widely – for example terms can be monthly, fixed terms like 21 years with perpetual renewal options, or perpetual leases as long as MOE determine they need the property (as is the case with Treaty sales and leasebacks)</p>	<p>MOE: recognise as an operating leases expense if paying the lease, otherwise, no accounting entry has been made to the financial statements.</p> <p>Other parties: most likely recognise as an operating leases income if receiving the lease, otherwise, no accounting entry has been made to the financial statements.</p>



9 November 2022

External Reporting Board
PO Box 11250, Manners St Central,
Wellington 6142.

Submitted online to: [the consultation page](#)

Attention: April Mackenzie

Dear April

Proposed new lease accounting standard: Tier 1 & 2 Public Benefit Entities - PBE IPSAS 43 Leases

Thank you for the opportunity to comment on the External Reporting Board's (XRB's) Proposed new lease accounting standard: Tier 1 & 2 Public Benefit Entities - PBE IPSAS 43 *Leases*.

In general, we support the proposed new lease accounting standard and aligning it with IPSAS 43 *Leases*.

Our comments to the individual Questions are attached to this letter.

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

Yours sincerely

Todd Beardsworth
Assistant Auditor-General – Audit Quality

Robert Cox
Director, Audit New Zealand

Appendix 1: Responses to the Questions

Clarification of the scope of PBE IPSAS 43 with respect to concessionary leases (Section 4.4)

1. Do you agree with the proposed scope clarification with respect to concessionary leases? That is, do you agree with the clarification that:
 - Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43;
 - Arrangements that convey the right to use an asset for a specified period of time for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and
 - In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?

We agree with the proposed scope clarification with respect to concessionary leases as set out under Question 1.

However, we note that in the section Amendments to Other Standards in relation to the proposed amendment to PBE IPSAS 23 *Revenue from Non-exchange Transactions*, it is stated in BC 26 (on page 52 of the ED), that:

“BC26. Concessionary leases ... Until such requirements are developed, **it is not appropriate to require fair value measurement** for the concessionary component of a concessionary lease or for arrangements to use an asset for a specified period of time for no consideration.” [Emphasis added]

We note that some public entities currently fair value the concessionary component of their concessionary leases. We presume these entities can continue to use fair value measurement. It would be useful if BC26 could clarify that entities already using fair value measurement for the concessionary component of their concessionary leases can continue to do so, for example:

“BC26. Concessionary leases ... Until such requirements are developed, it is not appropriate to require fair value measurement for the concessionary component of a concessionary lease or for arrangements to use an asset for a specified period of time for no consideration. However, entities that are currently using fair value measurement for the concessionary component of their concessionary leases may continue to do so in the meantime.”

Leases of low-value assets (Section 4.5)

2. Do you agree that the assessment of whether a leased asset is of ‘low value’ should be performed on an absolute value basis for each individual leased asset, as proposed in the ED? If not, on what basis should this assessment be performed?

We agree that the assessment of whether a leased asset is of ‘low value’ should be performed on an absolute value basis for each individual leased asset.

RDR concessions (Section 4.6)

3. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

We agree with the RDR concessions and note that they are consistent with NZ IFRS 16 *Leases*.

However, we note the small number of RDR concessions provided. We consider that it would be useful if the New Zealand Accounting Standards Board could revisit the RDR concessions over its suite of accounting standards at some point in the future to determine if more RDR concessions could be provided.

Effective date and other comments (Section 4.7)

4. Do you agree with the proposed effective date of 1 January 2027?
5. Do you have any other comments on the ED?

We agree with the proposed effective date of 1 January 2027 and we have no other comments on the ED.



Gali Slyuzberg
Project Manager Accounting Standards
External Reporting Board
Level 7, 50 Manners St Wellington
PO Box 11250 Manners St Central
Wellington 6142 New Zealand

By email: accounting@xrb.govt.nz

25 November 2022

Subject: Proposed new lease accounting standard for Tier 1 and 2 PBEs - PwC response

Dear Gali

We appreciate the opportunity to submit our views on the External Reporting Board (XRB) Proposed new lease accounting standard for Tier 1 and Tier 2 Public Benefit Entities (PBEs) (PBE IPSAS 43 Leases)).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only.

Overall comments

We support the XRB's proposal to introduce a new lease accounting standard based on the recently-issued IPSASB standard IPSAS 43 Leases.

We also support the proposal to clarify the scope of PBE IPSAS 43 as it relates to the application of the standard to concessionary leases.

We have made some observations where we believe further guidance would be helpful to ensure consistent application of the new standard.

Questions for respondents

Our responses to the specific questions raised in the consultation document are attached in Appendix A.

We appreciate the opportunity to provide feedback on the proposed guidance.

Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely

Stephen Hogg
Capital Markets and Accounting Advisory Services Partner

Appendix A

Our responses to the specific questions raised in the consultation document: Proposed new lease accounting standard - Tier 1 and Tier 2 Public Benefit Entities

Question number	Response
<p>Q 1</p> <p>Clarification of the scope of PBE IPSAS 43 with respect to concessionary leases</p> <p>1. Do you agree with the proposed scope clarification with respect to concessionary leases?</p> <p>That is, do you agree with the clarification that:</p> <ul style="list-style-type: none"> • Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43; • Arrangements that convey the right to use an asset for a specified period of time for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and • In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?* <p>* Except when PBE IPSAS 43 or another Standard requires or permits a different accounting</p>	<p>We support the XRB's proposal to clarify that concessionary leases are in the scope of PBE IPSAS 43.</p> <p>We also note the consequential amendments to PBE IPSAS 23 to exclude leases within the scope of PBE IPSAS 43 and arrangements that convey the right to use an asset for a specified period of time for no consideration from its scope. This will resolve a historic apparent conflict between the leases standard (PBE IPSAS 17) and PBE IPSAS 23.</p> <p>However we are concerned that this creates an exception to the general principle within PBE IPSAS 23 that the concessionary element of non-exchange transactions should be recognised at fair value whenever possible. This could introduce scope for entities to try and engineer different accounting outcomes through structuring arrangements as a lease to avoid having to recognise the concessionary portion of the arrangement at fair value.</p>

<p>treatment (for example, if right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in PBE IPSAS 17, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment).</p>	
<p>Q2</p> <p>2. Do you think that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED?</p> <p>If not, on what basis should this assessment be performed?</p>	<p>We agree with the proposals that entities should determine whether a leased asset is of 'low value' on an absolute basis and not based on whether the asset is material to the entity.</p> <p>However, we think that the proposal to not provide an indicative figure, in line with the IASB's Basis for Conclusion to IFRS 16, as to what would constitute a 'low value' leased asset could lead to inconsistent application of this exception by for profit entities and public benefit entities in mixed groups.</p> <p>Therefore we would prefer an alignment to the guidance in this respect in the IASB's Basis for Conclusion to IFRS 16 that states that low-value assets are assets whose value (when new) is "in the order of magnitude of US \$5,000 or less" .</p>
<p>Q3</p> <p>Do you agree with the proposed RDR concessions?</p>	<p>Yes</p>
<p>Q4</p> <p>Do you agree with the proposed effective date of 1 January 2027, with early adoption permitted?</p>	<p>Yes, we agree with the reasons outlined by the XRB in the consultation document for a long adoption period. We also agree that entities should be able to adopt the standard early.</p>
<p>Q5</p> <p>Do you have any other comments on the ED?</p>	<p>We have no further comments.</p>

AC-2

2 December 2022

Ms April MacKenzie
Chief Executive
External Reporting Board
PO Box 11 250
Manners Street Central
Wellington 6142

Dear April

NEW LEASES STANDARD FOR PBES

Thank you for the opportunity to comment on the proposed new lease accounting standard for Tier 1 & 2 Public Benefit Entities PBE IPSAS 43 *Leases*.

Treasury is supportive of the proposed standard. We note and endorse NZASB's proposals not to include specific requirements for the accounting for the 'concessionary portion' of concessionary leases and similar arrangements as an interim measure, pending further examination by the IPSASB and the NZASB. In our response to your request on the scope of the standard and for "any other comments" we suggest two lines of enquiry that may be worth pursuing as this phase two work progresses.

Our response to NZASB's specific questions is provided in the enclosure.

We are very happy to discuss these suggestions with the NZASB and staff further.

Yours sincerely

Jayne Winfield
Chief Government Accountant

Treasury's Response to Questions in Consultation Document on PBE IPSAS 43

1. Do you agree with the proposed scope clarification with respect to concessionary leases? That is, do you agree with the clarification that:
 - Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43;
 - Arrangements that convey the right to use an asset for a specified period of time for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and
 - In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?

The Treasury agrees with the proposed scope clarification as an interim position.

However, we believe Phase Two of the IPSASB leases project is critical in respect of assessing whether a concessionary lease is in scope of the standard and therefore, we would like to take this opportunity to share some views on this.

We note that in PBE IPSAS 43, the assessment of whether a contract is, or contains, a lease, requires entities to work through a checklist of IFRS 16 contract components (AG32 flow diagram refers) with a clarification that if the consideration component is missing, it does not meet the definition of lease contract. This means concessionary leases go through the same checklist and the same guidance as a commercial lease contract.

We believe most concessional leases will tick all the boxes of each contract component set out in AG32, especially when it's common under public sector right-of-use arrangements to have some consideration, which is often a nominal amount, or an agreed amount not referenced to a market (often because there is no relevant market) and therefore will likely be labelled "below-market" by standard setters. However, we believe this approach to scope does not acknowledge the substance of a range of concessionary lease arrangements in the public sector. For example, a lease arrangement that conveys the right to use an asset for a period of time, but there is nil consideration, is out of scope of the standard, while the same lease arrangement with a nominal consideration of \$1 per annum is in scope.

While we can see the attractions of this simple contractual tick-box approach to the scope of PBE IPSAS 43, we urge standard setters to unpack and test whether the foundational presumption under IFRS 16, which is that leases are financing arrangements, makes sense as a principle in public sector concessionary lease or lease-like arrangements.

We provide further thoughts on concessionary leases under Question 5, referencing to two main topics:

- *It may not be appropriate to treat some concessional leases as leases*
- *The public sector is involved in right of use arrangements that warrant inclusion in the forthcoming "Other Lease-type Arrangements" guidance*

We agree with the clarification that in applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms.

2. Do you agree that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED? If not, on what basis should this assessment be performed?.

The Treasury prefers the IPSASB solution of low value without the "US\$5,000 or less" guidance provided by the IASB, given these uncertain inflationary times and foreign exchange fluctuations. The example of small office items but not cars being considered low value provides sufficient guidance. Nor can we envisage any mixed group accounting issues from this divergence. Therefore, the Treasury agrees with the NZ ASB's proposal not to modify the requirements of IPSAS 43 for leases of low value assets.

3. Do you agree with the proposed RDR concessions for Tier 2 PBEs?

The Treasury acknowledges that this is not an issue of direct relevance to it, and that we have not taken soundings from those entities directly affected. The proposed concessions look sensible; however we suspect that the NZ ASB could go further in reducing disclosures. It is not clear to us why any information more than the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset, and the carrying amount of lease liabilities is justified for a Tier 2 PBE.

4. Do you agree with the proposed effective date of 1 January 2027?

There are significant system changes and public sector management issues to be worked through in adopting this standard. Both the private sector experience and the experience of the UK and Australian government implementing this standard has demonstrated that a significant lead-in period is required. Therefore, Treasury agrees with the proposed effective date at this stage and cautions that the transition period should not be truncated.

5. Do you have any other comments on the ED?

Yes. We note that the project is somewhat unfinished due to further consideration being required for concessional leases. To assist in this further work in Phase Two of the leases project, we suggest below some lines of thinking.

It may not be appropriate to treat some concessional leases as leases

We note in BC 2 of IPSAS 43:

Consistently with IFRS 16, IPSAS 43 introduces a new lease accounting model for lessees – the 'right-of-use' model. The right-of-use model is based on the foundational principle that leases are financings of the right to use an underlying asset [emphasis added].

It is this foundational principle underpinning the right-of-use model, and its transferability to the public sector, which we feel has not been analysed and addressed satisfactorily so far in the scope of PBE IPSAS 43, and we hope it will be in Phase Two of the project. In our view, many concessional leases should not be characterised as financing transactions.

Currently, the proposed standard defines a lease as a:

“contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”.

That raises in our minds whether a ...

“contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for a commitment to carry out an activity from which the lessor benefits indirectly (e.g. a complementary activity to the lessor’s activity) but not directly (e.g. nil or nominal consideration, or consideration set without reference to markets or where the lessor does not seek a financial return, is received) ...

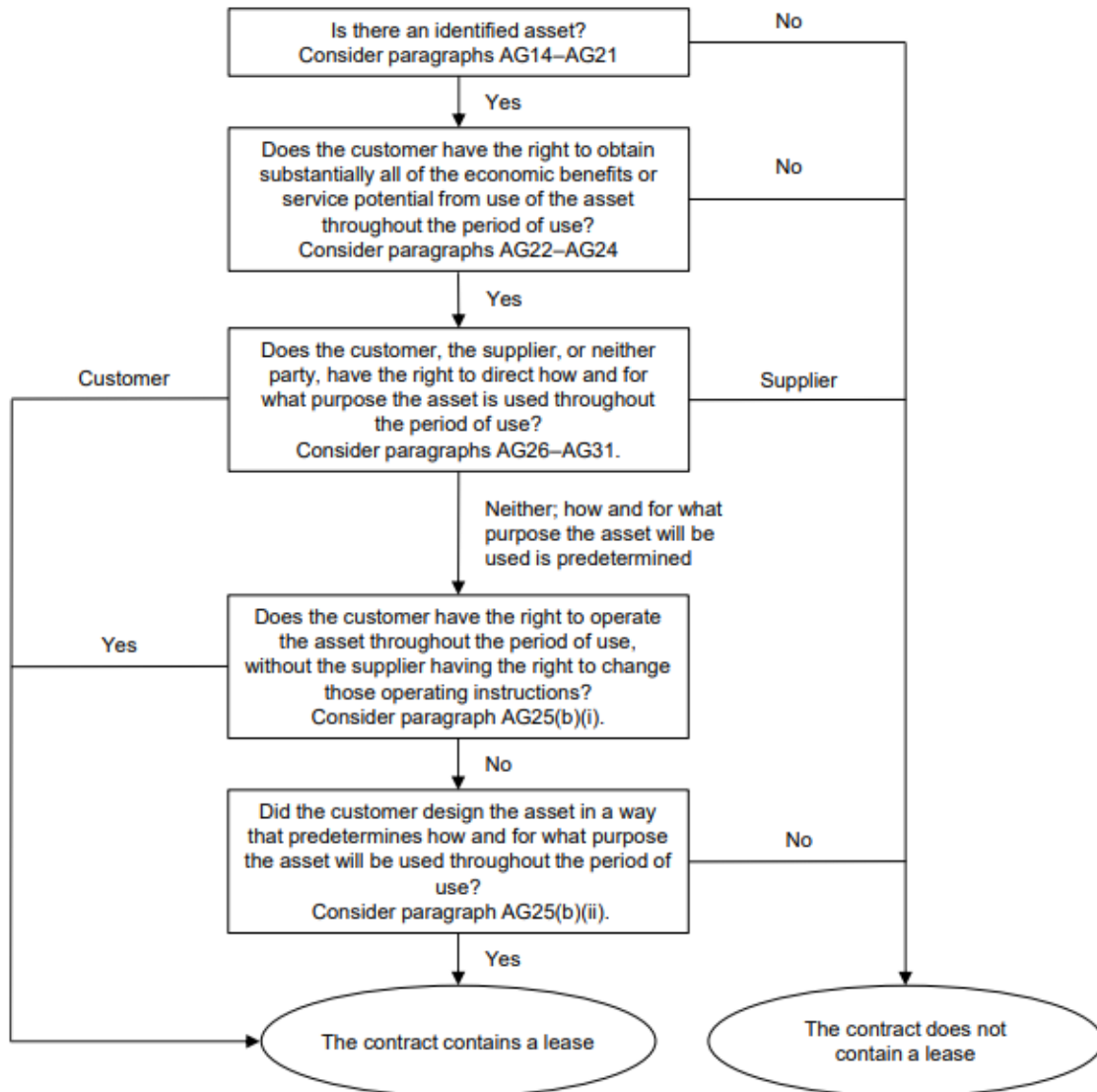
... is appropriately thought of as a lease at all?

We would consider the latter to generally be a more appropriate description of most public sector concessional ‘leases’. We believe that this is of particular importance because in the latter case no ‘debt-like liabilities’ are created, even where there is some form of consideration in the arrangement.

As financing through a ‘debt-like liability’ was the primary factor behind the original IASB decision to adopt the right-of-use model for leases it seems questionable that a concessional lease should be considered a financing item rather than an operating item. In substance, Treasury would therefore suggest that characterising a concessional lease as an operating subsidy is a more fair reflection of its economic substance than reporting it as a financial obligation.

We think that the application guidance and flow chart in AG32 is an example where these public sector difference should be drawn out and addressed.

AG32. The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



In addition to our concerns that certain concessionary leases would be incorrectly referenced as in-substance financing transactions under PBE IPSAS 43, we note that all AG32 questions focus on whether the “customer” has various rights to an identifiable asset. We are concerned that PBE IPSAS 43 and AG32 omits critical public sector differences in respect of various “rights” to assets, and that these too should be considered in the development of the standard under Phase Two of the leases project. We submit that more reflection is required here and have provided some lines of thinking on “rights” below

The public sector is involved in use right of use arrangements that warrant inclusion in the forthcoming “Other Lease-type Arrangements” guidance.

Lease type arrangements typically involve the provision of a right to use an asset. However rights-of-use fit into an overall schema of property rights best identified by Edella Schlager and Nobel Prize winning economist Elinor Ostrom:

- Access the right to enter a defined physical property
- Withdrawal the right to obtain the “products” of a resource
- Management the right to regulate internal use patterns and transform the resource by making improvements
- Exclusion the right to determine who will have an access right, and how that right may be transferred
- Alienation the right to sell or lease the above rights

This is a property rights framework characterized by nested, cumulative attributes. It has become arguably the most ubiquitous framework for analysis of natural resources and property rights. Discriminating between these rights is particularly important for assets providing non-private goods, where aspects of non-rivalry and non-excludability require collective management structures, and to recognise indigenous world views. The framework can be summarised in the following chart.

Bundles of Rights Associated with Persons				
English Concept	Owner	Proprietor	Lessee	Authorised User
Closest Maori Concept	Rangatira?	Kaitiaki?	Kareihi?	Kaiwhakamahi?
Access and withdrawal	X	X	X	X
Management	X	X	X	
Exclusion	X	X		
Alienation	X			

In this framework, an owner may transfer:

- rights of direction-of-use and rights-of-use to a kaitiaki or lessee, and
- rights-of-use, but not rights-to-direct-use to an authorised user.

Lease contracts are just one way to reflect a transfer of rights of use from an owner or kaititaki to a lessee. Other arrangements besides lease contracts may be used to transfer similar rights in the public sector. If financial reports are to fairly reflect the rights of a public sector entity, other bundles of rights than access, withdrawal and management should be provided for.

A holistic approach that fully reflects the attributes of rules and rights that apply over the use of assets in the public sector is likely to be a much better fit for purpose than an accounting approach derived simply from private sector lease contracts. We briefly highlight some benefits below.

Authorised users, and not the reporting entity managing many infrastructure and natural resource assets controlled by the state, have access and withdrawal rights, (e.g. road users in fact use the roads of a roading authority managing state-owned roads). The property rights framework thus copes better than the contractual leasing approach for the awkward fact that many lessees in the public sector are not in fact users of the asset.

The framework helps clarify the distinction between operators of concession arrangements and lessees. The concept of authorised users that do not have the right to regulate use patterns is also likely to be useful when considering natural resource rights, such as access to the radio spectrum. Some so called 'concessional leases' where the lease is conditional on a prescribed use of the asset, may in fact be better reflected as 'authorised use' agreements and accounted for differently than leases.

Claimants appear similar to lessees, in that they have both a "right-of-use" and a "right to direct" the use but notably without sub-leasing rights. The private sector standard setter's analysis of rights to direct however seems limited to shipping containers and assets requiring specialised skills to operate. The public sector standard setter must consider more deeply the common situation where assets that are provided for the use only of another entity, whose objective the 'lessor' supports. We submit that more thinking that is refined is required here.

For example, the accommodation lease that a school makes available to a health operator on school premises so that health care can be provided to pupils, is different in substance to an accommodation lease that the same health provider might receive from a property management company. A judgement is required as to whether the health provider is an authorised user or a claimant (lessee). The proposed guidance is currently not up to this task. In another example, a better accounting outcome is likely to be achieved if the IPSASB seeks to best reflect a rail operating company paying a rail access charge as a claimant on the rail asset rather than as a lessee, and the infrastructure owner as an asset provider than a lessor.

Finally, the differentiation between kaitiaki and owners may be useful when considering the assets that the reporting entity is charged for maintaining and preserving for future generations. Are heritage assets effectively on 'lease' to public sector entities to look after them on behalf of the public?

Another possible use for this concept is the common practice of governments providing property rights to other governments for embassy and consulate purposes, but where if the embassy were to be withdrawn, the property would revert to the host government. The IPSAS conceptual framework has stated that service recipients and resource providers will need information that supports the assessment of the capacity of the entity to adapt to changing circumstances.

The adaptive capacity of an entity with alienation rights is quite different to an entity without those rights. In New Zealand, both our Public Works Act, and arrangements with Māori who have provided property for public purposes, provide residual rights back to the original owners if the property is no longer required for those public purposes.

Those examples illustrate that the allocation of withdrawal rights in the public sector is not such a simple matter as the public sector where leases are ubiquitous and simply a type of contract law and property can be described as either freehold or leasehold. The Treasury is not contesting that the right-of-use approach may be appropriate for many lease arrangements, but rather is arguing that they omit critical public sector differences that should be considered in the development of the standard.

We would urge that such considerations inform the development of the forthcoming "Other Lease-type Arrangements" guidance.

Online Feedback on NZASB ED PBE IPSAS 43 Leases

Received from	Feedback received
Tom Scott, AUT	<p>How to account for assets rented by companies has long been a controversial issue in accounting. Not accounting for rented assets could mean that users of financial reports are unaware of both the sizable commitment to make rental payments, and the use of the rented asset for production purposes. In two pieces of published research, I examined the effect for a sample of councils and charities and base my below comments on them.</p> <p>For councils, I found there is no effect on key financial performance metrics. Specifically, the very large relative asset bases of councils, such as water and roading infrastructure dwarfs the impact of any change. This is important, as councils are required to break even and have restrictions on their borrowing capacity, any material change would directly affect New Zealanders via increased rates or reduced council services. Thus, for organisations like councils the new standard would likely provide more information without any (material) costs. Furthermore, the extra information under the new lease standard is likely particularly useful as some councils do access public debt markets in New Zealand and operate effectively for profit council controlled organisations.</p> <p>In contrast, the impact on charities is material. First, it will result in the only major debt for many charities. Second, most charities aim to break-even, that is spend all their income (from donations etc) on providing services. This results in charities likely having a large increase in both debt levels and profitability under the new accounting standard. As some charities may explicitly prohibit debt in their constitution or it may not be viewed as in the best interest of the beneficiaries to take on debt, or aim to not have large surpluses, this will likely have real-world impacts on the charities ability to deliver services unless it is well understood by their board. As many charities do not have any debt, there may also be technical difficulties in applying this new rule for charities in terms of finding a discount rate. To alleviate these operational issues, there could be general discount rates provided by the Charities Services and clarification that it does not breach the criteria of "borrowings" and an information guide for boards.</p> <p>References: Fahad, N., and Scott, T. 2022, The impact of lessee and lessor accounting in local councils. Australian Accounting Review. Fahad, N., and Scott, T. 2022, The effect of capitalising operating leases on charities. Australian Accounting Review 35, 141-148.</p>
Nicol O'Donnell, Aviva (incorp. Christchurch Women's Refuge) Charitable Trust	<p>We feel that suggested changes for Tier 1 and Tier 2 public sector and not-for-profit entities only add a lot of complexity and there is not a lot of value for users/readers.</p> <p>Also, the impact of resourcing and implementation of changes should be consideration, especially for NGOs.</p>

Received from	Feedback received
Anne Topham, Peak Chartered Accountants Limited	My concern about this proposal is that it applies to Tier 2 entities in a PBE environment. (In a for profit environment the thresholds are significantly higher minimising the impact.) Other organisations are caught by virtue of what they are (e.g. schools). As a result of this a significant number of organisations are going to be caught by this accounting policy. Not only will this be more complex from an accounting perspective for them, but it will add no benefit to the majority of these organisations. The concessions in 4.6 do not go far enough - they should be exempt from the requirement to comply from this standard in its entirety.
Clare Randall, Arohanui Hospice	We are writing to provide feedback on the proposals for Tier 1 and Tier 2 public sector and not-for-profit entities with regard to leases. As a NFP Charity, we currently disclose in the notes to our Tier 2 accounts, any leases and their commitment value (unless immaterial). The work required (and associated cost) of complying with the proposed standard, in our view, outweighs any additional benefit to the reader of the accounts, or to the community. As a charity that is supported by community funding, the additional cost would ultimately come out of community money. We respectfully submit that not for profit charities be excluded from this proposed requirement.

Date: 2 February 2023
To: NZASB Members
From: Gali Slyuzberg and Anthony Heffernan
Subject: Disclosure of Fees paid to Audit Firms

COVER SHEET

Project priority and complexity

Project priority	<p>High</p> <ul style="list-style-type: none"> • Domestic project in response to calls from New Zealand stakeholders to improve transparency and consistency of information disclosed about fees paid to audit firms. • Topic of high interest for users of financial statements and regulators, as the extent to which an entity pays its audit firm for non-audit services is often seen as a key indicator of a possible threat to the auditor’s independence.
Complexity of Board decision-making at this meeting	<p>Medium</p> <ul style="list-style-type: none"> • At the December 2022 meeting, the Board discussed staff recommendations for changes to the ED text to address the <i>key issues</i> raised by respondents. • At this meeting, the Board is asked to CONSIDER the <i>remaining issues</i> raised by respondents.

Overview of agenda item

Project status	Feedback review stage – seeking Board agreement on how to address respondents’ comments other than the key issues already discussed in December 2023.
Project purpose	Proposals to enhance disclosure requirements about fees paid to an entity’s audit or review firm for different types of services – in response to calls for improvement in the transparency and consistency of information disclosed on this topic.
Board action required at this meeting	<p>AGREEMENT on how to address the remaining issues raised by respondents.</p> <p>We will ask for Board feedback on the questions as raised in this memo.</p> <p>We encourage any editorial comments to be sent directly to staff – gali.slyuzberg@xrb.govt.nz</p>

Purpose and introduction¹

1. In 2022, the Board consulted on two domestic Exposure Drafts (EDs) on *Disclosure of Fees Paid to Audit Firms*. The EDs aimed to improve the transparency and consistency of information disclosed about fees paid to an entity's audit or review firm for different types of services, in addition to the financial statement audit or review. The consultation closed on 30 September 2022.
2. Feedback on the EDs indicated overall support for the objectives of the proposals. Respondents generally supported the proposed categories of fees to be disclosed. However, some respondents requested further clarifications and refinements to the categories and to other proposed related disclosures.
3. In December 2022, agreed on certain modifications to the ED proposals, to address the *key issues* raised by respondents.
4. At this meeting, we are seeking the Board's feedback on how to address the *remaining issues* raised by respondents – and on the *updated amending standards* reflecting our recommendations in this memo and the Board's feedback from December about the key issues raised by respondents.

Recommendation

5. We recommend that the Board:
 - (a) CONSIDERS the changes made to the draft amending standards to reflect the Board's discussion in December 2022 on the key issues raised by the ED respondents; and
 - (b) AGREES on how to address the remaining issues raised by ED respondents (other than the key issues already discussed in December 2022), noting the staff recommendations in this regard.

Structure of this memo

6. This memo includes the following sections.
 - (a) [Background](#)
 - (b) [Summary of changes to the draft amending standards based on the Board's discussion of key issues in December 2022](#)
 - (c) [Recommendations for addressing the remaining matters raised by respondents](#)
 - (d) [Updated draft amending standards](#)
 - (e) [Next steps](#)
 - (f) [Appendix 1: Appendix 1: High-level summary of the ED proposals](#)
 - (g) [Appendix 2: Summary of ED respondents](#)
 - (h) [Appendix 3: Key matters raised by respondents and how they were addressed](#)

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

Background

7. Table 1 below includes a summary of the key steps of this project to date. In addition, for the Board’s reference and convenience, [Appendix 1](#) includes a high-level summary of the ED proposals, and [Appendix 2](#) lists the ED respondents.

Table 1 Project timeline

Date	Project activity
December 2021	<ul style="list-style-type: none"> The NZASB agreed to commence a domestic standard-setting project to develop enhanced disclosure requirements for fees paid to audit firms. The NZASB agreed to issue the proposals on this topic ahead of the AASB.
April 2022	<ul style="list-style-type: none"> Staff discussed the draft proposals with the NZASB and NZAuASB at the Boards’ joint meeting. Staff updated the draft EDs for additional feedback received from NZASB and NZAuASB Members, AASB staff, APESB staff, FMA staff, CA ANZ staff, and audit and assurance practitioners.
May 2022	<ul style="list-style-type: none"> The NZASB approved the EDs, subject the changes agreed at the meeting being reviewed by selected Board members and approved by the Chair. The NZASB agreed not to propose disclosures on audit tenure at this time.
June 2022	Approval of the EDs is finalised and the EDs are published.
June – September 2022	Staff carry out outreach activities, including: <ul style="list-style-type: none"> Promoting awareness of the EDs through an XRB Accounting Alert and publishing an article in XRB newsletter, Pitopito Korero; Presenting a summary of the proposals as part of the XRB <i>Need to Know</i> accounting update webinars; and Reaching out to interested stakeholders.
30 September 2022	Comment period closed. Ten formal and informal submissions received.
October – November 2022	<ul style="list-style-type: none"> Staff analysed feedback received and staff developed recommendations for addressing respondents’ requests for clarification and refinements. Staff discuss draft recommendations for addressing key issues raised by respondents with the Accounting TRG (15 November 2022).
December 2022	<ul style="list-style-type: none"> Staff updated the NZASB on the feedback received on the EDs The NZASB agreed on how to address the key issues raised by ED respondents
Current	Seeking the NZASB’s agreement on how to address the remaining matters raised by respondents
Future	
February – March 2023	<ul style="list-style-type: none"> Staff to seek feedback from key stakeholders on the updated ED, from a ‘fatal flaw’ perspective
Future meeting (2023)	<ul style="list-style-type: none"> Staff to seek NZASB approval to issue the amending standards on <i>Disclosure of Fees Paid to Audit Firms</i>

Summary of key issues raised by respondents and resulting changes to the amending standards

8. The Board discussed how to address the key matters raised by ED respondents at its meeting in December 2022. In summary the Board agreed to:
 - (a) Clarify the classification of agreed-upon procedures (AUPs) and assurance engagements as follows:
 - (i) Clarify that the *Audit or Review Related Services* category includes assurance services and non-assurance services such as AUPs, if the nature of the services is consistent with the description of that category.
 - (ii) Clarify that AUPs are classified as *Audit or Review Related Services* or as *Other Assurance Services and Other Agreed Upon Procedures Engagements*, based on the nature of the AUP engagement and the consideration of category descriptions; and
 - (iii) For services classified as *Audit or Review Related Services* or as *Other Assurance Services and Other Agreed Upon Procedures Engagements*: Require entities to specify whether each service within these categories is an assurance engagement, an AUP or other non-assurance engagement.
 - (b) Remove the proposed disclosure requirement on how the entity manages possible threats to auditor independence when certain services are provided.
 - (c) Extend the disclosure concessions for entities in Tier 2, so that Tier 2 entities are required to disclose:
 - (i) the total fees incurred for the audit or review of the financial statements; and
 - (ii) the total fees incurred for all other services provided by the audit or review firm (without requiring a breakdown of these fees by specified category) – plus a general description of these other services.
 - (d) Not to add a disclosure requirement regarding fees for services that the audit or review firm has been engaged to provide but for which fees were not yet incurred in the reporting period.
9. Further information on the above matters is included in [Appendix 3](#).
10. The changes to the ED text resulting from the Board's decisions on the key matters above are reflected in the draft amending standards, attached as Agenda Items 7.2 and 7.3. The Board will have seen most of these changes at the December 2022 meeting, but we have also made additional updates based on the Board's feedback in December. In Agenda Items 7.2 and 7.3, those changes to the original ED text that the Board has already seen are highlighted in blue, and updates made after the December meeting are highlighted in green.
11. In summary, we have made the following updates to the draft amending standard since the December 2022 meeting, following the Board's discussion at that meeting. The paragraph

references below relate to Agenda Item 7.2 (for-profit version of the draft amending standard), but equivalent changes were also made in Agenda Item 7.3 (PBE version).

- (a) Added the Illustrative Example that was discussed with the Board at the December 2022 meeting, i.e. for the disclosure of fees classified as *Audit or Review Related Services* and *Other Assurance Services and Other Agreed-Upon Procedures Engagements*.
[See the last page of the draft amending standard].
- (b) Updated the RDR concessions, by adding a requirement for Tier 2 entities to describe those services that are not part of the financial statements audit or review – and discussing the change from current Tier 2 requirements and the alignment with Australian Tier 2 requirements in the Basis for Conclusions.
[See paragraph RDR 8.3 and BC27–28].
- (c) Deleted the draft requirement to disclose significant fees for services that the audit firm has been engaged to provide but for which fees were not incurred during the reporting period, and updated the Basis for Conclusions accordingly.
[See paragraph 8.3A and BC29–31].
- (d) Updated the draft amending standards for other comments and edits received from Board Members before and after the December 2022 meeting.

Question for the Board

- Q1. Does the Board have any feedback on the changes to the draft amending standards in response to key matter raised by respondents – which have been updated for the Board’s feedback at the December 2022 meeting?

Recommendations for addressing the remaining matters raised by respondents

12. This section focuses on the remaining matters that were raised by respondents, i.e. other than the key matters discussed at the December 2022 NZASB meeting. The matters in this section have not yet been considered by the Board.

Application of materiality considerations

13. R4’s submission noted that while the proposed enhanced disclosures on non-audit services provided by audit firms are useful, sometimes the fees for such non-audit services can be so low so as to be immaterial, in which case the fees would not be disclosed.
14. We acknowledge this comment, but we note that materiality considerations are based not only on the amount of a transaction but also its nature. Therefore, a low fee for a non-audit service provided by the audit firm could nevertheless be material due to its nature. Moreover, we are also aware of the argument that fees for non-audit services provided by the audit firm would often be considered material due to their nature.

15. Based on the above, we think there could be confusion as to how materiality applies to the disclosure requirements in the amending standards – and that there is a need to clarify this matter.
16. We note that accounting requirements in both NZ IFRS and PBE Standards are generally subject to materiality considerations – which involve considering both the size and the nature of the item. This general requirement is included in the general presentation and disclosure standards NZ IAS 1 and PBE IPSAS 1, and the general accounting policies standards NZ IAS 8/PBE IPSAS 3. Other than these general standards, individual accounting standards generally do not include specific requirements with respect to materiality.
17. Therefore, we suggest addressing the matter of materiality in the Basis for Conclusions of the amending standards. Specifically, we recommend reminding in the Basis for Conclusions that materiality considerations take into account both the size and the nature of the item – and emphasising the importance of nature-based materiality considerations when considering whether to disclose fees paid to audit firms.

Figure 1 Staff recommendation for BC paragraph relating to materiality

For-profit version	PBE version (differences to for-profit version highlighted in blue)
<p><i>Application of materiality considerations</i></p> <p>BC32 Feedback on the ED included an observation that fees for services provided by the entity’s audit or review firm other than for the audit or review of the financial statements are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, NZ IAS 1 <i>Presentation of Financial Statements</i> notes that “materiality depends on the nature or magnitude of information, or both.”</p> <p>BC33 It is possible that a fee incurred for a non-audit service provided by the entity’s audit firm may be low in value, but the nature of the service may be such that information about the service and the related fee meets the definition of materiality in NZ IAS 1. That is, it may be that “omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.</p>	<p><i>Application of materiality considerations</i></p> <p>BC39 Feedback on the ED included an observation that fees for services provided by the entity’s audit or review firm other than for the audit or review of the financial statements are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, the NZASB notes that according to the definition of materiality in PBE IPSAS 1 <i>Presentation of Financial Reports</i> “the nature or size of the item, or a combination of both, could be the determining factor” in the assessment of materiality.</p> <p>BC40 It is possible that a fee incurred for a non-audit service provided by the entity’s audit firm may be low in value, but the nature of the service may be such that information about the service and the related fee meets the abovementioned definition of materiality in PBE IPSAS 1. That is, it may be that omitting or misstating this items could “influence the decisions or assessments of users made on the basis of the financial statements or service performance information”.</p>
<p>BC 34/41 Given the importance of auditor independence to users of the financial statements [report], and the connection between the assessment of auditor independence and the fees incurred for non-audit services provided by entity’s audit firms, it is particularly important to consider the nature of the service – not only the magnitude of the fee – when determining whether to provide the disclosures required by this Standard.</p>	

Question for the Board

- Q2. Does the Board agree with staff’s recommendations to add Basis for Conclusion paragraphs in relation to materiality, as shown in Figure 1 above?

Recommendations to add specific services as examples under the relevant fee categories

18. Individual respondents recommended clarifying the classification of certain specific services, by adding these specific services as examples under the relevant fee category. The respondents’ recommendations are listed in the table below. Each of these recommendations were made by a single respondent, except for the recommendation relating to transfer pricing (which was made by two respondents).

19. The table below also includes the staff view with respect to the respondents’ recommendations. The key premise behind our staff views is that the amending standards are intended to be *principles based* – consistent with the suite of NZ IFRS and PBE Standards in general. We had included in the EDs some examples of services within each category, to help support a consistent understanding of type of fees intended to be disclosed under each fee category as described by the draft standard. However, it was not our intention to completely eliminate the need for judgement when classifying fees paid to audit firms. In addition, we did not intend to specify the classification of every type of service commonly provided by firms to their audit/review clients. Furthermore, for certain services, specifying that the service is definitely classified as *Audit or Review Related Services* or definitely not classified in this category could have unintended consequences – given the nature-based description of this category.

20. Consequently, as shown in the table below, in most cases we have recommended not to include the additional examples suggested by the respondents in the amending standards at this stage – unless the classification of the service was clear-cut in our view. However, we note that staff guidance could be developed in the future if questions arise in practice regarding the categorisation of certain services when applying this standard.

Table 2 Recommendation to add specific services as examples

Respondents’ recommendations	Staff view
<p>R8: Include <u>limited assurance reports on banks’ capital adequacy and liquidity disclosures</u> as an example of a services within the <i>Audit or Review of the Financial Statements</i> category.</p> <p>R8 noted that the fees for this service are usually not determined separately from the fee for the audit/review of the financial statements.</p>	<p>We recommend no updates to the amending standards at this stage</p> <p>The RBNZ requires banks to comply with certain capital adequacy and liquidity requirements. Under the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the Order), banks are required to include specific disclosures about their capital adequacy and liquidity in their Disclosure Statement. The Disclosure Statement also includes the bank’s GAAP-compliant financial statements.</p> <p>The Order requires banks to obtain a limited assurance report over the disclosures on capital adequacy and regulatory liquidity requirements (whereas an audit opinion is required for the financial statements).</p> <p>The location of the capital adequacy and regulatory liquidity disclosures seems to vary from the Disclosure Statement of one bank to another. For example, one New Zealand bank includes these disclosures in a separate section of the Disclosure Statement, separate from the notes to the financial statements. However, another bank includes the capital adequacy and regulatory liquidity disclosures as part of the notes to the financial statements – but clearly marks these notes as ‘unaudited’, as they are subject to the abovementioned limited. Nevertheless, the note makes references to other notes that are audited and are part of the financial statements.</p>

Respondents' recommendations	Staff view
	<p>In both of the above examples, the auditor's report includes both:</p> <ul style="list-style-type: none"> • An audit opinion on the bank's financial statements and certain other regulatory information – specifically <u>excluding</u> the disclosures on capital adequacy and regulatory liquidity requirements, and; • A limited assurance conclusion with respect to the disclosures on capital adequacy and regulatory liquidity requirements. <p>We note that paragraph 8.12 of the draft for-profit amendments (and the equivalent PBE paragraph) provides that: <i>"The total fees for the audit or review of the financial statements include all the services performed by the auditor as <u>required to enable them to issue an audit opinion or review conclusion</u> on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement."</i></p> <p>Based on the information above, we think that issuing a limited assurance conclusion over the regulatory disclosures on capital adequacy and liquidity is <i>not necessarily required for enabling the issuance of the audit opinion on the annual financial statements (or the review conclusion on the interim financial statements)</i>.</p> <p><u>Therefore, we recommend not to specify that this service forms part of the financial statements audit or review.</u></p> <p>We have also considered whether to include this service as an example of <i>Audit or Review Related Services</i>. We understand that the banks audit/review firm would be reasonably expected to also provide this service – which meets one of the criteria of <i>Audit or Review Related Services</i>. However, we note that as R8 mentioned, the fee for this service is often not separately provided from the fee for the audit of the financial statements. Paragraph 8.8 of the draft standard requires entities to allocate a fee for a bundle of services among the categories to which the services relate – <i>unless such allocation is not practical</i>. If we specify that limited assurance over capital adequacy and regulatory liquidity disclosures is an example of <i>Audit or Review Related Services</i>, this may be interpreted as a <i>presumption that it should be practical to allocate the total audit fee between this service and the audit of the financial statements</i>. However, this may not always be practical, and the abovementioned 'presumption' may result in entities and their audit firms expending unnecessary cost an effort with respect to the fee allocation. We could try to mitigate this by providing additional explanation and guidance about the classification of this service in the amending standard – but this would add volume and complexity to the amending standard, which may be difficult to justify given that this specific service is only relevant to one type of entity (banks).</p> <p><u>Therefore, we also recommend not to specify that this service is an example of <i>Audit or Review Related Services</i>.</u></p> <p><u>However, we could explore the option of creating staff guidance with respect to the classification of this services.</u></p>
<p>R2: Clarify whether <u>interim financial statements review engagements</u> should be included in <i>Audit or Review of the Financial Statements</i> or in <i>Audit or Review Related Services</i>.</p>	<p>We recommend no updates to the amending standards</p> <p>The ED states in para 8.13 that the total fees under the 'Audit or Review of the Financial Statements' category includes work performed on the "interim financial statement audit or review engagement (if applicable)".</p> <p>Therefore, we think it is sufficiently clear that interim financial statements review engagements should be included in the 'Audit or Review of the Financial Statements' category.</p> <p><u>No further action recommended.</u></p>

Respondents' recommendations	Staff view
<p>R8: Include <u>engagements relating to reporting to trustees as part of the audit</u> as examples of <i>Audit or Review Related Services</i>.</p>	<p>We recommend no updates to the amending standards at this stage</p> <p>We understand that this service relates to entities that have issued debt securities under a 'regulated offer' for the purpose of the Financial Markets Conduct Act 2003 (FMC Act), as well as to managed investment schemes (MIS) as defined in the FMC Act.</p> <p>The FMC Act requires issuers of debt securities to have in place a <i>trust deed</i> with respect to the debt securities, and to appoint a '<i>licensed supervisor</i>' as the trustee with respect to the debt securities. A similar requirement is in place for MIS.</p> <p>Debt issuers and MIS are required to have their financial statements and their securities register audited.</p> <p>In addition, the Financial Markets Conduct Regulations 2014 (FMC Regulations) specifically allows <i>trustees/supervisors</i> of debt issuers and MIS to request that the auditor carry out '<i>specified engagements</i>' that are relevant to the performance of the trustees' duties.</p> <p>Below are some matters that seem to be commonly included in trust deeds as matters that trustees wish auditors to report to them on:</p> <ul style="list-style-type: none"> • Whether, in the performance of their duty as auditor, the auditor became aware of any matter that is relevant to the exercise/performance of the trustees' powers/duties under the trust deed; • Whether the auditor is aware of any instances of non-payment of interest by the reporting entity; • Whether the securities register has been maintained as per the requirements in the FMC Act; • Information about specific aspects of the debt instruments, e.g. the principal amount on issue, redemptions during the year, etc. <p>Arguably, it is reasonable to expect the financial statements auditor to perform the above reporting to the trustees (and the trust deed may require this to be the case).</p> <p>However, different trust deeds could have different requirements relating to the type of reporting to trustee and whether it must be carried out by the financial statements auditor. A joint publication on this topic by CA ANZ and Trustee Corporations Association of New Zealand Incorporated notes that "it is possible for each of the engagements to be conducted by a different individual auditor or even a different firm of auditors".</p> <p>Due to the possible variability in what 'reporting to trustees' may encompass, and the possible challenges of developing a more specific definition of reporting to trustees that would always meet the description of Audit or Review Related Services, <u>we think it may be safer not to add 'reporting to trustees' as an example of Audit or Review Related Services at this stage.</u></p>

Respondents' recommendations	Staff view
<p>R8: Include <u>reasonable assurance engagements on solvency returns for insurance entities</u> as examples of <i>Audit or Review Related Services</i>.</p>	<p>We recommend to add this service as an example of Audit or Review Related Services</p> <p>Solvency Returns are special reports prepared by licensed insurers for RBNZ, in accordance with the Interim Solvency Standard (ISS), as part of the insurers' licence conditions. These reports are different from the annual and interim GAAP financial statements. Briefly speaking, these reports include information on 'solvency capital' and other capital requirements for insurers as set out by the RBNZ. These capital measures are based on GAAP figures but are adjusted as required in the ISS.</p> <p>The ISS says: "A licensed insurer must engage its auditor to undertake a reasonable assurance-level audit of the annual solvency return(s) and must do everything necessary to allow the auditor to undertake this function".</p> <p>In our understanding, this wording implies that the insurer's financial statements auditor would need to carry out the reasonable assurance engagement over the Solvency Return. Even if that is not the case, the fact that the solvency capital calculations involve making adjustments to figures based on the insurer's GAAP-compliant financial statements indicates that the financial statements auditor would be reasonable expected to carry out the reasonable assurance engagement over the insurer's Solvency Return.</p> <p>Therefore, reasonable assurance engagements on solvency returns for insurance entities seems to meet the description of <i>Audit or Review Related Services</i> – and we do not foresee unintended consequences from specifying that this service is classified in this category. <u>Therefore, we recommend adding this service as an example of <i>Audit or Review Related Services</i>.</u></p> <p>The recommended change to the for-profit amending standard is shown below (we recommend the same change in the PBE amending standard):</p> <p>Audit or review related services [...]</p> <p>*8.21 Examples of types of audit or review related services include engagements concerning:</p> <ul style="list-style-type: none"> (a) summary financial statements; [...] (e) reporting on the satisfaction of grant obligations (f) <u>assurance engagements on solvency returns for insurance entities</u> (g) agreed-upon procedure engagements that meet the description in paragraph 8.17 (see paragraphs 8.22A and 8.22B);
<p>R8: Include <u>assurance over prospective financial information</u> as an example of <i>Other Assurance Services</i>. It is usual for a limited assurance report to be issued under ISAE 3000 on disclosure documents.</p>	<p>We recommend no updates to the amending standards at this stage</p> <p>An entity wishing to issue equity securities to the public is required under the FMC Act to publish a Product Disclosure Statement (PDS). In certain circumstances, the FMC Regulations require the PDS of an entity offering equity securities to contain <i>prospective financial information</i> for the next two years. The information is to be prepared in accordance with GAAP.</p> <p>While R8 recommended adding assurance over prospective financial information as an example of <i>Other Assurance Services</i>, we hesitate to specifically exclude such assurance services from the <i>Audit or Review Related Services</i> category, as we think there might be circumstances where such an engagement may be reasonably expected to be carried out by the financial statements auditor. <u>For this reason, we recommend not adding this service as an example of <i>Other Assurance Services</i> at this stage.</u></p>

Respondents' recommendations	Staff view
<p>R5: <u>Include assurance services relating to disclosures required by the upcoming XRB climate standards</u> as an example of <i>Other Assurance Services</i> – unless it should be part of <i>Audit or Review Related Services</i>.</p>	<p>We recommend no updates to the amending standards at this stage</p> <p>We note that the examples of services under the category <i>Other Assurance Services and Other AUPs</i> already include ‘assurance engagements on greenhouse gas statements or other sustainability reports’. This example relates to greenhouse gas emissions/sustainability in general (and implies assurance over a statement or report that is separate from the financial statements). We have considered below <i>whether to add</i> an example or guidance <i>specifically</i> with respect to assurance over <i>disclosures required by the XRB’s Climate Standards</i>.</p> <p>Currently, entities applying the recently-issued XRB Climate Standards only need to obtain assurance over the disclosures about greenhouse gas (GHG) emissions.</p> <p>We understand that in general, the disclosure of GHG information as per the XRB Climate Standards is not required to be included in the financial statements. Rather, it needs to be included in a Climate Statement. Providers of assurance over this GHG information need not be the auditor of the entity’s financial statements – in fact, they need not be a licensed auditor or an accountant. Given the nature of GHG information, there seem to be minimal interrelation between this information and the financial statements – and arguably, there are relatively little synergies for a firm from providing an audit client with assurance over GHG information. These arguments support the inclusion of assurance services relating to disclosures required by XRB Climate Standards as an example of <i>Other Assurance Services and Other AUP Engagements</i> – rather than as <i>Audit or Review Related Service</i>.</p> <p>However, we understand that MBIE and MfE are currently consulting on whether to require assurance over the full Climate Statement. There may be some overlap between some of the information in the Climate Statement (i.e. other than the GHG disclosures) and the financial statements. If there is ultimately a lot of overlap, there may be an argument that the assurance over the Climate Statement (if it is required) could be reasonably expected to be carried out by the financial statements auditor in some circumstances. If that is the case, this service could meet the description of the <i>Audit or Review Related Services</i> category.</p> <p>Furthermore, we understand that for some public sector entities, there is an expectation that the GHG information required by the XRB Climate Standards would be included within the service performance information that forms part of the general purpose financial report. When this is the case, arguably the assurance over GHG information could be part of the <i>Audit or Review of the Financial Statements</i>.</p> <p>Therefore, rather than specifying what category the assurance over GHG information required by the XRB’s Climate Standards should be classified as at this stage, we think it is sensible to wait for the following:</p> <ul style="list-style-type: none"> • Wait for practice to emerge in this area (including in the public sector, i.e. whether public sector entities ultimately include GHG disclosures in their service performance information within the general purpose financial report); and • Wait for the outcome of the MBIE and MfE’s consultation on whether to extend assurance requirements to the full Climate Statement, and if the assurance requirements are extended, consider the possible overlaps between the Climate Statement and financial statements and the implications for the classification of the fee for the assurance when it is prepared by the auditor. <p>Once there is more certainty regarding the above, we could reconsider whether assurance over GHG information as per the XRB Climate Standards and/or the Climate Statement in general should be specifically mentioned as an example of one of the categories of fees paid to audit firms – and if so, which category is most appropriate. <u>Consequently, we recommend not to include assurance services relating to disclosures required by the XRB Climate Standards at this stage. However, we could develop staff guidance on this matter if it is considered necessary.</u></p>

Respondents' recommendations	Staff view
<p>R5 and R8: Include <u>transfer pricing services</u> as an example of <i>Taxation Services</i></p>	<p>We recommend to add this service as an example of Taxation Services</p> <p>Generally speaking, transfer pricing refers to setting the prices for cross-border transactions between related parties. As such, transfer pricing affects the amount of taxable income that a multinational organisation earns in different jurisdictions, and therefore the amount of tax it ultimately pays. Therefore, transfer pricing is an important tax matter for multinational organisations.</p> <p>The OECD, as well as the taxation authorities of individual countries (including New Zealand's Inland Revenue), have developed rules for transfer pricing, as well as requirements for entities to maintain documentation in relation to transfer pricing considerations.</p> <p>Advice on transfer pricing, including compliance with taxation authorities' transfer pricing rules, seems to be a service commonly provided by many accounting firms.</p> <p>We consider that transfer pricing services fits the description of the Taxation Services category. We also note that the recommendation to include this service as an example of Taxation Services came from two different respondents.</p> <p><u>Therefore, we recommend adding transfer pricing services as an example of 'Taxation Services'.</u></p> <p>The recommended change to the for-profit amending standard is shown below (we recommend the same change in the PBE amending standard):</p> <p>Taxation services [...]</p> <p>*8.30 Examples of types of taxation services include:</p> <ul style="list-style-type: none"> (a) tax return preparation; (b) tax calculations to prepare accounting entries; <u>(c) transfer pricing services;</u> <u>(ed)</u> tax planning and other tax advisory services; <u>(de)</u> tax services involving valuations; and <u>(ef)</u> assistance in the resolution of tax disputes.
<p>R5: Include <u>international tax assignments</u> as an example of <i>Taxation Services</i></p>	<p>We recommend no updates to the amending standards at this stage</p> <p>We understand that 'international tax assignments' refers to advisory services over tax payments of employees assigned overseas. When a group of companies operates across different jurisdictions, an employee of one company may be temporarily assigned to work overseas for another company within the same group. In such cases, a tax clause is usually adopted in order to define the agreements between the 'home company', the 'host company' and the employee(s) – in relation to the allocation of the tax burden connected to the employee's income produced during the assignment period abroad.</p> <p>As this service is rather specific in nature and possibly complicated to explain, <u>we recommend not including it as an example of Taxation Services at this stage.</u></p>

Respondents' recommendations	Staff view
<p>R1: Include <u>fees paid by an entity for staff attending training provided by their auditor's firm</u> as an example of <i>Other Services</i>.</p>	<p>We recommend no updates to the amending standards at this stage</p> <p>In our understanding, accounting firms often invite their audit clients to attend updates on accounting standards free of charge. If we include training provided by the audit firm as an example of <i>Other Services</i>, this may imply an expectation to allocate some of the financial statements audit fee to this service – which we do not think is necessary.</p> <p>We note that firms sometimes provide audit clients with tailored training sessions – for example, training regarding the application of a new standard, taking into account the client's industry, common transactions that the client enters into, etc. It could be argued that due to the tailoring of the training session to the client's circumstances, it is reasonable to expect the financial statements auditor to provide this variation of the service – which would mean that the service may fit the description of <i>Audit or Review Related Services</i>.</p> <p>We think that there is sufficient guidance in the draft amending standards for an entity to apply judgement as to where to classify fees for a training session provided by the audit firm. <u>Based on the considerations above, we do not recommend adding this service as an example of <i>Other Services</i> at this stage.</u> However, we could consider developing staff guidance on this topic.</p>
<p>R9: Include disclosure requirements relating to fees paid to "<u>remuneration advisors/compensation consultants – those hired to design executive compensation plans and provide independent recommendations on pay packages</u>".</p>	<p>We recommend no updates to the amending standards</p> <p>R9 noted that legislation in Australia requires all Australian listed companies to disclose details of compensation consultants, as well as information about fees paid to such consultants for different types of services, and a statement confirming the independence of the consultants. He noted that such information would be important in New Zealand, because:</p> <ul style="list-style-type: none"> • In Australia, a relatively large proportion of compensation consultancy work is performed by Big 4 accounting firms, and this is likely to be the case in NZ; • Even when the accounting firm providing the remuneration advice is not the entity's audit firm, it may become the entity's audit firm in the future – which may give rise to independence issues. <p>We note the following:</p> <ul style="list-style-type: none"> • The focus of this project is disclosures for fees paid to reporting entities' audit firms – and as such, developing disclosure requirements specifically for fees paid to remuneration advisors/compensation consultants (who may not be the entity's audit firm) is outside the scope of this project. • The EDs already mention 'recruitment and remuneration services' as an example of a service within the <i>Other Services</i> category. We think this example would cover situations where the entity's audit firm is also providing remuneration advise/compensation consultancy services to the entity. <p><u>Therefore, we recommend no further action at this stage.</u></p>

21. We do not think it is necessary to add a discussion on the specific services listed above in the Basis for Conclusions.

Question for the Board

Q3. Does the Board agree with staff's recommendations to update the amending standards as follows:

- (a) Add 'reasonable assurance engagements on solvency returns for insurance entities' as an example of a services classified as *Audit or Review Related Services*;
- (b) Add 'transfer pricing services' as an example of Taxation Services; and
- (c) Not to update the amending standards with respect to the other specific services mentioned in the table above?

Recommendations with respect to examples of fees that are not part of the audit or review of the financial statements

22. Paragraph 8.16 of the draft for-profit amending standard (and paragraph 116.17 of the PBE draft amending standard) lists examples of services that are *not* part of the audit or review of the financial statements. The relevant paragraph from the for-profit draft amending standard is reproduced below.

8.16 Examples of services that do not form part of the financial statement audit or review engagement include the following.

- (a) Internal control advisory services outside the scope of the audit or review engagement.
- (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
- (c) Internal audit services.
- (d) Risk management advisory services.
- (e) Due diligence procedures performed in connection with merger and acquisition procedures.
- (f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.

23. ED respondents made the following comments about these examples.
- (a) R3 recommended deleting these examples (as well as the examples of services that are considered to be part of the audit or review of the financial statements). In R3's view, these examples are unnecessary.
 - (b) R4 noted that while these services are not part of the audit or review of the financial statements, it is not clear what category they should be classified as – and if the examples are retained, this should be clarified.
 - (c) R8 recommended deleting those services that an audit firm is generally prohibited from undertaking for an audit client – such as internal audit services. R3 also noted that it is not appropriate to refer to internal audit services and to “consulting engagements regarding the implementation of new accounting standards and reporting requirements” – as an audit firm is generally prohibited from providing such services to an audit client.
24. We note that in providing the examples listed in paragraph 8.16, we intended to help constituents to distinguish between services/activities that form part of the audit or review of the financial statements and those that do not. The intention was not to provide a view on which services an audit or review firm is allowed to provide to its audit or review clients under professional and ethical standards.
25. At the same time, if these examples run the risk of indicating services which are permitted to be provided by the entity's audit or review firm, we think it is important to avoid this risk and any unintended consequences. However, we note that based on our understanding of the professional and ethical standard PES 1, some services listed in 8.16 would be prohibited for the entity's audit firm in some circumstances but may be allowed in other circumstances

(dependent on the nature of the reporting entity). Therefore, determining which fees to delete on the grounds that they are often/generally prohibited would be challenging.

26. On balance, we think the simplest and ‘cleanest’ way to address the above comments raised by respondents would be to delete the examples of services that do not form part of the audit or review of the financial statements.
27. We do not consider that the deletion needs to be specifically discussed in the Basis for Conclusions.

Question for the Board

Q4. Does the Board agree with staff’s recommendations to delete the examples of services that do not form part of the audit or review of the financial statements in paragraphs 8.16 of the for-profit amending standard and paragraph 116.176 of the PBE amending standard?

Other recommendations and feedback

28. Other recommendations and feedback from ED respondents that were not yet covered above are included in the table below.

Table 3 Other recommendations and feedback from respondents

Respondents’ recommendations	Staff view
R8 recommended aligning the examples provided under the category of <i>Other Services</i> (paragraph 8.34) with the restrictions on services that audit/review firms are allowed to provide under the professional and ethical standard PES 1.	<p>No action recommended</p> <p>Paragraph 8.34 already includes a footnote noting that “In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.” We think this footnote helps clarify that in certain circumstances, some of the services listed as examples under the <i>Other Services</i> category may not be permitted to be provided by the entity’s audit/review firm.</p> <p>In the previous section, we recommended deleting the list of examples that do not form part of the <i>Audit or Review of the Financial Statements</i>, but we have retained the list of services that would form part of that category. If we delete all the examples of <i>Other Services</i>, there would be no examples at all under this category, which would be inconsistent with the other fee categories. We note that other respondents did not express concerns about the examples under <i>Other Services</i>.</p>
R4 recommends changing the name of the category ‘Other Services’ to ‘Other <u>Non-assurance Services</u> ’.	<p>No action recommended</p> <p>We do not consider it critical to change the name of the <i>Other Services</i> category, the category names were supported by other respondents.</p>
R7 recommends considering whether to combine the categories of ‘Taxation Services’ and ‘Other Services’. However, this is not a strongly-held view.	<p>No action recommended</p> <p>We do not think it is necessary to merge the two categories. We note that the separation between <i>Taxation Services</i> and <i>Other Services</i> is consistent with the categories that were considered in Australia as part of the AASB Research Report 15 on auditor remuneration. We also note that R7 did not have a strong view on this matter.</p>

Respondents' recommendations	Staff view
<p>R3 recommends not to include a 'disclosure objective' as per paragraph 8.2 – given that the IASB has a project on disclosures in IFRS Accounting Standard that includes consideration of disclosure objectives in accounting standards, and the IASB is yet to finalise this project.</p>	<p>No action recommended</p> <p>We recommend retaining the disclosure objective. We note that the disclosure objective that we included is not in the form of a mandatory disclosure requirement, and we think that knowing the objective of the disclosures would be helpful for preparers. Furthermore, there are some existing accounting standards that already include disclosure objective wording.</p>
<p>R3 recommends streamlining certain paragraphs. For example: Paragraph 8.17 sets out the description of <i>Audit or Review Related Services</i> – i.e. this category includes services that are closely related to the audit or review of the financial statements and/or services that are reasonably expected to be carried out by the entity's audit or review firm.</p> <p>Paragraphs 8.18 and 8.19 then describe in general terms some of the types of services that would be classified in this category (and paragraph 8.21 then lists specific examples of services).</p> <p>R3 recommends consolidating paragraph 8.18 and paragraph 8.19 into paragraph 8.17, because:</p> <ul style="list-style-type: none"> • There is an element of duplication in these paragraphs, and; • There can be confusion as to whether paragraphs 8.18 and 8.19 are additional criteria for assessing whether a service should be classified as Audit or Review Related Services, or whether these paragraphs are guidance for applying the main description of Audit or Review Related Services in paragraph 8.17. <p>There are also other paragraphs that R3 recommends streamlining or deleting, mainly to reduce possible duplication.</p>	<p>Some changes recommended</p> <p>We note that some repetition/duplication may be beneficial for reinforcing certain requirements.</p> <p>However, we recommend addressing R3's comment regarding streamlining paragraphs 8.17, 8.18 and 8.19. We propose to do this not by combining all three into a single paragraph (as this would result in very long paragraph), but rather by clarifying that paragraph 8.17 constitutes the '<u>main' category description</u> of <i>Audit or Review Related Services</i> (and sets out the key criteria for classification in this category), whereas paragraphs 8.18 and 8.19 constitute <u>guidance to help with applying the main description</u>.</p> <p>Specifically, we recommend:</p> <ul style="list-style-type: none"> • Editing paragraph 8.18, so that it looks more like guidance for applying para 8.17; and • Reducing the length of paragraph 8.19 and adding a reference back to paragraph 8.17 (instead of repeating what paragraph 8.17 requires). <p>Our recommended changes are shown below, with changes relating to this specific matter highlighted in green. The extract below is from the for-profit version of the amendments.</p> <p>Audit or review related services</p> <p>*8.17 Fees for audit or review related services include services which are:</p> <ol style="list-style-type: none"> (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer. <p>*8.17A This category may include assurance services, non-assurance services such as an agreed upon procedures engagements, and other types of services with a nature is consistent with paragraph 8.17.</p> <p>*8.18 <u>Services that meet the description of audit or review related services in paragraph 8.17</u> Audit or review related services include those services that are largely carried out by members of the financial statement audit or review engagement team, and this work generally relies on synergies in knowledge gained from undertaking the financial statement audit or review engagement.</p> <p>*8.19 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, <u>when they meet the description in paragraph 8.17</u> the services are closely related to the work performed as part of the financial statement audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial statements. <i>[footnote omitted]</i></p>

Respondents' recommendations	Staff view
<p>R4 recommends elevating some of the text included in the footnotes into the main text, as this text is important.</p>	<p>No action recommended</p> <p>We recommend not to elevate the footnotes to the core text at this stage. We acknowledge that the information in the footnotes is important – but we are also conscious that disclosure of fees paid to audit firms is only one topic (albeit an important one) out of several topics covered by FRS-44 and PBE IPSAS 1 respectively, and having a large volume of paragraphs relating to this topic may ‘outbalance’ these Standards. We consider that we achieved an appropriate balance regarding which information should be included in the main text and which should be included in footnotes.</p>
<p>R8 recommended clarifying that that the definition of an audit or review firm also includes entities within the firm’s network</p>	<p>No action recommended</p> <p>There is already a footnote next to paragraph 8.3 (and the equivalent PBE paragraph), noting that the reference to ‘firm’ includes any network firm that provides services during that period.</p>
<p>R2 and R5 recommended refinements to the flow chart.</p> <ul style="list-style-type: none"> • R2 recommended reflecting in the flowchart the proposed Tier 1 disclosure requirement relating to managing potential risks to auditor independence. • R5 recommends clarifying in the last box of the flow chart that disclosure of non-audit services is not required <i>because no such services have been provided</i> (the current wording implies that such services were provided but are not disclosed). 	<p>Some changes recommended</p> <ul style="list-style-type: none"> • As the Board agreed to delete the proposed Tier 1 disclosure requirement on how the entity mitigates possible threats to auditor or reviewer independence when certain services are provided, no further action is needed regarding R2’s comment. • We have amended the last box in the flow chart as per R5’s recommendation, so that it reads: “<u>No disclosure required because no about non-audit services have been provided by the entity’s audit or review firm.</u>“
<p>R4 notes that the draft standards sometimes refer to fees ‘incurred’ and other times to fees ‘paid’ – and recommends ensuring that the terms are used consistently.</p>	<p>Some changes recommended</p> <p>We think it is sensible to keep the title of the amending standards as <i>Fees Paid to Audit Firms</i>. A title such as ‘Fees Incurred for Services Provided by Audit or Review Firms’ would be more accurate – but it would be wordy. We think it is sufficiently clear from the paragraphs of the amending standard that despite the title, the requirements cover fees that are incurred in the reporting period, regardless of whether they were paid.</p> <p>Therefore, we have left the title of the amending standards and the main heading above the paragraphs as ‘fees paid to audit firms’.</p> <p>However, within the paragraphs themselves we have replaced instances of ‘fees paid to audit firms’ with ‘fees incurred for services provided by audit firms’.</p>
<p>Other minor editorial suggestions</p>	<p>We have been considering and will continue to consider editorial suggestions. We have not included a separate discussion on minor editorial suggestions here.</p>

Question for the Board

Q5. Does the Board agree with staff’s recommendations in the table above?

Draft amending standard (Agenda Item 7.2 and 7.3)

29. Agenda Items 7.2 and 7.3 respectively contain:
- (a) the draft for-profit amending standard *Disclosure of Fees Paid to Audit Firms* (Amendments to FRS-44); and
 - (b) the draft PBE amending standard *Disclosure of Fees Paid to Audit Firms* (Amendments to PBE IPSAS 1).
30. These draft standards are based on the respective EDs – with updates reflecting:
- (a) The Board’s feedback from December 2022 on the key matters raised by respondents; and
 - (b) The staff recommendations included in this memo.
31. The changes to the ED text that the Board already saw at the December 2022 meeting are highlighted in blue. Changes made since the December 2022 meeting are highlighted in green.

Question for the Board

- Q6. Does the Board have any other feedback on the draft amending standards?

Next steps

32. After this meeting, we plan to:
- (a) update the draft amending standards for the Board’s feedback regarding the matters in this memo;
 - (b) seek feedback from key stakeholders on an updated draft amending standard, from a ‘fatal flaw’ perspective; and
 - (c) seek the Board’s approval of the amending standards at a future meeting, most likely the Board’s April 2023 meeting.

Attachments

- | | |
|-----------------|---|
| Agenda item 7.2 | Draft amending standard <i>Disclosure of Fees Paid to Audit Firms</i> (Amendments to FRS-44) |
| Agenda item 7.3 | Draft amending standard <i>Disclosure of Fees Paid to Audit Firms</i> (Amendments to PBE IPSAS 1) |
| Agenda item 7.4 | Submissions received on the EDs (in the Supporting Papers) |

Appendix 1: High-level summary of the ED proposals

Objective: Provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity’s audit or review firm in the reporting period. (However, the disclosures are not intended to provide *all* the information necessary for assessing auditor independence).

Key proposals:

[1] Disclosures using specified fee categories

An entity shall disclose the fees incurred in the period for services received from each audit or review firm, separately, presented using the following categories:

- (a) the audit or review of the financial statements;
- (b) each type of other service, using the categories shown on the right.

To satisfy the disclosure requirements above, an entity is required under each category to:

- (a) describe the nature of each type of service; and
- (b) disclose the total fees for each type of service.

The EDs provide a description of each category, as well as examples of services that an entity may include within each category.

Fee categories per the ED

Audit or review of the financial statements

Fees for the audit or review of the financial statements refer to the audit or review of the entity’s general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.

Audit or review related services

Fees for audit or review related services include services which are:

- (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement; and/or
- (b) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.

Other assurance services [Note: Will be amended to ‘*Other assurance services and other agreed-upon procedures engagements*’]

Other assurance services² include any assurance service provided by an audit or review firm which have not been classified under the above two categories.

Taxation services

Non-audit and non-assurance services relating to ascertaining the entity’s tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial statements.

Other services

Include any other services provided by the audit or review firm other than the services classified under the above categories.

[2] Disclosures about managing possible threats to auditor independence: When fees for *taxation services* or *other services* are incurred: An entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of these services by the audit or review firm. [Note: Based on ED feedback received, the Board agreed to remove this disclosure]

[3] RDR concessions: A Tier 2 RDR concession was proposed for the disclosure about managing possible threats to auditor independence [Note: Based on ED feedback received, the Board agreed to extend the Tier 2 RDR concessions]

Link to full EDs: (a) [ED Disclosure of Fees Paid to Audit Firms – for for-profit entities](#); (b) [ED Disclosure of Fees Paid to Audit Firms – for PBEs](#)

² An assurance service involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

Appendix 2: Summary of ED respondents

Ref	Respondent name	Respondent type	Feedback overview
<i>Formal submissions</i>			Feedback indicates <u>general support</u> for enhanced disclosures to improve the transparency and consistency of disclosures about fees paid to audit/review firms. Respondents supported the proposed fee categories and related guidance – but some respondents recommended further clarifications and refinements, and some disagreed with a specific proposed disclosure. The submissions are attached in Agenda Item 7.3 (Supporting Papers)
R1	Auckland Council	Public sector preparer	
R2	Baker Tilly Staples Rodway	Accounting firm	
R3	CA ANZ	Professional accounting body	
R4	CPA Australia	Professional accounting body	
R5	EY	Accounting firm	
R6	KPMG	Accounting firm	
R7	OAG	Public sector agency	
R8	PwC	Accounting firm	
<i>Informal feedback</i>			
R9	Professor Tom Scott	Academic	

Appendix 3: Key matters raised by respondents and how they were addressed

Key matters	Board's response (Dec 2022)
<p>[1] Classification of agreed-upon procedures (AUPs)</p> <p>The EDs did not mention AUPs. Three respondents (R3, R7, R8) recommended <u>clarifying the category in which AUPs should be classified</u>.</p> <p>There were concerned that without clarification, AUPs may be classified as <i>Other Services</i>, which would incorrectly imply that AUPs pose a higher threat to auditor independence than services in other categories.</p>	<p>The Board agreed to clarify the classification of AUPs and of assurance engagements by doing the following:</p> <ul style="list-style-type: none"> • Rename the category '<i>Other Assurance Services</i>' as '<i>Other Assurance Services and Other Agreed Upon Procedure Engagements</i>'; • Clarify that the <i>Audit or Review Related Services</i> includes <u>assurance services and non-assurance services such as AUPs</u>, if the nature of the services is consistent with the description of this category. • Define AUPs and specify that <u>AUPs should be categorised as either <i>Audit or Review Related Services</i> or <i>Other Assurance Services and Other Agreed Upon Procedure Engagements</i>, based on the nature of the engagement and the consideration of the category descriptions (noting that judgment may be required)</u>. • For the categories <i>Audit or Review Related Services</i> and <i>Other Assurance Services and Other Agreed Upon Procedure Engagements</i>: Require entities to <u>specify whether each service within these categories is an assurance engagement, an AUP, or other non-assurance engagement</u>. • Include an <u>illustrative example</u> for the above disclosure. <p>The Board <u>considered, but decided against</u>, requiring <u>all AUPs</u> (regardless of their nature) to be classified as <i>Audit or Review Related Services</i>. The Board noted that this product-based requirement would be <u>inconsistent</u> with the fact that the <i>Audit or Review Related Services</i> is a <u>nature-based</u> category. It was also noted that AUPs could be material, particularly considering the growth in services relating to climate.</p>
<p>[2] Classification of assurance engagements</p> <p>Two respondents (R5, R7) recommended <u>clarifying the classification of <i>assurance engagements</i></u> (other than the financial statements audit/review) – i.e. when are they classified as <i>Audit or Review Related Service</i> or as <i>Other Assurance Services</i>.</p>	

Key matters	Board's response (Dec 2022)
<p>[3] Disclosure on managing possible threats to auditor independence when certain services are provided</p> <p>Five respondents (R3, R5, R7, R8 and R9) <u>disagreed with the proposed disclosure about how the entity manages possible threats to auditor independence</u> when <i>Taxation Services</i> or <i>Other Services</i> are provided by the audit or review firm.</p> <p>Reasons included: Concerns that the disclosure would create confusion regarding the auditor's responsibility vs the reporting entity's responsibility with respect to auditor independence, view that the disclosure more appropriately belongs elsewhere in the annual report, concern around boiler-plate disclosures.</p>	<p>The Board agreed to <u>remove the proposed disclosure requirement on the management of possible threats to auditor independence</u>. The Board noted that:</p> <ul style="list-style-type: none"> • While the disclosure is important, it is more appropriate to provide such a disclosure outside of the financial statements, given that it deals with corporate governance matters. • Furthermore, guidance issued by financial market regulators recommend providing information in the annual report in relation to mitigating possible threats to auditor independence. <p>The Board also agreed that:</p> <ul style="list-style-type: none"> • <u>Staff guidance</u> should be developed to <u>encourage the disclosure</u> in the annual report about managing possible threats to auditor independence when <i>Taxation Services</i> or <i>Other Services</i> are provided by the audit/review firm. • This matter should be re-considered when the time comes to perform a <u>post-implementation review (PIR)</u> of the disclosures on fees paid to audit firms.
<p>[4] Tier 2 disclosure concessions (RDR)</p> <p>The only Tier 2 disclosure concession proposed in the EDs related to the disclosure on how the entity manages possible threats to auditor independence.</p> <p>Two respondents (R5, R8) <u>called for additional disclosure concessions for entities in Tier 2</u>.</p> <p>They noted that the cost of disclosing the fees paid to the entity's audit/review firm using the prescribed categories would outweigh the benefits.</p>	<p>The Board <u>agreed to extend the disclosure concessions for Tier 2 entities</u>, such that Tier 2 entities would <u>only be required to disclose</u>:</p> <ul style="list-style-type: none"> • The <u>total fees</u> incurred for the <u>audit or review of the financial statements</u>; and • The <u>total fees</u> incurred for <u>all other services</u> provided by the audit or review firm (without requiring a breakdown of these fees by specified category) – plus a <u>general description of these other services</u>.
<p>[5] Disclosure of fees for services that the audit firm has been engaged to provide after the reporting period</p> <p>The proposed disclosures in the EDs relate to "fees incurred during the reporting period".</p> <p>Two respondents (R6, R8) recommended that entities should <u>also be required to disclose fees for services that the audit or review firm has been engaged to provide before the auditor's report is signed, but for which fees were not incurred during the reporting period</u>. They considered this information is important for a more complete assessment of auditor independence. Furthermore, they noted that such a disclosure would be consistent with independence requirements for auditors under professional and ethical standards.</p>	<p>The Board decided <u>not to add a disclosure requirement for fees not yet incurred in the reporting period (significant or otherwise)</u>.</p> <p>The Board acknowledged the respondents' argument that this information could be useful for assessing auditor independence. However, the Board noted that:</p> <ul style="list-style-type: none"> • The effort of complying with a requirement to disclose (significant) fees incurred/engaged for after the reporting may outweigh the benefits, given that this information is already expected to be included in the auditor's report. • The proposed amending standards are <u>not</u> intended to provide users with <u>all</u> information required for assessing auditor independence; • Disclosures in financial statements generally focus on the current reporting period (plus comparatives). • There are existing accounting standards that address the disclosure of material events after the reporting period.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

Disclosure of Fees Paid to Audit Firms [DRAFT]

Issued [Date]

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

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

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

This [draft] Tier 1 and Tier 2 for-profit standard requires an entity to describe the services provided by the audit firm and to disclose the fees ~~incurred~~ ~~paid~~ by the entity for those services.

Note for the Board:

This is a draft version of the amending standard *Disclosure of Fees Paid to Audit Firms* (Amendments to FRS-44). It is based on the ED text and is updated for:

- the Board's discussion in December 2022 on key matters raised by respondents; and
- staff recommendations for addressing the remaining matters raised by respondents, as set out in Agenda Item 7.1.

Changes to the ED text that the Board has already seen in December 2022 are highlighted in blue. Changes added after the December 2022 Board meeting are highlighted in green. For illustrative purposes, all changes to the original ED text are marked up with new text being underlined and deleted text being struck through.

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

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

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ISBN

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

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DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

Part A – Introduction

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*. The amendments require an entity to describe the services provided by its audit or review firm and to disclose the fees ~~paid~~ incurred by the entity for those services using prescribed categories.

Tier 2 entities are required to comply with all the requirements in this Standard, except for paragraphs in this Standard denoted with an asterisk (*).

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to FRS-44 *New Zealand Additional Disclosures*

The existing paragraphs 8.1 and 8.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 8.1 to 8.36 (and the related headings) and paragraph 21 have been added. For ease of reading, new text is not underlined.

Disclosures

...

Audit fees

~~*8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:~~

- ~~—— (a) the audit or review of the financial statements; and~~
- ~~—— (b) all other services performed during the reporting period.~~

~~*8.2 For 8.1 (b) above, an entity shall describe the nature of other services.~~

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

Fees paid to audit firms

- 8.1 Paragraph 8.3 requires an entity to disclose information about the fees incurred in the reporting period for:
- (a) the audit or review of the entity's financial statements; and
 - (b) each other type of service provided by the entity's audit or review firm.
- 8.2 The objective of this disclosure is to provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services² have been provided by the entity's audit or review firm in the reporting period.
- 8.3 **An entity shall disclose the fees incurred for services received from each audit or review firm³, separately for:**
- (a) **the audit or review of the financial statements (see paragraphs 8.9 – 8.16);**
 - * (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) **audit or review related services (see paragraphs 8.17 – 8.22);**
 - (ii) **other assurance services and other agreed upon procedures engagements (see paragraphs 8.23 – 8.27);**
 - (iii) **taxation services (see paragraphs 8.28 – 8.31); and**
 - (iv) **other services (see paragraphs 8.32 – 8.35).**

RDR 8.3A Tier 2 entity shall disclose the total fees incurred for services other than the audit or review of the financial statements provided by the entity's audit or review firm, and a general description of these services.

***8.3A For services referred to in paragraph 8.3(a) (b): The entity shall also disclose significant fees for services that the audit or review firm has been engaged to provide (including engagements entered into up until the date when the audit or review report relating to the current period financial statements is signed), but for which fees were not incurred during the reporting period. This disclosure shall be provided separately from fees incurred during the reporting period.**

- 8.4 Paragraph 8.3 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) the entity's audit or review firm; and
 - (b) each other audit or review firm involved in any element of the audit or review of the entity's financial statements, including the subsidiary financial statements when consolidated financial statements are presented.
- 8.5 The disclosure of the fees 'incurred' for services received from each audit or review firm, as required by paragraph 8.3 and RDR 8.3, will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).

² The reference to 'non-audit services' includes any service that does not form part of the entity's financial statement audit or review engagement.

³ An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial statements. A 'firm' should be read as referring to its public sector equivalents where relevant. The audit or review firm includes any network firms who provided services during the period. A 'network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

- 8.6 The disclosure of fees incurred for fees covered by paragraph 8.3(b) and paragraph RDR 8.3, is required only when the audit or review firm has performed (or is performing) a financial statement audit or review engagement.
- 8.7 The descriptions used in this Standard for an ‘audit engagement’, a ‘review engagement’, an ‘agreed-upon procedure engagement’ and an ‘assurance engagement’, are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).
- 8.8 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 8.2. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.

Audit or review of the financial statements

- 8.9 Fees for the audit or review of the financial statements refer to the audit or review of the entity’s general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.
- 8.10 A financial statement *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.11 A financial statement *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial statements have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement review engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.12 The total fees for the audit or review of the financial statements include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.
- 8.13 The total fees under this category include work performed in relation to the:
- (a) annual financial statement audit or review engagement; and
 - (b) interim financial statement audit or review engagement (if applicable).
- 8.14 The total fees under this category also include, when consolidated financial statements are presented, any fees incurred for the audit or review of the entity’s subsidiaries’ financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial statements of the subsidiary entities.
- 8.15 Examples of services that form part of the financial statement audit or review engagement include the following.
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial statement audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial statement audit or review engagement.
 - (c) Preparation of a “management letter” to those charged with governance to report on the outcomes of the financial statement audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial statements.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

8.16 [Not used] ~~Examples of services that do not form part of the financial statement audit or review engagement include the following:~~

~~(a) Internal control advisory services outside the scope of the audit or review engagement.~~

~~(b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.~~

~~(c) Internal audit services.~~

~~(d) Risk management advisory services.~~

~~(e) Due diligence procedures performed in connection with merger and acquisition procedures.~~

~~(f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.~~

Audit or review related services

*8.17 Fees for audit or review related services include services which are:

- (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or
- (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.

*8.17A This category may include assurance services, non-assurance services such as an agreed upon procedures engagements, and other types of services for which the nature with a nature that is consistent with paragraph 8.17.

*8.18 ~~Services that meet the description of audit or review related services in paragraph 8.17~~ ~~Audit or review related services~~ include those services that are largely carried out by members of the financial statement audit or review engagement team, and this work generally rely significantly relies on synergies in knowledge gained from undertaking the financial statement audit or review engagement.

*8.19 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when they meet the description in paragraph 8.17 when the services are closely related to the work performed as part of the financial statement audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial statements.⁴

***8.20 To satisfy the disclosure requirements in paragraph 8.3(b)(i), the entity shall:**

- (a) describe the nature of each type of audit or review related service; and
- (b) disclose the total fees for each type of audit or review related service.

***8.20A. In disclosing the information required in paragraph 8.20, an entity shall categorise each type of audit or review related service as follows:**

(a) assurance engagements;

(b) agreed-upon procedures engagements; or

(c) other non-assurance engagements.

*8.21 Examples of types of audit or review related services include engagements concerning:

- (a) summary financial statements;
- (b) forecast financial statements;

⁴ This will include specified engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

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- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁵
- (d) compliance with banking covenants; ~~and~~
- (e) reporting on the satisfaction of grant obligations;~~;~~
- (f) assurance engagements on solvency returns for insurance entities; and
- (g) agreed-upon procedure engagements that meet the description in paragraph 8.17 (see paragraphs 8.22A and 8.22B).

*8.22 Audit or review related services will also include any fees incurred by the reporting entity that arise from the audit or review of the entity's associates, joint ventures, and/or other related entity financial statements.⁶

*8.22A For the purpose of this Standard, an agreed-upon procedures engagement involves a practitioner performing procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form. Agreed-upon procedures engagements are carried out in accordance with applicable professional standards, including relevant ethical requirements.⁷

*8.22B Agreed-upon procedures engagements shall be classified as either audit or review related services, or as other assurance services and other agreed upon procedures engagements, based on the nature of the engagement and the application of the category descriptions. Judgement is required in making this assessment.

Other assurance services and other agreed-upon procedures engagements

*8.23 Other assurance services and other agreed-upon procedures engagements could include:

- (a) any assurance service provided by an audit or review firm which have not been classified under the categories listed in paragraphs 8.3(a) or 8.3(b)(i); and
- (b) any agreed-upon procedures engagements provided by an audit or review firm which have not been classified under the category in paragraph 8.3(b)(i), i.e. audit or review related services.

*8.24 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

*8.24A An agreed-upon procedures engagement is described in paragraph 8.22A.

*8.25 This category includes assurance services and agreed-upon procedures engagements that do not rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement.

*8.26 To satisfy the disclosure requirements in paragraph 8.3(b)(ii), the entity shall:

- (a) describe the nature of each type of other assurance service and other agreed-upon procedures engagement; and

⁵ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial statement audit or review engagement.

⁶ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

⁷ This definition is based on paragraphs 4 and 6 of ISRS (NZ) 4400 *Agreed Upon Procedure Engagements*.

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- (b) **disclose the total fees for each type of other assurance service and other agreed-upon procedures engagement.**

***8.26A. In disclosing the information required in paragraph 8.26, an entity shall categorise each type of service as follows:**

- (a) **assurance engagements; or**
 (b) **agreed-upon procedures engagements.**

*8.27 Examples of types of other assurance services and other agreed-upon procedures engagements include assurance engagements on:

- (a) assurance engagements on greenhouse gas statements or other sustainability reports;
 (b) assurance engagements on adherence to cyber/cloud security procedures; ~~and~~
 (c) other regulatory assurance engagements which are not considered to be audit or review related services; and
 (d) those agreed-upon procedure engagements that are not considered to be audit or review related services.

Taxation services

*8.28 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial statements.

***8.29 To satisfy the disclosure requirements in paragraph 8.3(b)(iii), the entity shall:**

- (a) **describe the nature of each type of taxation service; and**
 (b) **disclose the total fees for each type of taxation service.**

*8.30 Examples of types of taxation services include:⁸

- (a) tax return preparation;
 (b) tax calculations to prepare accounting entries;
 (c) transfer pricing services;
 (d) tax planning and other tax advisory services;
 (e) tax services involving valuations; and
 (f) assistance in the resolution of tax disputes.

~~*8.31 [Not used] When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.~~

Other services

*8.32 Other services include any other services provided by the audit or review firm other than the services classified under the categories listed in paragraphs 8.3(a) and 8.3(b)(i)–(iii).

***8.33 To satisfy the disclosure requirements in paragraph 8.3(b)(iv), the entity shall:**

- (a) **describe the nature of each type of other service; and**
 (b) **disclose the total fees for each type of other service.**

⁸ PES 1 *Professional and Ethical Standard 1*, as applied by auditors and other assurance practitioners, includes requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

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*8.34 Examples of types of other services include:⁹

- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

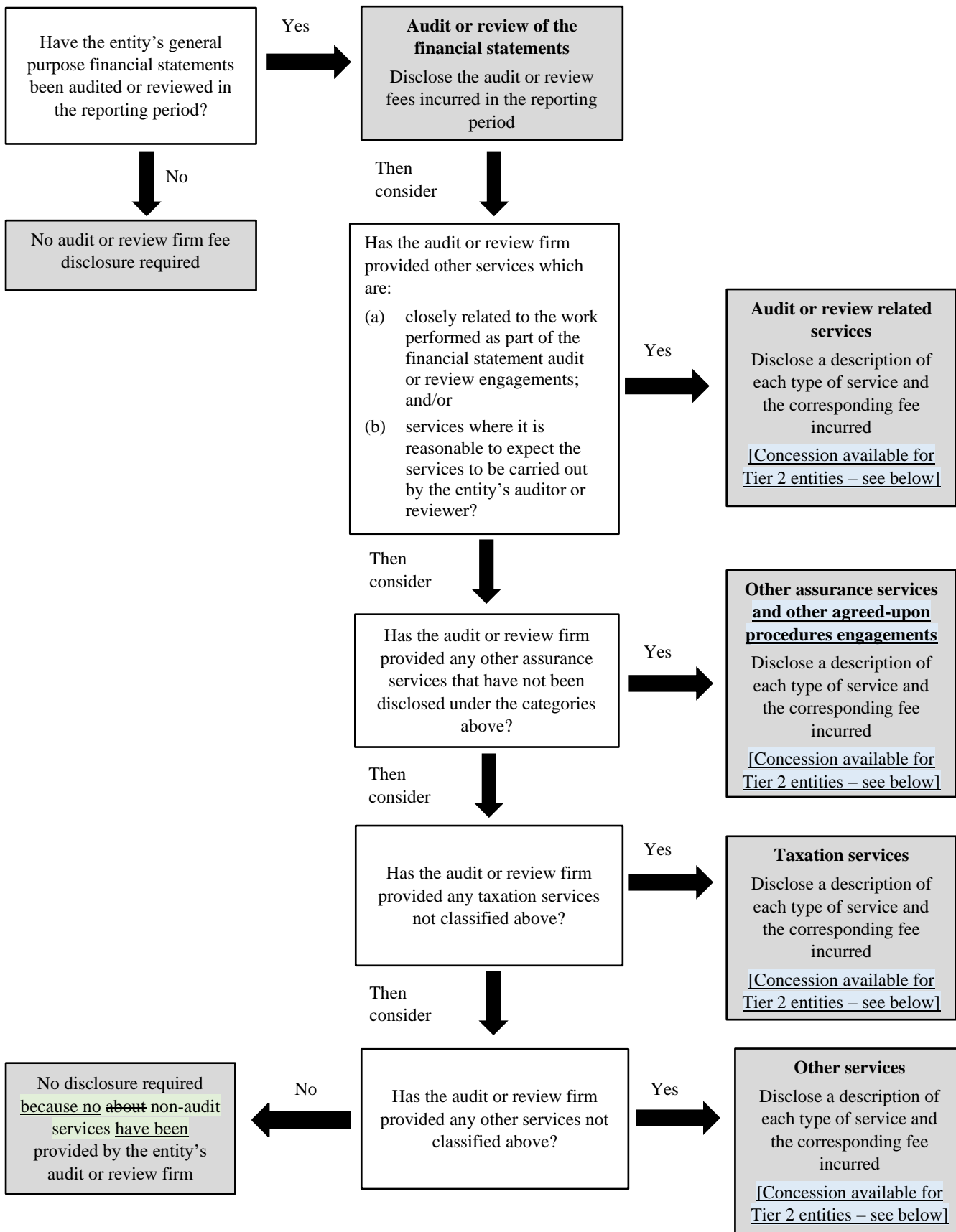
~~*8.35 [Not used] When fees for other services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.~~

8.36 The flowchart on the next page illustrates the application of the disclosure requirements concerning fees paid to incurred for services provided by audit or review firms.

⁹ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

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Application of disclosure requirements



...
A Tier 2 entity is required to disclose the fees incurred for the audit or review of the financial statements and the total fees incurred for non-audit and non-review services, together with a general description of the non-audit and non-review services (disaggregation of non-audit services by category is not required).

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
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Effective date

...

- 21 *Disclosure of Fees Paid to Audit Firms*, issued in [February 2023], amended paragraphs 8.1 and 8.2 and the preceding heading and added paragraphs 8.3–8.36 and the related headings. An entity shall apply those amendments for annual periods ending on or after [1 January 2024]. Earlier application is permitted.

In the NZASB FRS-44 Basis for Conclusions, paragraph BC7-BC15 is added.

Fees paid to audit firms

- BC7 In June 2022 the NZASB issued ED 2020-9 *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to FRS-44) to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity¹⁰ during the reporting period for:
- (a) the audit or review of the entity's financial statements; and
 - (b) other types of service provided by the entity's audit or review firm.
- BC8 The enhanced disclosures were proposed in response to concerns raised by key stakeholders about the inadequacy and inconsistency of information disclosed in general purpose financial statements about the nature and value of non-audit services provided by an entity's audit or review firm.
- BC9 The NZASB noted that the provision of non-audit services by an entity's audit or review firm is often seen by users as a key indicator of possible threats to auditor or reviewer independence. However, the NZASB also noted that the provision of non-audit services is just one of several factors that should be considered by those charged with governance when assessing auditor or reviewer independence.
- BC10 The NZASB agreed that the objective of the enhanced disclosures was not to provide users with all the information necessary to enable them to assess auditor independence, because those charged with governance have the responsibility for performing this assessment. In addition, the auditor's report, issued as a result of a financial statement audit or review engagement, is required to include a statement that the auditor or reviewer is independent of the entity in accordance with the relevant professional and ethical standards.
- BC11 In response to concerns raised by key stakeholders noted in BC8, the NZASB agreed the disclosure objective should be to provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity's audit or review firm in the reporting period.
- BC12 The NZASB also agreed the disclosure objective was not to provide users with information about all relationships the audit or review firm may have with the reporting entity. The auditor or reviewer may have other relationships with the reporting entity in addition to those that arise from the provision of non-audit services. The auditor's report, issued as a result of a financial statement audit or review engagement, is required to include a statement as to the existence of any relationship (other than that of auditor or reviewer) which the auditor or reviewer has with, or any interest which the auditor or reviewer has in, the entity or any of its subsidiaries.
- BC13 The NZASB acknowledged that under applicable professional and ethical standards, auditors and other assurance practitioners are prohibited from providing certain non-audit services under certain circumstances. The NZASB noted the enhanced disclosures are not intended to provide guidance on when it is appropriate for certain types of non-audit services to be provided by an entity's audit or review firm. Instead, the enhanced disclosures are intended to provide increased transparency and consistency of reporting when a reporting entity has incurred fees for non-audit services in the reporting period.

¹⁰ The reference to 'reporting entity' in the BCs includes the group when consolidated financial statements are prepared.

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- BC14 The NZASB noted the Australian Accounting Standards Board (AASB) has an ongoing project on *Auditor Remuneration* which is considering the introduction of similar enhanced disclosures. In December 2021, the NZASB agreed to develop, and issue proposed amendments ahead of AASB pronouncements on this topic. This decision was based on the uncertainty concerning when the AASB will be in a position to finalise its proposals and the need to respond to calls for improved disclosures from New Zealand stakeholders. The NZASB acknowledged the intention to harmonise the enhanced disclosure requirements with Australia in the future.
- BC15 The NZASB considered whether the amendments should also include proposals concerning the disclosure of information about audit tenure. The Board acknowledged this provided important information for users when considering risks to auditor independence but agreed not to propose disclosure requirements about audit tenure at this time. The Board will continue to follow developments in Australia and internationally on this matter.

Note for the Board: All of the BC paragraphs below are recommended additions to the ED text. Changes made to the BC paragraphs since the Board's December 2022 meeting are highlighted in green and are underlined.

- BC16 Constituents were broadly supportive of the proposed enhanced disclosure. However, some constituents recommended refinements and improvements to the proposals. The key areas where the NZASB agreed to make changes to the proposals based on constituents' feedback are explained below.

Classification of agreed-upon procedures engagements

- BC17 The proposed disclosure requirements did not specifically refer to agreed-upon procedures engagements. Some constituents recommended clarifying the category in which such engagements should be classified to promote consistent application. ~~They were concerned that without further clarification, some entities may classify agreed-upon procedure engagements in the 'other services' category, which would imply that these engagements pose a higher risk to the auditor's or reviewer's independence than is in fact the case. It was noted that agreed-upon engagements procedures are undertaken in accordance with professional and ethical standards are not expected to pose a high threat to auditor independence.~~ It was also noted that some agreed-upon procedures are consistent with the description of 'audit or review related services' and should be classified in that category when this is the case.

- BC18 In response to constituents' feedback, the NZASB agreed to:

- (a) Extend the category 'other assurance services' to 'other assurance services and other agreed-upon procedures engagements'; and
- (b) Specify that an agreed-upon procedures engagement is classified as 'audit or review related services' when the nature of the engagement is consistent with the description of that category – otherwise the engagement is classified as 'other assurance services and other agreed-upon procedures engagements'.

- BC19 The NZASB acknowledges that for some types of agreed-upon procedures engagements, judgement may be required in assessing whether the most appropriate category is 'audit or review related services' or 'other assurance engagements and other agreed-upon procedures engagements'. ~~As a result, different entities may make different classification decisions for similar engagements.~~ However, possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category.

- BC20 Furthermore, to mitigate the impact of judgement mentioned in paragraph BC19, the NZASB decided to require entities to:

- (a) categorise each type of service classified within 'audit or review related services' as an assurance engagement, an agreed-upon procedures engagement or another non-assurance engagement, and;
- (b) categorise each type of service classified within 'other assurance engagements and other agreed-upon procedure engagements' as an assurance engagement or an agreed-upon procedures engagement.

Clarifying the classification of assurance engagement

- BC21 Some constituents noted that confusion may arise when determining whether an assurance engagement should be classified as 'audit or review related services' or as 'other assurance engagements'. In response, the NZASB clarified that an assurance engagement whose nature is consistent with the description of the 'audit or review related services' category is classified in that category, otherwise it is classified as 'other assurance services and other agreed-upon procedures engagements'.

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BC22 The NZASB acknowledges that for some assurance engagements, judgement may be required when determining which of the two abovementioned categories is the most appropriate, ~~and different entities may make different classification decisions for similar assurance engagements.~~ However, as noted above in ~~relation to the classification of agreed-upon-procedures engagements paragraph BC19,~~ possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category, and by the additional disclosure requirements described in paragraph BC20.

Removal of the proposed disclosure requirements about mitigating risk to auditor independence in certain circumstances

BC23 The proposed amendments included a requirement to disclose information about how the entity identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of ‘taxation service’ or ‘other services’ by the audit or review firm.

BC24 Several respondents expressed concerns about this proposal. They noted that professional and ethical standards requires auditors and reviewers to ensure that they are independent of the audit or review client. However, the proposed disclosure may imply that the responsibility for ensuring auditor independence lies fully with the reporting entity, and may confuse users of financial statements as to the responsibilities of the auditor with respect to independence as compared to the responsibilities of the entity. Some respondents considered it was also noted that information about mitigation of mitigating possible threats to auditor independence is not a financial reporting matter, and as such the disclosure does not belong with more appropriately belongs outside of the general purpose financial statements (but it may be appropriate to include such information outside of the financial statements, e.g. in elsewhere in the annual report, together with other corporate governance information). Another concern was that the disclosure requirement would give rise to ‘boiler plate’ disclosures that would not be useful to users of general purpose financial statements. Discussion with constituents also highlighted that guidance issued by financial market regulators recommend providing information in the annual report in relation to mitigating possible threats to auditor independence.

BC25 ~~The NZASB had proposed the abovementioned disclosure about the mitigation of possible threats to auditor independence in response to key stakeholders noting during the development of the proposals that such information is important. However, After considering constituents’ feedback described above, the NZASB agreed not to add include this the disclosure requirement about how the entity manages possible threats to auditor independence when certain services are provided. The NZASB agree that while the disclosure is important, it is more appropriate to provide such a disclosure outside of the financial statements, given that it deals with corporate governance matters, i.e. directors’ and auditors’ responsibilities. Furthermore, guidance issued by financial market regulators recommend providing information in the annual report in relation to mitigating possible threats to auditor independence.~~

Disclosure concessions for entities in Tier 2

BC26 The proposals included disclosure concessions for entities in Tier 2 only with respect to the proposed disclosure relating to the mitigation of auditor or reviewer independence (see paragraph BC21 above). However, some constituents recommended additional concessions for Tier 2 entities – to ensure that the cost of providing the disclosure does not outweigh the benefits, given that Tier 2 entities do not have public accountability.

BC27 In response to constituents’ feedback, the NZASB agreed that Tier 2 entities be required to disclose only:

- (a) the total fees incurred for the audit or review of the entity’s financial statements; and
- (b) the total fees incurred for other types of service provided by the entity’s audit or review firm (without requiring further disaggregation), together with a general description of these services.

BC28 The NZASB acknowledges that before *Disclosure of Fees Paid to Audit Firms* was issued, this Standard did not require Tier 2 entities to provide any disclosures relating to fees paid to audit firms. However, the disclosure requirements for Tier 2 entities described in paragraph BC 27, which were introduced by *Disclosure of Fees Paid to Audit Firms*, are consistent with the requirements for Australian Tier 2 entities as set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The NZASB considers such alignment to be appropriate.

Disclosure of significant fees incurred after the end of the reporting period

BC29 The proposed disclosure requirements referred to the disclosure of fees incurred during the reporting period. However, some constituents recommended that entities be required to disclose fees incurred for services provided by the audit or review firm after the end of the reporting period, but before the audit or review report is signed – as well as services not yet provided by the audit or review firm, but for which the audit or review firm has been engaged before the audit or review report is signed. The constituents acknowledged

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

that such fees would not be recognised as expenses in profit or loss in the period for which the financial statements are prepared. However, the constituents noted that disclosure of such fees is relevant and important for users' assessment of the extent of non-audit services provided by the audit or review firm, and the assessment of auditor independence with respect to the current period financial statements audit or review.

BC30 In response to the feedback above, the NZASB ~~added~~ considered whether to include a requirement to disclose significant fees for services that the audit or review firm has been engaged to provide (including engagements entered into up until the date when the audit or review report is signed), but for which fees were not incurred during the reporting period. ~~This disclosure is required to be provided separately from fees incurred during the reporting period.~~

BC31 The NZASB decided not to include the disclosure requirement described in paragraph BC30 above, for the following reasons.

- (a) The effort of complying with a requirement to disclose (significant) fees incurred/engaged for after the reporting may outweigh the benefits, given that this information is already expected to be included in the auditor's report;
- (b) The enhanced disclosures introduced by *Disclosure of Fees Paid to Audit Firms* are not intended to provide users with all information required for assessing auditor independence;
- (c) Disclosures in financial statements generally focus on the current reporting period (together with comparative information).
- (d) There are existing accounting standards that address the disclosure of material events after the reporting period.

Application of materiality considerations

BC32 Feedback on the ED included an observation that fees for services provided by the entity's audit or review firm other than for the audit or review of the financial statements are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, NZ IAS 1 *Presentation of Financial Statements* notes that "materiality depends on the nature or magnitude of information, or both."

BC33 It is possible that a fee incurred for a non-audit service provided by the entity's audit firm may be low in value, but the nature of the service may be such that information about the service and the related fee meets the definition of materiality in NZ IAS 1. That is, it may be that "omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

BC34 Given the importance of auditor independence to users of the financial statements, and the connection between the assessment of auditor independence and the fees incurred for non-audit services provided by entity's audit firms, it is particularly important to consider the nature of the service – not only the magnitude of the fee – when determining whether to provide the disclosures required by this Standard.

BC35 The NZASB finalised the amendments in [XXX 2023].

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
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Illustrative Example

This example accompanies, but is not part of, FRS-44.

Disclosure of fees paid to audit firms

IG1 The following example illustrates how an entity might satisfy the disclosure requirements in paragraph 8.3, including the specific disclosure requirements in paragraphs 8.20, 8.20A, 8.26, 8.26A regarding fees classified as ‘audit or review related services’ or as ‘other assurance services and other agreed-upon procedures engagements’.

IG2 This example assumes that the entity:

- (a) did not incur any fees for ‘taxation services’ or ‘other services’ (therefore these categories are not included in the table below); and
- (b) is not applying Tier 2 disclosure concessions (entities in Tier 2 are required to disclose the fees incurred for the audit or review of the financial statements, and the total fees incurred for all other services provided by the audit or review firm with a general description of these services).

Fees incurred for services provided by the audit firm

	20X2	20X1
Audit [and/or review] of the financial statements	xxx	xxx
Audit or review related services		
Review of adequacy of financial reporting systems and controls (assurance engagement)	xxx	xxx
Reporting on satisfaction of grant obligations (AUP engagement)	xxx	xxx
Review of compliance with debt covenants (AUP engagement)	xxx	xxx
Total	xxx	xxx
Other assurance services and other agreed-upon procedure engagements		
Greenhouse gas emissions (assurance engagement)	xxx	xxx
Adherence to cyber security procedures (assurance engagement)	xxx	xxx
Health and Safety compliance (AUP engagement)	xxx	xxx
Total	xxx	xxx
Total fees incurred for services provided by the audit firm	xxx	xxx

Part D – Effective Date

This [draft] Standard shall be applied for annual financial statements covering periods beginning on or after [1 January 2024]. Earlier application is permitted.



Disclosure of Fees Paid to Audit Firms [DRAFT]

Issued [Date]

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

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

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

This [draft] Tier 1 and Tier 2 PBE Standard requires an entity to describe the services provided by the audit firm and to disclose the fees incurred ~~paid~~ by the entity for those services.

Note for the Board:

This is a draft version of the amending standard *Disclosure of Fees Paid to Audit Firms* (Amendments to PBE IPSAS 1). It is based on the ED text and is updated for:

- the Board's discussion in December 2022 on key matters raised by respondents; and
- staff recommendations for addressing the remaining matters raised by respondents, as set out in Agenda Item 7.1.

Changes to the ED text that the Board has already seen in December 2022 are highlighted in blue. Changes added after the December 2022 Board meeting are highlighted in green. For illustrative purposes, all changes to the original ED text are marked up with new text being underlined and deleted text being struck through.

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

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

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ISBN

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(AMENDMENTS TO PBE IPSAS 1)**CONTENTS**

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DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

Part A – Introduction

This Standard sets out amendments to PBE IPSAS 1 *Presentation Financial Reports*. The amendments require an entity to describe the services provided by its audit or review firm and to disclose the fees ~~paid~~ incurred by the entity for those services.

Tier 2 entities are required to comply with all the requirements in this Standard, except for paragraphs in this Standard denoted with an asterisk (*)

Part B – Scope

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

Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

The existing paragraphs 116.1 and 116.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 116.1 to 116.36 (and the related headings) and paragraph 154.14 have been added. For ease of reading, new text is not underlined.

Statement of Comprehensive Revenue and Expense

...

Information to be Presented either on the Face of the Statement of Comprehensive Revenue and Expense or in the Notes

...

~~*116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm², separately for:~~

~~_____ (a) The audit or review of the financial report; and~~

~~_____ (b) All other services performed during the reporting period.~~

~~*116.2 To comply with paragraph 116.1 above, an entity shall describe the nature of other services.~~

² Network firm is discussed in Professional and Ethical Standard (PES) 1 (Revised) Ethical Standards for Assurance Practitioners.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

Fees paid to audit firms

- 116.1 Paragraph 116.3 requires an entity to disclose information about the fees incurred in the reporting period for:
- (a) the audit or review of the entity's financial reports;³ and
 - (b) each other type of service provided by the entity's audit or review firm.
- 116.2 The objective of this disclosure is to provide information that will assist users of general purpose financial reports to assess the extent to which non-audit services⁴ have been provided by the entity's audit or review firm in the reporting period.
- 116.3 An entity shall disclose the fees incurred for services received from each audit or review firm⁵, separately for:**
- (a) the audit or review of the financial reports (see paragraph 116.11 – 116.18);**
 - (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) audit or review related services (see paragraph 116.19 – 116.24);**
 - (ii) other assurance services and other agreed upon procedures engagements (see paragraph 116.25 – 116.29);**
 - (iii) taxation services (see paragraph 116.30 – 116.33); and**
 - (iv) other services (see paragraph 116.34 – 116.38).**

RDR 116.3 A Tier 2 entity shall disclose the total fees incurred for services other than the audit or review of the financial report provided by the entity's audit or review firm, and a general description of these services.

- 116.4 Paragraph 116.3 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) the reporting entity's audit or review firm; and
 - (b) each other audit or review firms involved in the audit or review of subsidiary entity financial reports (referred to as the 'component audit or review firm'), when consolidated financial reports are presented.
- 116.5 For public sector entities⁶, the 'audit or review' firm will be the Controller and Auditor-General. When applying paragraph 116.3, the fees incurred will include fees for services performed by an audit or review firm that completes a financial report audit or review engagement on behalf of the Controller and Auditor-General.
- 116.6 The disclosure of fees incurred for services covered by paragraph 116.3(b) and paragraph RDR 116.3, is required only when the audit or review firm has performed (or is performing) a financial report audit

³ The entity's general purpose financial reports comprise of the financial statements and, where required, service performance information prepared in accordance with PBE FRS 48 *Service Performance Reporting*.

⁴ The reference to 'non-audit services' includes any service that does not form part of the entity's financial statement audit or review engagement.

⁵ An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial reports. A 'firm' should be read as referring to its public sector equivalents where relevant. The audit or review firm includes any network firms who provided services during the period. A 'network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

⁶ Public sector entities are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

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or review engagement in the reporting period. For public sector entities, this will include services received from service providers involved in completing the financial statement audit or review engagement on behalf of the Controller and Auditor-General.

- 116.7 When consolidated financial reports are prepared by public sector entities, the fees disclosed for other services in accordance with paragraph 116.3(b), shall only include those services the component audit or review firm has provided to the component for which they have provided financial report audit or review services. The disclosure of fees for other services, in accordance with paragraph 116.3(b), is not required to include other services the component audit or review firm has provided to other entities in the group.
- 116.8 The disclosure of the fees ‘*incurred*’ for services received from each audit or review firm, as required by paragraph 116.3 and RDR 116.3, will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).
- 116.9 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 8.2. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.
- 116.10 The descriptions used in this Standard for an ‘audit engagement’, a ‘review engagement’, an ‘agreed-upon procedure engagement’ and an ‘assurance engagement’, are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

Audit or review of the financial reports

- 116.11 Fees for the audit or review of the financial reports refer to the audit or review of the entity’s general purpose financial reports, as presented in accordance with this Standard or PBE IAS 34 *Interim Financial Reporting*. For public benefit entities this will include:
- (a) A complete set of financial reports; and
 - (b) Service performance information in accordance with PBE FRS 48, where this is required to be reported.
- 116.12 A financial report *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial reports are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.13 A financial report *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial reports have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report review engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.14 The total fees for the audit or review of the financial reports include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial reports and provide other required communications to those charged with governance as part of the audit or review engagement.
- 116.15 The total fees under this category include work performed in relation to the:
- (a) annual financial report audit or review engagement; and
 - (b) interim financial report audit or review engagement (if applicable).

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- 116.16 The total fees under this category also include, when consolidated financial reports are presented, any fees incurred for the audit or review of the entity's subsidiaries' financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial reports of the subsidiary entities.
- 116.17 Examples of services that form part of the financial report audit or review engagement include the following.
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings to discuss matters arising as a result of the financial report audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial report audit or review engagement.
 - (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial report audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial reports.

116.18 ~~[Not used] Examples of services that do not form part of the financial report audit or review engagement include the following.~~

~~(a) Internal control advisory services outside the scope of the audit or review engagement.~~

~~(b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.~~

~~(c) Internal audit services.~~

~~(d) Risk management advisory services.~~

~~(e) Due diligence procedures performed in connection with merger and acquisition procedures.~~

~~(f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial reports.~~

Audit or review related services

*116.19 Fees for audit or review related services include services which are:

- (a) closely related to the work performed as part of the financial report audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 116.11 – 116.18; and/or
- (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.

*116.19A This category may include assurance services, non-assurance services such as an agreed upon procedures engagements, and other types of services for which the nature with a nature that is consistent with paragraph 116.19.

*116.20 Services that meet the description of audit or review related services in paragraph 8.17. Audit or review related services include those services that are largely carried out by members of the financial report audit or review engagement team, and this work generally rely significantly relies on synergies in knowledge gained from undertaking the financial report audit or review engagement.

*116.21 Audit or review related services also include services that are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when they meet the description in paragraph 8.17 when the services are closely related to the work performed as part of the financial

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report audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial reports.⁷

***116.22 To satisfy the disclosure requirements in paragraph 116.3(b)(i), the entity shall:**

- (a) describe the nature of each type of audit or review related service; and
- (b) disclose the total fees for each type of audit or review related service.

***116.22A In disclosing the information required in paragraph 116.22, an entity shall categorise each type of audit or review related service as follows:**

- (a) assurance engagements;**
- (b) agreed-upon procedures engagements; or**
- (c) other non-assurance engagements.**

***116.23 Examples of types of audit or review related services include engagements concerning:**

- (a) summary financial reports;
- (b) forecast financial reports;
- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁸
- (d) compliance with banking covenants; and
- (e) reporting on the satisfaction of grant obligations.
- (f) assurance engagements on solvency returns for insurance entities; and
- (g) agreed-upon procedure engagements that meet the description in paragraph 116.19 (see paragraphs 116.24A and 116.24B).

***116.24 Audit or review related services will also include any fees incurred by the reporting entity that arise from the audit or review of the entity's associates, joint ventures, and/or other related entity financial reports.⁹**

***116.24A For the purpose of this Standard, an agreed-upon procedures engagement involves a practitioner performing procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form. Agreed-upon procedures engagements are carried out in accordance with applicable professional standards, including relevant ethical requirements.¹⁰**

***116.24B Agreed-upon procedures engagements shall be classified as either audit or review related services, or as other assurance services and other agreed upon procedures engagements, based on the nature of the engagement and the application of the category descriptions. Judgement is required in making this assessment.**

⁷ This will include specified engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

⁸ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial report audit or review engagement.

⁹ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

¹⁰ This definition is based on paragraphs 4 and 6 of ISRS (NZ) 4400 *Agreed Upon Procedure Engagements*.

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Other assurance services and other agreed-upon procedures engagements

*116.25 Other assurance services and other agreed-upon procedures engagements include

- (a) any assurance services provided by an audit or review firm which have not been classified under categories listed in paragraphs 116.3(a) or 116.3(b)(i); and
- (b) any agreed-upon procedures engagements provided by an audit or review firm which have not been classified under the category in paragraph 116.3(b)(i), i.e. audit or review related services.

*116.26 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

*8.24A An agreed-upon procedures engagement is described in paragraph 116.24A.

*116.27 This category includes assurance services and agreed-upon procedures engagements that do not rely significantly on synergies in knowledge gained from undertaking the financial report audit or review engagement.

***116.28 To satisfy the disclosure requirements in paragraph 116.3(b)(ii), the entity shall:**

- (a) **describe the nature of each type of other assurance service and other agreed-upon procedures engagement; and**
- (b) **disclose the total fees for each type of other assurance service and other agreed-upon procedures engagement.**

***116.28A. In disclosing the information required in paragraph 116.28, an entity shall categorise each type of service as follows:**

- (a) assurance engagements; or**
- (b) agreed-upon procedures engagements.**

*116.29 Examples of types of other assurance services and other agreed-upon procedures engagements could include assurance engagements on:

- (a) assurance engagements on greenhouse gas statements or other sustainability reports;
- (b) assurance engagements on adherence to cyber/cloud security procedures; and
- (c) other regulatory assurance engagements which are not considered to be audit or review related services; and
- (d) those agreed-upon procedure engagements that are not considered to be audit or review related services.

Taxation services

~~*116.30 [Not used] Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial reports.~~

***116.31 To satisfy the disclosure requirements in paragraph 116.3(b)(iii), the entity shall:**

- (a) **describe the nature of each type of taxation service; and**
- (b) **disclose the total fees for each type of taxation service.**

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*116.32 Examples of types of taxation services include:¹¹

- (a) tax return preparation;
- (b) tax calculations to prepare accounting entries;
- ~~(c) transfer pricing services;~~
- (c) tax planning and other tax advisory services;
- (d) tax services involving valuations; and
- (e) assistance in the resolution of tax disputes.

*116.33 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.

Other services

*116.34 Other services include any other services provided by the audit or review firm other than the services classified under the categories listed in paragraphs 116.3(a) and 116.3(b)(i)–(iii).

***116.35 To satisfy the disclosure requirements in paragraph 116.3(b)(iv), the entity shall:**

- (a) describe the nature of each type of other service; and**
- (b) disclose the total fees for each type of other service.**

*116.36 Examples of types of other services include:¹²

- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

~~*116.37 [Not used] When fees for other services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.~~

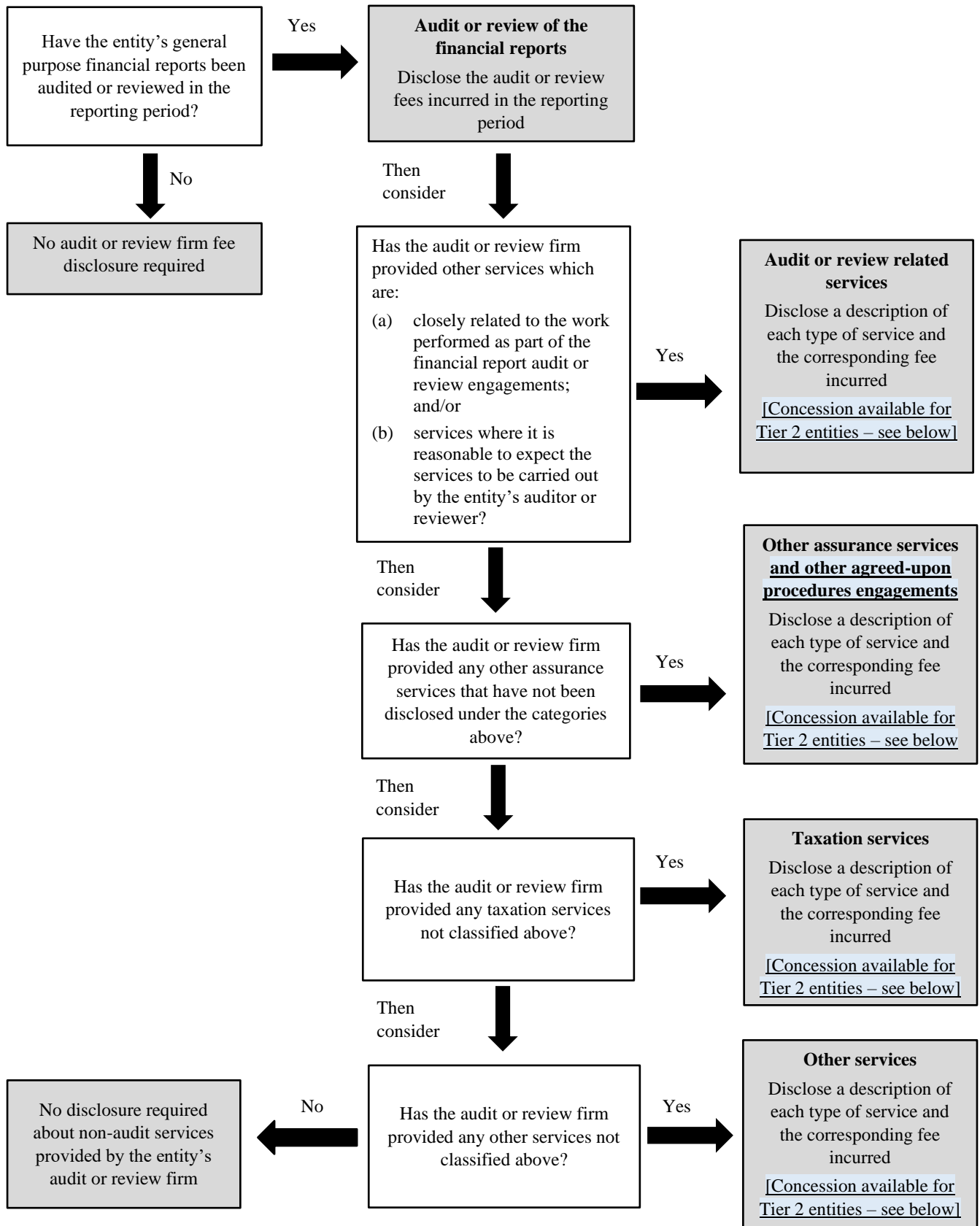
*116.38 The flowchart on the next page illustrates the application of the audit and review firm disclosure requirements concerning fees incurred for services provided by audit or review firms.

¹¹ PES 1 *Professional and Ethical Standard* 1, as applied by auditors and other assurance practitioners, includes requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

¹² PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

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Application of disclosure requirements



A Tier 2 entity is required to disclose the fees incurred for the audit or review of the financial report and the total fees incurred for non-audit and non-review services, together with a general description of the non-audit and non-review services (disaggregation of non-audit services by category is not required).

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
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Effective date

...

- 154.14 ***Disclosure of Fees Paid to Audit Firms*, issued in [date], amended paragraphs 116.1 and 116.2, added a heading above paragraph 116.1 and added paragraphs 116.3–116.38 and the related headings. An entity shall apply those amendments for annual financial reports covering periods beginning on or [date]. Earlier application is permitted.**

In the NZASB FRS-44 Basis for Conclusions, paragraph BC7-BC15 is added.

Fees paid to audit firms

- BC15 In June 2022 the NZASB issued ED 2020-10 *Disclosure of Fees Paid to Audit Firms* (Amendments to PBE IPSAS 1) to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity¹³ during the reporting period for:
- (a) the audit or review of the entity's financial reports; and
 - (b) other types of service provided by the entity's audit or review firm.
- BC16 The enhanced disclosures were proposed in response to concerns raised by key stakeholders about the inadequacy and inconsistency of information disclosed in general purpose financial reports about the nature and value of non-audit services provided by an entity's audit or review firm.
- BC17 The NZASB noted that the provision of non-audit services by an entity's audit or review firm is often seen by users as a key indicator of possible threats to auditor or reviewer independence. However, the NZASB also noted that the provision of non-audit services is just one of several factors that should be considered by those charged with governance when assessing auditor or reviewer independence.
- BC18 The NZASB agreed that the objective of the enhanced disclosures was not to provide users with all the information necessary to enable them to assess auditor independence, because those charged with governance have the responsibility for performing this assessment. In addition, the auditor's report, issued as a result of a financial report audit or review engagement, is required to include a statement that the auditor or reviewer is independent of the entity in accordance with the relevant professional and ethical standards.
- BC19 In response to concerns raised by key stakeholders noted in BC16, the NZASB agreed the disclosure objective should be to provide information that will assist users of general purpose financial reports to assess the extent to which non-audit services have been provided by the entity's audit or review firm in the reporting period.
- BC20 The NZASB also agreed the disclosure objective was not to provide users with information about all relationships the audit or review firm may have with the reporting entity. The auditor or reviewer may have other relationships with the reporting entity in addition to those that arise from the provision of non-audit services. The auditor's report, issued as a result of a financial reports audit or review engagement, is required to include a statement as to the existence of any relationship (other than that of auditor or reviewer) which the auditor or reviewer has with, or any interest which the auditor or reviewer has in, the entity or any of its subsidiaries.
- BC21 The NZASB acknowledged that under applicable professional and ethical standards, auditors and other assurance practitioners are prohibited from providing certain non-audit services under certain circumstances. The NZASB noted the enhanced disclosures are not intended to provide guidance on when it is appropriate for certain types of non-audit services to be provided by an entity's audit or review firm. Instead, the enhanced disclosures are intended to provide increased transparency and consistency of reporting when a reporting entity has incurred fees for non-audit services in the reporting period.

¹³ The reference to 'reporting entity' in the BCs includes the group when consolidated financial reports are prepared.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
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- BC22 The NZASB considered whether the amendments should also include proposals concerning the disclosure of information about audit tenure. The Board acknowledged this provided important information for users when considering risks to auditor independence, but agreed not to propose disclosure requirements about audit tenure at this time. The Board will continue to follow developments in Australia and internationally on this matter.

Note for the Board: All of the BC paragraphs below are recommended additions to the ED text. For ease of reading, the text is not underlined. Paragraphs that have been added since the Board's December 2022 meeting are highlighted in green.

- BC23 Constituents were broadly supportive of the proposed enhanced disclosure. However, some constituents recommended refinements and improvements to the proposals. The key areas where the NZASB agreed to make changes to the proposals based on constituents' feedback are explained below.

Classification of agreed-upon procedures engagements

- BC24 The proposed disclosure requirements did not specifically refer to agreed-upon procedures engagements. Some constituents recommended clarifying the category in which such engagements should be classified to promote consistent application. It was also noted that some agreed-upon procedures are consistent with the description of 'audit or review related services' and should be classified in that category when this is the case.

- BC25 In response to constituents' feedback, the NZASB agreed to:

- (a) Extend the category 'other assurance services' to 'other assurance services and other agreed-upon procedures engagements'; and
- (b) Specify that an agreed-upon procedures engagement is classified as 'audit or review related services' when the nature of the engagement is consistent with the description of that category – otherwise the engagement is classified as 'other assurance services and other agreed-upon procedures engagements'.

- BC26 The NZASB acknowledges that for some types of agreed-upon procedures engagements, judgement may be required in assessing whether the most appropriate category is 'audit or review related services' or 'other assurance engagements and other agreed-upon procedures engagements'. However, possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category.

- BC27 Furthermore, to mitigate the impact of judgement mentioned in paragraph BC19, the NZASB decided to require entities to:

- (a) categorise each type of service classified within 'audit or review related services' as an assurance engagement, an agreed-upon procedures engagement or another non-assurance engagement, and;
- (b) categorise each type of service classified within 'other assurance engagements and other agreed-upon procedure engagements' as an assurance engagement or an agreed-upon procedures engagement.

Clarifying the classification of assurance engagement

- BC28 Some constituents noted that confusion may arise when determining whether an assurance engagement should be classified as 'audit or review related services' or as 'other assurance engagements'. In response, the NZASB clarified that an assurance engagement whose nature is consistent with the description of the 'audit or review related services' category is classified in that category, otherwise it is classified as 'other assurance services and other agreed-upon procedures engagements'.

- BC29 The NZASB acknowledges that for some assurance engagements, judgement may be required when determining which of the two abovementioned categories is the most appropriate. However, as noted above in paragraph BC19, possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category, and by the additional disclosure requirements described in paragraph BC20.

Removal of the proposed disclosure requirements about mitigating risk to auditor independence in certain circumstances

- BC30 The proposed amendments included a requirement to disclose information about how the entity identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of 'taxation service' or 'other services' by the audit or review firm.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

BC31 Several respondents expressed concerns about this proposal. They noted that professional and ethical standards requires auditors and reviewers to ensure that they are independent of the audit or review client. However, the proposed disclosure may imply that the responsibility for ensuring auditor independence lies fully with the reporting entity, and may confuse users of financial report as to the responsibilities of the auditor with respect to independence as compared to the responsibilities of the entity. Some respondents considered that information about mitigating possible threats to auditor independence more appropriately belongs outside of the general purpose financial report (e.g. in elsewhere in the annual report, together with other corporate governance information). Another concern was that the disclosure requirement would give rise to ‘boiler plate’ disclosures that would not be useful to users of general purpose financial report. Discussion with constituents also highlighted that guidance issued by financial market regulators recommend providing information in the annual report in relation to mitigating possible threats to auditor independence.

BC32 After considering constituents’ feedback described above, the NZASB agreed not to include the disclosure requirement about how the entity manages possible threats to auditor independence when certain services are provided.

Disclosure concessions for entities in Tier 2

BC33 The proposals included disclosure concessions for entities in Tier 2 only with respect to the proposed disclosure relating to the mitigation of auditor or reviewer independence (see paragraph BC21 above). However, some constituents recommended additional concessions for Tier 2 entities – to ensure that the cost of providing the disclosure does not outweigh the benefits, given that Tier 2 entities do not have public accountability.

BC34 In response to constituents’ feedback, the NZASB agreed that Tier 2 entities be required to disclose only:

- (a) the total fees incurred for the audit or review of the entity’s financial report; and
- (b) the total fees incurred for other types of service provided by the entity’s audit or review firm (without requiring further disaggregation), together with a general description of these services.

BC35 The NZASB acknowledges that before *Disclosure of Fees Paid to Audit Firms* was issued, this Standard did not require Tier 2 entities to provide any disclosures relating to fees paid to audit firms. However, the disclosure requirements for Tier 2 entities described in paragraph BC 27, which were introduced by *Disclosure of Fees Paid to Audit Firms*, are consistent with the requirements for Australian Tier 2 entities as set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The NZASB considers such alignment to be appropriate.

Disclosure of significant fees incurred after the end of the reporting period

BC36 The proposed disclosure requirements referred to the disclosure of fees incurred during the reporting period. However, some constituents recommended that entities be required to disclose fees incurred for services provided by the audit or review firm after the end of the reporting period, but before the audit or review report is signed – as well as services not yet provided by the audit or review firm, but for which the audit or review firm has been engaged before the audit or review report is signed. The constituents acknowledged that such fees would not be recognised as expenses in profit or loss in the period for which the financial report is prepared. However, the constituents noted that disclosure of such fees is relevant and important for users’ assessment of the extent of non-audit services provided by the audit or review firm, and the assessment of auditor independence with respect to the current period financial report audit or review.

BC37 In response to the feedback above, the NZASB considered whether to include a requirement to disclose significant fees for services that the audit or review firm has been engaged to provide (including engagements entered into up until the date when the audit or review report is signed), but for which fees were not incurred during the reporting period.

BC38 The NZASB decided not to include the disclosure requirement described in paragraph BC30 above, for the following reasons.

- (a) The effort of complying with a requirement to disclose (significant) fees incurred/engaged for after the reporting may outweigh the benefits, given that this information is already expected to be included in the auditor’s report;
- (b) The enhanced disclosures introduced by *Disclosure of Fees Paid to Audit Firms* are not intended to provide users with all information required for assessing auditor independence;
- (c) Disclosures in the financial report generally focus on the current reporting period (together with comparative information).
- (d) There are existing accounting standards that address the disclosure of material events after the reporting period.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)*Application of materiality considerations*

- BC39 Feedback on the ED included an observation that fees for services provided by the entity's audit or review firm other than for the audit or review of the financial report are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, the NZASB notes that according to the definition of materiality in PBE IPSAS 1 *Presentation of Financial Reports* "the nature or size of the item, or a combination of both, could be the determining factor" in the assessment of materiality
- BC40 It is possible that a fee incurred for a non-audit service provided by the entity's audit firm may be low in value, but the nature of the service may be such that information about the service and the related fee meets the abovementioned definition of materiality in PBE IPSAS 1. That is, it may be that omitting or misstating this items could "influence the decisions or assessments of users made on the basis of the financial statements or service performance information"
- BC41 Given the importance of auditor independence to users of financial reports, and the connection between the assessment of auditor independence and the fees incurred for non-audit services provided by entity's audit firms, it is particularly important to consider the nature of the service – not only the magnitude of the fee – when determining whether to provide the disclosures required by this Standard.
- BC42 The NZASB finalised the amendments in [XXX 2023].

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Illustrative Example

This example accompanies, but is not part of, FRS-44.

Disclosure of fees paid to audit firms

IG1 The following example illustrates how an entity might satisfy the disclosure requirements in paragraph 8.3, including the specific disclosure requirements in paragraphs 8.20, 8.20A, 8.26, 8.26A regarding fees classified as ‘audit or review related services’ or as ‘other assurance services and other agreed-upon procedures engagements’.

IG2 This example assumes that the entity:

- (a) did not incur any fees for ‘taxation services’ or ‘other services’ (therefore these categories are not included in the table below); and
- (b) is not applying Tier 2 disclosure concessions (entities in Tier 2 are required to disclose the fees incurred for the audit or review of the financial report, and the total fees incurred for all other services provided by the audit or review firm with a general description of these services).

Fees incurred for services provided by the audit firm

	20X2	20X1
Audit [and/or review] of the financial report	xxx	xxx
Audit or review related services		
Review of adequacy of financial reporting systems and controls (assurance engagement)	xxx	xxx
Reporting on satisfaction of grant obligations (AUP engagement)	xxx	xxx
Review of compliance with debt covenants (AUP engagement)	xxx	xxx
Total	xxx	xxx
Other assurance services and other agreed-upon procedure engagements		
Greenhouse gas emissions (assurance engagement)	xxx	xxx
Adherence to cyber security procedures (assurance engagement)	xxx	xxx
Health and Safety compliance (AUP engagement)	xxx	xxx
Total	xxx	xxx

Part D – Effective Date

This [draft] Standard shall be applied for annual financial reports covering periods beginning on or after [date]. Earlier application is permitted.

Date: 2 February 2023

To: NZASB Members

From: Carly Berry

Subject: **Third edition of the *IFRS for SMEs Accounting Standard***

COVER SHEET

Project priority and complexity

<p>Project priority</p>	<p>Low</p> <p>The <i>IFRS for SMEs Accounting Standard</i> does not form part of the Accounting Standards Framework in New Zealand. However, the definition of public accountability contained with this Standard is used in XRB A1 <i>Application of the Accounting Standards Framework</i>. Therefore, proposed amendments to this definition contained within IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i> are relevant to New Zealand stakeholders.</p>
<p>Complexity of Board decision-making at this meeting</p>	<p>Medium</p> <p>The purpose of this paper is to provide the Board with a project update and to set out the basis for our draft comment letter. At this meeting the Board will be asked to APPROVE the draft comment letter.</p>

Project overview

<p>Project status</p>	<p>Seeking approval of the draft comment letter.</p>
<p>Project purpose</p>	<p>To influence the IASB’s project to ensure that those sections of the <i>IFRS for SMEs Accounting Standard</i> that are relevant to New Zealand stakeholders are fit-for-purpose.</p>
<p>Board action required at this meeting</p>	<p>APPROVE the draft comment letter.</p>

Recommendation¹

1. We recommend that the Board:
 - (a) NOTES this project update; and
 - (b) APPROVES the draft comment letter on IASB ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard* (the 'ED').

Structure of this paper

2. This paper is set out as follows.
 - (a) Background to the IASB's project
 - (b) Relevance of the *IFRS for SMEs Accounting Standard* in New Zealand
 - (c) Previous discussions with the Board
 - (d) Approach to drafting the comment letter
 - (e) Appendix: Overview of the key proposed amendments in the ED

Background to the IASB's project

3. The *IFRS for SMEs Accounting Standard* (or, the 'Standard') is based on the requirements in full IFRS Accounting Standards, with simplifications to reflect the needs of small and medium-sized entities ('SMEs') and users of their financial statements. The IASB issued the first edition of the Standard in 2009 and completed the first review in 2015.
4. In 2019, the IASB commenced its second comprehensive review of the Standard, publishing a request for information (RFI) in January 2020. In response to stakeholder feedback on the RFI, the IASB developed the ED, which was issued in September 2022. Comments are due by 7 March 2023.
5. The scope of the second comprehensive review includes:
 - (a) requirements in full IFRS Accounting Standards issued:
 - (i) since the first review; and
 - (ii) before the first review that did not result in amendments to the Standard in 2015.
 - (b) other topics brought to the IASB's attention (e.g., the application of the measurement simplifications for employee benefits).
6. In addition, the ED proposes clarifications to the definition of public accountability to improve understanding and avoid specifying how often certain entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.
7. The [Appendix](#) includes a summary of the IASB's approach to amending the Standard, as well as a summary of the key proposed amendments in the ED.

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).

Relevance of the *IFRS for SMEs Accounting Standard* in New Zealand

8. The Standard is not used in New Zealand. For-profit entities without public accountability (i.e., Tier 2 for-profit entities) use NZ IFRS RDR. However, although not used in New Zealand, the Standard does have the following impact on the New Zealand accounting standards framework.
 - (a) The Standard's definition of public accountability is reproduced in XRB A1 *Application of the Accounting Standards Framework* (paragraph 8).
 - (b) The Standard was the initial basis for determining reduced disclosure requirements for Tier 2 for-profit entities. Therefore, the proposals within the ED may have an impact on the reduced disclosure concessions.

Previous discussions with the Board

9. For the reasons noted in paragraph 6 above, at the Board's October 2022 meeting we recommended that the Board agree to submit a comment letter on the ED, with a focus on the following.
 - (a) The proposed clarifications to the definition of public accountability.
 - (b) Any significant concerns that we have with any of the proposed amendments to the disclosure requirements in the Standard, particularly those relating to topics where the recognition and measurement requirements in the Standard align with full IFRS Accounting Standards.
10. Due to its lack of relevance to New Zealand stakeholders, we also recommended not exposing the ED for general comment and instead performing limited outreach to help inform the content of the comment letter (i.e., consultation with the TRG).
11. The Board agreed with our recommendations. At its December 2022 meeting, the Board received an update on the TRG's November meeting, where the proposed clarifications to the definition of public accountability were discussed. Refer to the next section for further details.

Approach to drafting the comment letter

Definition of 'public accountability'

12. At the TRG's November 2022 meeting, we presented TRG Members with our preliminary views on the IASB's proposed clarifications to the definition of public accountability. TRG Members broadly agreed with these views which, after further refinement, are included in the draft comment letter (agenda item 8.3).

Analysis of the proposed disclosure requirements in the ED

13. For the purposes of drafting the comment letter we undertook an analysis of the proposed disclosure requirements in the ED to identify whether we have any significant concerns with these disclosures. The analysis is located at agenda item 8.2.

14. We conducted our analysis as follows.
 - (a) We identified those sections of the *IFRS for SMEs* Accounting Standard for which the ED contains proposed disclosure requirements. We then identified the corresponding NZ IFRS for those sections and inserted the Tier 2 for-profit disclosure requirements within those NZ IFRS into the analysis spreadsheet.
 - (b) For each Tier 2 disclosure requirement, we looked for a similar requirement in the *IFRS for SMEs* Accounting Standard for the purposes of performing a direct comparison. Our focus was on whether the disclosure requirements are the same in principle (i.e., we did not focus on inconsequential wording differences).
 - (c) Where the requirements are not the same in principle, we considered why this may be the case (e.g., there may be recognition and measurement differences).
 - (d) Where there is a Tier 2 disclosure requirement but no similar requirement in the IFRS for SMEs Accounting Standard (or vice versa) the approach in (c) above also applies in this situation.

15. For ease of analysis, and to get a complete view of all the information that an SME is required to disclose for a particular topic, where a section of the Standard contains amended disclosures, all disclosure requirements in that section were compared to the equivalent Tier 2 disclosures, even where those disclosure requirements were not amended by the ED.

16. After performing the analysis as described in paragraph 14 above, we did not identify any concerns with the proposed disclosure requirements in the ED that were significant enough to warrant inclusion in the draft comment letter.²

17. We identified several areas where Tier 2 disclosure requirements are not (in principle) the same as those for SMEs. We will consider these areas further during the full analysis that we will perform and present to the Board at a future meeting.³

Question for the Board

Q1. Does the Board APPROVE the comment letter?

Attachments

Agenda item 8.2: Disclosure analysis

Agenda item 8.3: Draft comment letter

² Our analysis identified several areas where we could have made a brief comment (e.g., where SMEs seemingly have more onerous disclosure requirements when compared to Tier 2 entities). However, we set a high hurdle for inclusion of these comments in our submission on the ED, as we did not want to detract from our concerns around the proposed clarifications to the definition of public accountability (which is the one area of the Standard that has a direct impact on New Zealand stakeholders).

³ To assess the continuing appropriateness (and completeness) of the Tier 2 disclosure requirements, we will be performing a full comparison of Tier 2 disclosure requirements against all the disclosure requirements in the *IFRS for SMEs* Accounting Standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and the IASB ED *Subsidiaries without Public Accountability: Disclosures*.

Appendix: Overview of the key proposed amendments in the ED

The IASB’s alignment approach

1. The IASB’s approach to amending the IFRS for SMEs Accounting Standard is to treat alignment with the requirements in full IFRS Accounting Standards as the starting point.
2. The IASB applies the principles listed in the table below, as well as an assessment of costs and benefits, to determine whether and how that alignment should take place.

Alignment principle	Explanation
Relevance to SMEs	Is the topic relevant to SMEs?
Simplicity	Can the requirements of full IFRS Accounting Standards be simplified?
Faithful representation	Do the outcomes faithfully represent the substance of transactions?

3. The table below sets out the major IFRS Accounting Standards to which the alignment approach has been applied and amendments to IFRS for SMES Accounting Standard have been proposed.

IFRS Accounting Standard	Impact on IFRS for SMEs Accounting Standard
IFRS 3 <i>Business Combinations</i>	<ul style="list-style-type: none"> • Updated definition of a business (including application guidance and illustrative examples) • Require the acquisition method of accounting, which includes: <ul style="list-style-type: none"> ○ Accounting for step acquisitions ○ Recognising acquisition-related costs as an expense in profit or loss ○ Recognising contingent consideration at fair value (with exceptions relating to undue cost or effort)
IFRS 9 <i>Financial Instruments</i>	<ul style="list-style-type: none"> • Remove the option to apply the recognition and measurement requirements in IAS 39. • Introduction of the expected credit loss model for some financial assets measured at amortised cost (and retain the incurred loss model for trade receivables and contract assets) • Principle for classification and measurement of financial instruments based on their contractual cash flow characteristics • Simplified requirements for issued financial guarantee contracts
IFRS 10 <i>Consolidated Financial Statements</i>	<ul style="list-style-type: none"> • Update the definition of ‘control’ to align with IFRS 10 (but retain the rebuttable presumption that an SME controls an entity if the SME owns a majority of the voting rights of the entity)

IFRS Accounting Standard	Impact on IFRS for SMEs Accounting Standard
	<ul style="list-style-type: none"> • Add new requirements for partial disposals that result in a loss of control
IFRS 11 <i>Joint Arrangements</i>	<ul style="list-style-type: none"> • Update the definition of joint control to align with IFRS 11 • Retain the classifications of joint arrangements as ‘jointly controlled operations’, ‘jointly controlled assets’ and ‘jointly controlled entities’. • Add requirements for when an entity participates but does not have joint control
IFRS 13 <i>Fair Value Measurement</i>	<ul style="list-style-type: none"> • Update the definition of fair value to align with IFRS 13 • Update the framework for measuring fair value • Require improved disclosures about fair value measurements.
IFRS 15 <i>Revenue from Contracts with Customers</i>	<ul style="list-style-type: none"> • Introduce a framework for recognising revenue for goods and services, based on the five-step model in IFRS 15 (simplified for SMEs) • Provide transition relief to allow SMEs to apply their current revenue recognition policy to contracts already in progress.

4. There are three topics to which the IASB has applied the alignment approach but is not proposing amendments:
- IFRS 14 *Regulatory Deferral Accounts*
 - This Standard may be replaced when the IASB’s project on rate-regulated activities is completed.
 - IFRS 16 *Leases*
 - Alignment would impose a workload on SMEs disproportionate to the benefit to users of their financial statements
 - Findings from the post-implementation review of IFRS 16 and application questions may provide additional information about the costs and benefits of aligning with IFRS 16.
 - Cryptocurrency
 - The use of cryptocurrency is not prevalent amongst SMEs
 - The IASB is waiting for results from future research and standard-setting projects to develop requirements for cryptocurrency for entities applying full IFRS Accounting Standards.

Disclosure analysis - NZ IFRS RDR and IASB ED Third edition of the IFRS for SMEs Accounting Standard

This analysis compares the disclosure requirements contained within the IASB ED to the Tier 2 for-profit disclosure requirements. Those sections of the ED where no new disclosure requirements have been proposed, or existing disclosure requirements have not been amended, are not considered in this analysis.

Agenda paper 8.2

NZ IFRS RDR	IASB ED Third edition of the IFRS for SMEs Accounting Standard	Comparison
NZ IFRS 3 Business Combinations	Section 19 Business Combinations and Goodwill	
B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:	19.25 For each business combination during the period, the acquirer shall disclose the following:	Same in principle
(a) the name and a description of the acquiree	(a) the name and description of the acquiree;	Same in principle
(b) the acquisition date.	(b) the acquisition date;	Same in principle
(c) the percentage of voting equity interests acquired.	(c) the percentage of voting equity instruments acquired;	Same in principle
(f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as: (i) cash; (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer; (iii) liabilities incurred, for example, a liability for contingent consideration; and (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.	(d) the acquisition-date fair value of the total consideration transferred and a description of the components of that consideration (such as cash, equity instruments and debt instruments);	Tier 2 entities are required to disclose the acquisition-date fair values of each major class of consideration. SMEs only need to disclose descriptions of the components of the consideration.
(g) for contingent consideration arrangements and indemnification assets: (i) the amount recognised as of the acquisition date; (ii) a description of the arrangement and the basis for determining the amount of the payment; and (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.	(da) for contingent consideration arrangements: (i) the amount recognised as of the acquisition date; (ii) a description of the arrangement and the basis for determining the amount of the payment; and (iii) if the acquisition-date fair value of contingent consideration cannot be measured reliably without undue cost or effort (see paragraph 19.13), at the acquisition date, the acquirer shall disclose that fact and the reasons why a reliable fair value measurement would involve undue cost or effort;	The concept of 'undue cost or effort' is not applicable to Tier 2 entities. Otherwise, substantively the same in principle .
(i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.	(e) the amounts recognised at the acquisition date for each class of the acquiree's assets and liabilities;	Same in principle
(j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets .		No equivalent requirement for SMEs - SMEs do not have to disclose the information required in paragraph 21.14 (i.e. paragraph 85 of NZ IAS 37). This information could be helpful to users of SME accounts.
(n) in a bargain purchase (see paragraphs 34–36): (i) the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain is recognised;	(f) for a bargain purchase, the amount of any gain recognised in profit or loss in accordance with paragraph 19.10N and the line item in the statement of comprehensive income (and in the income statement, if presented) in which the gain is recognised;	Same in principle
(o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date: (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and significant inputs used for measuring that value.		No equivalent requirement for SMEs. NCI accounting is simpler for SMEs and therefore most of the disclosure required by this requirement is N/A for SMEs.
(p) in a business combination achieved in stages: (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised.		No equivalent requirement for SMEs. The disclosures that a Tier 2 entity must make if it is involved in a step acquisition would likely be useful for the users of SME accounts.
RDR B65.1 For individually immaterial business combinations occurring during the reporting period that are material collectively, a Tier 2 acquirer shall disclose in aggregate the information required by paragraphs B64(f), B64(g), B64(i), B64(n)(i), B64(o)(i) and B64(p) and the first sentence of paragraph B64(j).		No equivalent requirement for SMEs. It is likely that an SME would not have multiple business combinations occurring during the report period (or that they wouldn't be immaterial).

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
<p>B67(d) To meet the objective in paragraph 61, the acquirer shall disclose ... a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:</p> <p>(i) the gross amount and accumulated impairment losses at the beginning of the reporting period.</p> <p>(ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>.</p> <p>(iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.</p> <p>(iv) goodwill included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.</p> <p>(v) impairment losses recognised during the reporting period in accordance with NZ IAS 36. (NZ IAS 36 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement).</p> <p>(vi) net exchange rate differences arising during the reporting period in accordance with NZ IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>.</p> <p>(vii) any other changes in the carrying amount during the reporting period.</p> <p>(viii) the gross amount and accumulated impairment losses at the end of the reporting period.</p> <p>RDR B67.1 A Tier 2 entity is not required to disclose the reconciliation specified in paragraph B67(d) for prior periods.</p>	<p>9.26 An acquirer shall disclose the useful lives used for goodwill and a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period, showing. The reconciliation should show separately:</p> <p>(a) additional goodwill recognised during the reporting period arising from new business combinations;</p> <p>(b) impairment losses recognised during the reporting period applying Section 27;</p> <p>(c) goodwill relating to previously acquired businesses derecognised during the reporting period; and</p> <p>(d) other changes.</p> <p>This reconciliation need not be presented for prior periods.</p>	<p>Same in principle</p>
	<p>(g) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets not recognised in accordance with paragraph 19.10G or other factors; and</p>	<p>Equivalent requirements in NZ IFRS 3 are not required for Tier 2 entities.</p>
	<p>19.25(h) for each contingent liability that is not recognised in accordance with paragraph 19.10J because its fair value cannot be measured reliably, the acquirer shall disclose the information required by paragraph 21.15.</p>	<p>In this context, Tier 2 entities do not have to disclose the requirements that are equivalent to paragraph 21.15 (i.e. paragraph 86 of NZ IAS 37).</p>
	<p>19.26A For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires, the entity shall disclose for each material business combination and in aggregate for individually immaterial business combinations that are material collectively:</p> <p>(a) any changes in the recognised amounts, including any differences arising upon settlement; and</p> <p>(b) the valuation techniques and key model inputs used to measure contingent consideration.</p>	<p>Equivalent requirements in NZ IFRS 3 (i.e. paragraph B67(b)) are not required for Tier 2 entities.</p>
<p>NZ IFRS 7 <i>Financial Instruments: Disclosures</i></p>	<p>Section 11 <i>Financial Instruments</i></p>	
<p>7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.</p>	<p>11.42 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).</p>	<p>Same in principle.</p>
<p>8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, shall be disclosed either in the statement of financial position or in the notes:</p>	<p>11.41 An entity shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:</p>	<p>Same in principle.</p>
<p>(f) financial assets measured at amortised cost.</p>	<p>(b) financial assets that are debt instruments measured at amortised cost (paragraph 11.14(a))</p>	<p>Same in principle. Equity instruments accounted for under NZ IFRS 9 would not be measured at amortised cost and therefore only debt instruments would fall under this category.</p>
<p>(g) financial liabilities measured at amortised cost.</p>	<p>(e) financial liabilities measured at amortised cost (paragraph 11.14(a))</p>	<p>Same in principle.</p>

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
(h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of NZ IFRS 9.	(c) financial assets that are equity instruments measured at cost less impairment (paragraph 11.14(c)(ii) and paragraphs 11.55-11.56);	IFRS for SMEs does not contain 'FVOCI' election for equity instruments
RDR 8.1 A Tier 2 entity shall disclose, either in the statement of financial position or in the notes, the carrying amounts of (i) financial assets measured at fair value through profit or loss and (ii) financial liabilities measured at fair value through profit or loss.	(a) financial assets measured at fair value through profit or loss (paragraph 11.14(c)(i) and paragraphs 11.55–11.56;	Same in principle.
	(d) financial liabilities measured at fair value through profit or loss (paragraphs 11.55–11.56;	Same in principle.
	(f) loan commitments measured at cost less impairment (paragraph 11.14(b)).	No requirement for Tier 2 entities to disclose a separate category for this instrument.
	(g) issued financial guarantee contracts (paragraph 11.14(d))	No requirement for Tier 2 entities to disclose a separate category for this instrument. IFRS for SMEs contains simplified requirements relating to financial guarantee contracts.
12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of NZ IFRS 9. For each such event, an entity shall disclose: (a) the date of reclassification. (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements. (c) the amount reclassified into and out of each category.		N/A for SMEs.
12D If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost or out of the fair value through profit or loss category so that they are measured at amortised cost or fair value through other comprehensive income it shall disclose: (a) the fair value of the financial assets at the end of the reporting period; and (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets had not been reclassified.		N/A for SMEs.
14 An entity shall disclose: (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of NZ IFRS 9; and (b) the terms and conditions relating to its pledge.	11.46 When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following: (a) the carrying amount of the financial assets pledged as collateral; and (b) the terms and conditions relating to its pledge.	Same in principle.
16A The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.		IFRS for SMEs does not contain an 'FVOCI' category.
17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of NZ IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.		N/A for SMEs.
RDR 18.1 For loans payable recognised at the end of the reporting period for which there is a breach of terms or default of principal, interest, sinking fund, or redemption of terms that has not been remedied by the end of the reporting period, a Tier 2 entity shall disclose the following: (a) details of that breach or default; (b) the carrying amount of the related loans payable at the end of the reporting period; and (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	11.47 For loans payable recognised at the reporting date for which there is a breach of terms or a default of principal, interest, sinking fund or redemption terms that have not been remedied by the reporting date, an entity shall disclose the following: (a) details of that breach or default; (b) the carrying amount of the related loans payable at the reporting date; and (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	Same in principle.

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:	11.48 An entity shall disclose the following items of income, expense, gains or losses:	Same in principle.
(a) net gains or net losses on:	(a) income, expense, gains or losses, including changes in fair value, recognised on:	Same in principle.
(v) financial liabilities measured at amortised cost.	(iv) financial liabilities measured at amortised cost;	Same in principle.
(vi) financial assets measured at amortised cost.	(iii) financial assets measured at amortised cost;	Same in principle.
(vii) investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9.		IFRS for SMEs does not contain an 'FVOCI' category.
(viii) financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.		IFRS for SMEs does not contain an 'FVOCI' category.
(b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss.	11.48(b) ... total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through profit or loss;	Same in principle.
RDR 20.1 A Tier 2 entity shall disclose, either in the statement of comprehensive income or in the notes, net gains or losses on financial assets or financial liabilities measured at fair value through profit or loss. For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.	11.48(a) ... (i) financial assets measured at fair value through profit or loss; (ii) financial liabilities measured at fair value through profit or loss;	Same in principle.
	(v) issued financial guarantee contracts.	No requirement for Tier 2 entities to disclose a separate category for this instrument. IFRS for SMEs contains simplified requirements relating to financial guarantee contracts.
	11.48(c) ... the amount of any impairment loss for each class of financial asset.	No equivalent requirement for Tier 2 entities.
21 In accordance with paragraph 117 of NZ IAS 1 <i>Presentation of Financial Statements</i> (as revised in 2007), an entity discloses material accounting policy information. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.	11.40 In accordance with paragraph 8.5, an entity shall disclose material accounting policy information. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.	Same in principle.
21A An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about: (a) an entity's risk management strategy and how it is applied to manage risk; (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.	Paragraphs 11.74-11.77	The hedge accounting requirements for SMEs are substantially simplified compared to full IFRS. No further analysis performed.
21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard and NZ IFRS 13 Fair Value Measurement.		
22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example): (a) how each risk arises. (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why. (c) the extent of risk exposures that the entity manages.		

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
<p>22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:</p> <ul style="list-style-type: none"> (a) the hedging instruments that are used (and how they are used) to hedge risk exposures; (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are 		
<p>22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of NZ IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:</p> <ul style="list-style-type: none"> (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole). 		
<p>23C(b) In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of NZ IFRS 9) the entity shall disclose:</p> <ul style="list-style-type: none"> (i) information about what the ultimate risk management strategy is in relation to those hedging relationships; (ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and (iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of <u>the entity's process in relation to those hedging relationships.</u> 		
<p>23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.</p>		
<p>24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):</p> <ul style="list-style-type: none"> (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities); (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; 		
<p>RDR 24A.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24A in a tabular format.</p>		
<p>24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:</p> <ul style="list-style-type: none"> (a) for fair value hedges: <ul style="list-style-type: none"> (i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities); (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; 		
<ul style="list-style-type: none"> (b) for cash flow hedges and hedges of a net investment in a foreign operation: <ul style="list-style-type: none"> (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of NZ IFRS 9); 		
<p>RDR 24B.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24B in a tabular format.</p>		

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<p>24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:</p> <p>(a) for fair value hedges:</p> <p>(i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9);</p> <p>(b) for cash flow hedges and hedges of a net investment in a foreign operation:</p> <p>(i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;</p> <p>(ii) hedge ineffectiveness recognised in profit or loss;</p> <p>(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see NZ IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);</p> <p>(vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of NZ IFRS 9).</p> <p>RDR 24C.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24C in a tabular format</p> <p>RDR 24C.2 A Tier 2 entity is required to disclose only the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment in accordance with paragraph 24C(b)(iv).</p>		
<p>24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:</p> <p>(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4 of NZ IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with NZ IAS 1, an entity does not need to continue this disclosure in subsequent periods).</p>		N/A for SMEs.
<p><i>Uncertainty arising from interest rate benchmark reform - Tier 2 entities are required to comply with all the disclosure requirements.</i></p>		These amendments have not been incorporated into IFRS for SMEs. IBOR reform is likely to be completed before any amendments to the IFRS for SMEs Accounting Standard are issued.
<p>29 Disclosures of fair value are not required:</p> <p>(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;</p>		Not included in IFRS for SMEs.
<p>42A The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this NZ IFRS. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred.</p> <p>For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:</p> <p>(a) transfers the contractual rights to receive the cash flows of that financial asset; or</p> <p>(b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.</p>		N/A for SMEs - disclosure objective paragraph.
<p>42B An entity shall disclose information that enables users of its financial statements:</p> <p>(a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities;</p>		N/A for SMEs - disclosure objective paragraph.

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<p>42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:</p> <p>(a) the nature of the transferred assets.</p> <p>(b) the nature of the risks and rewards of ownership to which the entity is exposed.</p> <p>(c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.</p>	<p>11.45 If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose the following for each class of such financial assets:</p> <p>(a) the nature of the assets;</p> <p>(b) the nature of the risks and rewards of ownership to which the entity remains exposed; and</p>	<p>Same in principle.</p>
<p>RDR 42D.1 When a Tier 2 entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 3.2.6 (c)(ii) and 3.2.16 of NZ IFRS 9), the entity is required to disclose the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities in accordance with paragraph 42D(f).</p>	<p>11.45(c) If an entity has transferred financial assets to another party in a transaction that does not qualify for derecognition (see paragraphs 11.33–11.35), the entity shall disclose ... for each class of such financial assets the carrying amounts of the assets and of any associated liabilities that the entity continues to recognise.</p>	<p>Same in principle.</p>
<p>42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 3.2.6(a) and (c)(i) of NZ IFRS 9) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:</p> <p>(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined.</p>		<p>N/A for SMEs - likely due to simplification.</p>
<p><i>Initial application of NZ IFRS 9 - Tier 2 entities are required to comply with all the disclosure requirements.</i></p>		<p>N/A for SMEs.</p>
	<p>11.44 If a reliable measure of fair value is no longer available, or is not available without undue cost or effort when such an exemption is provided, for any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this Standard, the entity shall disclose that fact, the carrying amount of those financial instruments and, if an undue cost or effort exemption has been used, the reasons why a reliable fair value measurement would involve undue cost or effort</p>	<p>N/A for Tier 2 entities.</p>
	<p>11.49 An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 11.26B–11.26L. For this purpose the entity shall disclose:</p> <p>(a) the basis of inputs and assumptions and the estimation techniques used to measure the expected credit losses;</p> <p>(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and</p> <p>(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.</p>	<p>Tier 2 entities are not required to disclose any quantitative and qualitative information about amounts arising from expected credit losses.</p>
	<p>11.50 To explain the changes in the allowance for expected credit losses and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the allowance, in a table. The entity shall disclose information about the changes in the allowance for financial assets separately from those for expected credit losses on issued financial guarantee contracts.</p>	<p>Tier 2 entities are not required to disclose any quantitative and qualitative information about amounts arising from expected credit losses.</p>
<p>NZ IFRS 12 <i>Disclosure of Interests in Other Entities</i></p>	<p>Section 9 Consolidated and Separate Financial Statements; Section 14 Investments in Associates; Section 15 Joint Arrangements</p>	
<p>7 An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:</p> <p>(a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of NZ IFRS 10 <i>Consolidated Financial Statements</i> ;</p> <p>(b) that it has joint control of an arrangement or significant influence over another entity; and</p> <p>(c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.</p>		<p>N/A for SMEs - disclosure objective paragraph.</p>

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8 The significant judgements and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.		N/A for SMEs - disclosures are simplified for SMEs.
9(b) To comply with paragraph 7, an entity shall disclose, for example, significant judgements and assumptions made in determining that it controls another entity even though it holds less than half of the voting rights of the other entity.	9.23 The following disclosures shall be made in consolidated financial statements... (b) the basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, a majority of the voting rights of the other entity;	Same in principle.
9(c) To comply with paragraph 7, an entity shall disclose, for example, significant judgements and assumptions made in determining that it is an agent or a principal (see paragraphs B58–B72 of NZ IFRS 10).		No equivalent requirement for SMEs, as the NZ IFRS 12 requirements have been simplified for SMEs.
9A When a parent determines that it is an investment entity in accordance with paragraph 27 of NZ IFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of NZ IFRS 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
9B When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including: (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated; (b) the total gain or loss, if any, calculated in accordance with paragraph B101 of NZ IFRS 10; and (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
10(a)(i), (b)(i) An entity shall disclose information that enables users of its consolidated financial statements to understand the composition of the group; and to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 13);		N/A for SMEs - disclosure objective paragraph.
11 When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraphs B92 and B93 of NZ IFRS 10), an entity shall disclose: (a) the date of the end of the reporting period of the financial statements of that subsidiary;	9.23 The following disclosures shall be made in consolidated financial statements... (c) any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements;	Same in principle.
13 An entity shall disclose: (a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as (i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group. (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.	9.23 The following disclosures shall be made in consolidated financial statements... (d) the nature and extent of any significant restrictions (for example resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.	Tier 2 entities are required to disclose more information (i.e. the carrying amounts of the assets and liabilities to which those restrictions apply). The required disclosures for SMEs have been simplified.
15 If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity (eg purchasing assets of or instruments issued by the structured entity), the entity shall disclose: (a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and (b) the reasons for providing the support.		N/A for SMEs - disclosures are simplified for SMEs.
17 An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.		N/A for SMEs - disclosures are simplified for SMEs.

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19A An investment entity that, in accordance with NZ IFRS 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19B For each unconsolidated subsidiary, an investment entity shall disclose: (a) the subsidiary's name; (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and (c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19C If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19D An investment entity shall disclose: (a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and (b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose: (a) the type and amount of support provided to each unconsolidated subsidiary; and (b) the reasons for providing the support.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.		N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.
20 An entity shall disclose information that enables users of its financial statements to evaluate: (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22);		N/A for SMEs - disclosure objective paragraph.
21 An entity shall disclose: (a) for each joint arrangement and associate that is material to the reporting entity: (i) the name of the joint arrangement or associate. (iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate. (iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).		No equivalent requirement for SMEs. This information may be useful to a user of an SME's financial statements.

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<p>(b) for each joint venture and associate that is material to the reporting entity:</p> <p>(i) whether the investment in the joint venture or associate is measured using the equity method or at fair value.</p> <p>(iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.</p>	<p>14.12 An entity shall disclose the following:</p> <p>(a) its accounting policy for investments in associates;</p> <p>(b) the carrying amount of investments in associates (see paragraph 4.2(j)); and</p> <p>(c) the fair value of its investment in an associate if a market price for the investment is quoted and the entity accounts for the associate using the equity method.</p> <p>15.19 An entity shall disclose the following:</p> <p>(a) the accounting policy it uses for recognising its interests in jointly controlled entities;</p> <p>(b) the carrying amount of investments in jointly controlled entities (see paragraph 4.2(k));</p> <p>(c) the fair value of its investment in a jointly controlled entity, if a market price for the investment is quoted and the entity accounts for the jointly controlled entity using the equity method.</p>	<p>Same in principle for 14.12(a) and (c) and 15(a) and (c). Tier 2 entities are not required to disclose the carrying amounts of investments in associates and jointly controlled entities (unless relevant to an understanding of the entity's financial position). Instead, Tier 2 entities must present (if material) a line item for investments accounted for using the equity method. See NZ IAS 1.54(e) and .55.</p>
<p>21A An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).</p>		<p>N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.</p>
<p>23 An entity shall disclose:</p> <p>(a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20.</p> <p>(b) in accordance with NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.</p>		<p>Same in principle for 23(a) (the equivalent IFRS for SMEs paragraph is 15.19(d) - see NZ IFRS 12.B18). SMEs do not have an equivalent requirement to 23(b) as the IFRS requirement is simplified for SMEs.</p>
<p>24 An entity shall disclose information that enables users of its financial statements:</p> <p>(a) to understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26–28);</p>		<p>N/A for SMEs - disclosures are simplified for SMEs.</p>
<p>25A An investment entity need not provide the disclosures required by paragraph 24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A–19G.</p>		<p>N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.</p>
<p>RDR 26.1 A Tier 2 entity shall disclose information about its interest in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.</p>		<p>N/A for SMEs - disclosures are simplified for SMEs.</p>
<p>30 If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:</p> <p>(a) the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and</p> <p>(b) the reasons for providing the support.</p>		<p>N/A for SMEs - disclosures are simplified for SMEs.</p>
<p>31 An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.</p>		<p>N/A for SMEs - disclosures are simplified for SMEs.</p>
<p>B3 An entity may aggregate the disclosures required by this NZ IFRS for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph B4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.</p>		<p>N/A for SMEs - disclosures are simplified for SMEs.</p>
<p>B4 An entity shall present information separately for interests in:</p> <p>(a) subsidiaries;</p> <p>(b) joint ventures;</p> <p>(c) joint operations;</p> <p>(d) associates; and</p> <p>(e) unconsolidated structured entities</p>		<p>N/A for SMEs - the disclosure requirements are contained within three different sections in the IFRS for SMEs Accounting Standard.</p>

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B5 In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.		N/A for SMEs - disclosures are simplified for SMEs.
B18 An entity shall disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.	15.19(d) An entity shall disclose ... the aggregate amount of its commitments relating to jointly controlled entities, including its share in the commitments that have been incurred jointly with other parties.	Same in principle.
B19 Unrecognised commitments that may give rise to a future outflow of cash or other resources include: (a) unrecognised commitments to contribute funding or resources as a result of, for example: (i) the constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period). (ii) capital-intensive projects undertaken by a joint venture. (iii) unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture. (iv) unrecognised commitments to provide loans or other financial support to a joint venture. (v) unrecognised commitments to contribute resources to a joint venture, such as assets or services. (vi) other non-cancellable unrecognised commitments relating to a joint venture. (b) unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.		Not included in IFRS for SMEs - examples only.
B20 The requirements and examples in paragraphs B18 and B19 illustrate some of the types of disclosure required by paragraph 18 of NZ IAS 24 <i>Related Party Disclosures</i> .		Not included in IFRS for SMEs - this is more a guidance paragraph than a specific disclosure requirement.
	9.23 The following disclosures shall be made in consolidated financial statements: (a) the fact that the financial statements are consolidated financial statements;	No explicitly required in NZ IFRS 12; however, NZ IAS 1.51(b) requires similar information to be disclosed.
	9.23B An entity shall disclose the gain or loss, if any, calculated in accordance with paragraphs 9.18–9.19, and: (a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and (b) the line items in profit or loss in which the gain or loss is recognised (if not presented separately).	Tier 2 entities do not have to disclose the information required by the equivalent to paragraph 9.23B (i.e. paragraph 19 of NZ IFRS 12).
	14.13 For investments in associates accounted for using by the cost model, an investor shall disclose the amount of dividends and other distributions recognised as income.	N/A for Tier 2 entities - Tier 2 entities do not have the option to account for investments in associates at cost in consolidated financial statements (or financial statements prepared by an entity that is not a parent but holds investments in associates).
	14.14 For investments in associates accounted for using the equity method, an investor shall disclose separately its share of the profit or loss and its share of any discontinued operations.	Not explicitly stated in NZ IFRS 12; however, NZ IAS 1.82(c) requires a separate line item for the share of the profit or loss of associates and joint ventures accounted for using the equity method. No equivalent requirement for Tier 2 entities re. the share of discontinued operations.
	14.15 For investments in associates accounted for using by the fair value model, an investor shall make the disclosures required in Section 12. If an investor applies the undue cost or effort exemption in paragraph 14.10 for any associates it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in associates accounted for under the cost model.	Same in principle - Tier 2 entities must comply with the requirements of NZ IFRS 13. The 'undue cost or effort' exemption is not available for Tier 2 entities.

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	15.20 For jointly controlled entities accounted for in accordance with the equity method, the party venturer shall also make the disclosures required by paragraph 14.14 for equity method investments.	Not explicitly stated in NZ IFRS 12; however, NZ IAS 1.82(c) requires a separate line item for the share of the profit or loss of associates and joint ventures accounted for using the equity method. No equivalent requirement for Tier 2 entities re. the share of discontinued operations.
	15.21 For jointly controlled entities accounted for in accordance with the fair value model, the party shall make the disclosures required in Section 12. If a party applies the undue cost or effort exemption in paragraph 15.15 for any jointly controlled entity it shall disclose that fact, the reasons why fair value measurement would involve undue cost or effort and the carrying amount of investments in jointly controlled entities accounted for under the cost model.	Same in principle - Tier 2 entities must comply with the requirements of NZ IFRS 13. The 'undue cost or effort' exemption is not available for Tier 2 entities.
NZ IFRS 13 Fair Value Measurement	Section 12 Fair Value Measurement	
91(a) An entity shall disclose information that helps users of its financial statements assess ...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.		N/A for SMEs - disclosure objective paragraph.
92 ... If the disclosures provided in accordance with this NZ IFRS and other NZ IFRSs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.		Not explicitly stated in Section 12.
93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this NZ IFRS) in the statement of financial position after initial recognition: (a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement...	12.28 An entity shall disclose for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition: (a) the carrying amounts at the end of the reporting period;	Same in principle. Tier 2 entities also have to disclose the reason for the measurement for non-recurring fair value measurements.
94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following: (a) the nature, characteristics and risks of the asset or liability; and (b) the level of the fair value hierarchy within which the fair value measurement is categorised. The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement...	12.30 An entity shall determine appropriate classes of assets and liabilities on the basis of: (a) the nature, characteristics and risks of the asset or liability; and (b) the level of the fair value hierarchy within which the fair value measurement is categorised.	Same in principle.
94 ... A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another NZ IFRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this NZ IFRS if that class meets the requirements in this paragraph.	12.31 A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.	Same in principle.
96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.		N/A for SMEs - this exception does not exist in IFRS for SMEs.
	12.28 An entity shall disclose for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition ... (b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3); and (c) a description of the valuation technique(s) it used for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, and the inputs used in the fair value measurement	Tier 2 entities do not have to disclose the information required by the equivalent to paragraph 12.28(b) and (c) (i.e. paragraph 93(b) and part of (d) of NZ IFRS 13).

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
	<p>12.29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall disclose:</p> <p>(a) total gains or losses for the period recognised in profit or loss, and the line items in profit or loss in which those gains or losses are recognised; and</p> <p>(b) total gains or losses for the period recognised in other comprehensive income, and the line items in other comprehensive income in which those gains or losses are recognised.</p>	Tier 2 entities do not have to disclose the information required by the equivalent to paragraph 12.29 (i.e. part of paragraph 93(e) of NZ IFRS 13).
	12.32 An entity shall present the quantitative disclosures required by paragraphs 12.28–12.31 in a table unless another format is more appropriate.	Tier 2 entities have a disclosure concession for the equivalent to paragraph 12.32 (i.e. paragraph 99 of NZ IFRS 13).
NZ IFRS 15 Revenue from Contracts with Customers	Section 23 Revenue from Contracts with Customers	
<p>110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:</p> <p>(a) its contracts with customers (see paragraphs 113–122);</p> <p>(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and</p> <p>(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).</p>		N/A for SMEs - disclosure objective paragraph.
<p>111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p>		No equivalent requirement for SMEs.
<p>112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.</p>		Not explicitly stated in Section 23.
<p>113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:</p>	23.122 Unless the amounts are presented separately in the statement of comprehensive income by applying other sections of this Standard ...	Same in principle
<p>113(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue;</p>		No equivalent requirement for SMEs. Paragraph 5.5(a) requires an SME to present a revenue line item in its statement of comprehensive income (but this revenue may be from sources other than contracts with customers).
<p>113(b) any impairment losses recognised (in accordance with NZ IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.</p>	23.122 ... an entity shall disclose the amount of impairment losses recognised (by applying Section 11) for the reporting period on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts for the reporting period.	Same in principle
<p>114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.</p> <p>An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.</p>	23.121 An entity shall disclose the revenue it recognised from contracts with customers disaggregated into categories, showing separately, at a minimum, revenue arising from: <p>a) the sale of goods;</p> <p>b) the rendering of services;</p> <p>c) royalties;</p> <p>d) commissions; and</p> <p>e) any other significant types of revenue from contracts with customers.</p>	Disaggregation requirements are simplified for SMEs.
<p>116(a) An entity shall disclose ... the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;</p>	23.123 An entity shall disclose: (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;	Same in principle

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
<p>119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:</p> <p>(a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;</p> <p>(b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58);</p> <p>(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);</p> <p>(d) obligations for returns, refunds and other similar obligations; and</p> <p>(e) types of warranties and related obligations.</p>	<p>23.124 An entity shall disclose information about its promises in contracts with customers, including a description of:</p> <p>(a) when the entity typically satisfies its promises (for example, upon shipment, upon delivery, as services are rendered or upon completion of service);</p> <p>(b) the significant payment terms (for example, when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable);</p> <p>(c) obligations for returns, refunds and other similar obligations; and</p> <p>(d) types of warranties and related obligations.</p>	<p>Same in principle except that SMEs are not required to describe the nature of the goods or services that the entity has promised to transfer (including highlighting any instances where the entity has acted as an agent). Requirements are simplified for SMEs.</p>
<p>123 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:</p> <p>(a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and</p> <p>(b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).</p>		<p>No equivalent requirement for SMEs. This requirement is appropriate for an entity applying full recognition and measurement requirements of IFRS Accounting Standards.</p>
<p>124(a) For performance obligations that an entity satisfies over time, an entity shall disclose ... the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied);</p>	<p>23.125 For promises that an entity satisfies over time, the entity shall disclose the methods it used to recognise revenue—for example, a description of the output methods or input methods used and how those methods are applied.</p>	<p>Same in principle</p>
<p>125 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.</p>		<p>No equivalent requirement for SMEs. This requirement is appropriate for an entity applying full recognition and measurement requirements of IFRS Accounting Standards.</p>
<p>127(b) An entity shall describe ... the method it uses to determine the amortisation for each reporting period.</p>		<p>No equivalent requirement for SMEs.</p>
<p>128(b) An entity shall disclose ... the amount of amortisation and any impairment losses recognised in the reporting period</p>	<p>23.127(b) An entity shall disclose ... the amount of amortisation and any impairment losses recognised in the reporting period.</p>	<p>Same in principle</p>
<p>RDR 128.1 A Tier 2 entity is required to disclose the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95).</p>	<p>23.127(a) An entity shall disclose ... the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 23.102 and 23.107), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and set-up costs).</p>	<p>Tier 2 entities do not need to disclose the closing balances by main category of asset. SMEs have a slightly more onerous requirement.</p>
<p>129 If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.</p>	<p>23.128 If an entity elects to use the options in paragraph 23.59 (making no adjustment for the time value of money) or paragraph 23.105 (costs of obtaining a contract), the entity shall disclose that fact.</p>	<p>Same in principle</p>
	<p>23.123(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period</p>	<p>Tier 2 entities do not have to disclose the information required by the equivalent to paragraph 23.123(b) and (c) (i.e. paragraph 116(b) and (c) of NZ IFRS 15).</p>
	<p>23.123(c) revenue recognised in the reporting period from promises satisfied or partially satisfied in previous periods (for example, changes in estimates of variable consideration)</p>	
	<p>23.126 An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied promises and when they are expected to be satisfied. However, an entity need not disclose such information for a promise if either of the following conditions is met:</p> <p>(a) the promise is part of a contract that has an original expected duration of one year or less; or</p> <p>(b) the entity recognises revenue from the satisfaction of the promise in accordance with paragraph 23.93.</p>	<p>Tier 2 entities do not have to disclose the information required by the equivalent to paragraph 23.126 (i.e. paragraph 120 of NZ IFRS 15). In comparison to NZ IFRS 15.120 the IFRS for SMEs requirement has been simplified.</p>

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
	23.129 If an entity recognises the costs to obtain a contract as expenses when incurred because it is unable to identify whether those costs meet the criteria in paragraph 23.102 without undue cost or effort, the entity shall disclose that fact and the reasons why identifying the costs that meet the criteria in paragraph 23.102 would involve undue cost or effort.	N/A for Tier 2 entities.
NZ IAS 7 Statement of Cash Flows	Section 7 Statement of Cash Flows	
43 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.	7.18 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities.	Same in principle.
44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are: (a) the acquisition of assets either by assuming directly related liabilities or by means of a lease; (b) the acquisition of an entity by means of an equity issue; and (c) the conversion of debt to equity.	7.19 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are: (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease; (b) the acquisition of an entity by means of an equity issue; and (c) the conversion of debt to equity.	Same in principle.
45 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position.	7.20 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position. However, the entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.	Same in principle. SMEs have a slightly simpler requirement.
48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.	7.21 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.	Same in principle.
49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.		Examples not included in IFRS for SMEs.
50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include: (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; (b) [deleted by IASB] (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity;		Suggested disclosures not included in IFRS for SMEs.
	7.19A An entity shall disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The reconciliation shall include: (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes.	Tier 2 entities are not required to comply with the equivalent to 7.19A (i.e. paragraph 44B of NZ IAS 7).

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
NZ IAS 19 Employee Benefits	Section 28 Employee Benefits	
25 Although this Standard does not require specific disclosures about short-term employee benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IAS 1 Presentation of Financial Statements requires disclosure of employee benefits expense.	28.39 This section does not require specific disclosures about short-term employee benefits.	Same in principle.
33(b) If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall ... disclose the information required by paragraphs 135–148 (excluding paragraph 148(d)).		N/A for SMEs - these paragraphs merely point to requirements in later paragraphs in NZ IAS 19.
34(b) When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall ... disclose the information required by paragraph 148.		
53 An entity shall disclose the amount recognised as an expense for defined contribution plans.	28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans...	Same in principle.
135 An entity shall disclose information that: (a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139); (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144);		N/A for SMEs - disclosure objective paragraph
136 To meet the objectives in paragraph 135, an entity shall consider all the following: (a) the level of detail necessary to satisfy the disclosure requirements; (b) how much emphasis to place on each of the various requirements; (c) how much aggregation or disaggregation to undertake; and (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.	28.41B If an entity has more than one defined benefit plan, the disclosures required by paragraph 28.41 may be made in total, separately for each plan, or in such groupings the entity considers to be the most useful.	Same in principle.
139 An entity shall disclose: (a) information about the characteristics of its defined benefit plans	28.41(a) ...an entity shall disclose the following information about defined benefit plans: a general description of the type of plan, including funding policy.	Same in principle.
(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.		N/A for SMEs - no specific disclosures on risk.
140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable: (a) the net defined benefit liability (asset), showing separate reconciliations for: (i) plan assets. (ii) the present value of the defined benefit obligation. (iii) the effect of the asset ceiling. (b) any reimbursement rights ... [RDR 140.1]	28.41(e) ...a reconciliation of opening and closing balances of the defined benefit obligation showing separately: (i) change in the defined benefit liability arising from employee service rendered during the reporting period; (ii) interest on the defined benefit obligation during the reporting period; (iii) actuarial gains and losses arising in the reporting period; (iv) changes resulting from introducing a new plan or changing an existing plan in the reporting period; (v) benefits paid; and (vi) all other changes.	Both SMEs and Tier 2 entities are required to disclose reconciliations for the defined benefit obligation, plan assets and reimbursements rights. However: - SMEs must disclose a lot more detail in their reconciliations (Tier 2 entities only need to disclose contributions to the plan and payments from the plan for each reconciliation). - Tier 2 entities must also disclose a reconciliation for the effect of the asset ceiling.

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
RDR 141.1 In respect of each reconciliation listed in paragraph 140, a Tier 2 entity shall disclose: (a) contributions to the plan; and (b) payments from the plan.	28.41(f) a reconciliation of the opening and closing balances of the plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately: (i) contributions; (ii) benefits paid; (iia) the return on plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph 28.28) during the reporting period; and (iii) other changes in plan assets.	
RDR 140.2 A Tier 2 entity is not required to disclose the reconciliation specified in paragraphs 140 and 141 for prior periods.	28.41A The reconciliations in 28.41(e) and 28.41(f) need not be presented for prior periods.	Same in principle.
RDR 142.1 A Tier 2 entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets.		N/A for SMEs - no specific disclosures on risk.
143 An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.	28.41(i) the amounts included in the fair value of plan assets for: (i) each class of the entity's own financial instruments; and (ii) any property occupied by, or other assets used by, the entity.	Same in principle.
RDR 144.1 A Tier 2 entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76).	28.41(k) the principal actuarial assumptions used, including: (i) the discount rates; (ii) the expected rates of return on any plan assets for the periods presented in the financial statements; (iii) the expected rates of salary increases; (iv) medical cost trend rates; and (v) any other material actuarial assumptions used.	IFRS for SMEs is more prescriptive about which actuarial assumptions to disclose.
148 If an entity participates in a multi-employer defined benefit plan, it shall disclose: (a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.		N/A for SMEs
(b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.		N/A for SMEs
(c) a description of any agreed allocation of a deficit or surplus on: (i) wind-up of the plan; or (ii) the entity's withdrawal from the plan.		N/A for SMEs
(d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 139–147: (i) the fact that the plan is a defined benefit plan. (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan. (iii) the expected contributions to the plan for the next annual reporting period. (iv) information about any deficit or surplus in the plan that may affect the amount of future contributions ... [RDR 148.1]	28.40 ...if an entity treats a defined benefit multi-employer or state plan as a defined contribution plan because sufficient information for defined benefit accounting is not available (see paragraph 28.11) it shall disclose the fact that the plan it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.	Same in principle, except that Tier 2 entities have to disclose expected contributions to the plan for the next annual reporting period, and SMEs must disclose the implications, if any, for the entity.
152 Where required by NZ IAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.	28.41E When required by Section 21, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.	Same in principle.
158 Although this Standard does not require specific disclosures about other long-term employee benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IAS 1 requires disclosure of employee benefits expense.	28.42 For each category of other long-term employee benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.	There are no specific disclosures for other long-term employee benefits for Tier 2 entities.
171 Although this Standard does not require specific disclosures about termination benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IAS 1 requires disclosure of employee benefits expense.	28.43 For each category of termination benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.	There are no specific disclosures for termination benefits for Tier 2 entities.

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
	<p>28.41C If an entity participates in a defined benefit plan that is a group plan, it shall disclose:</p> <p>(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;</p> <p>(b) the policy for determining the contribution to be paid by the entity; and</p> <p>(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 28.38, all the information about the plan as a whole required by paragraph 28.41.</p>	<p>Tier 2 entities are not required to comply with the equivalent to paragraphs 28.41C and 28.41D (i.e. paragraphs 149 and 150 of NZ IAS 19).</p>
	<p>28.41D The information required by paragraph 28.41C(c) can be disclosed by cross-reference to disclosures required by these subparagraphs in another group entity's financial statements if:</p> <p>(a) that group entity's financial statements separately identify and disclose the information required about the plan; and</p> <p>(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.</p>	
	<p>28.41(b)... the entity's accounting policy for recognising actuarial gains and losses (either in profit or loss or as an item of other comprehensive income) and the amount of actuarial gains and losses recognised during the period;</p> <p>28.41(d)... the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;</p>	<p>Tier 2 entities do not have to disclose this information.</p>
	<p>28.41(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;</p>	<p>Tier 2 entities do not have to disclose this information.</p>
<p>NZ IAS 24 <i>Related Party Disclosures</i></p>	<p>Section 33 <i>Related Party Disclosures</i></p>	
<p>13 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.</p>	<p>33.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.</p>	<p>Same in principle.</p>
<p>17 An entity shall disclose key management personnel compensation in total ... [RDR 17.1]</p>	<p>33.7 An entity shall disclose key management personnel compensation in total.</p>	<p>Same in principle.</p>
<p>17A If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity's employees or directors.</p>	<p>33.7A An entity that obtains key management personnel services from another entity (management entity) is not required to make any disclosure that might otherwise be required by paragraph 33.7 in relation to the compensation paid or payable by the management entity to the management entity's employees or directors...</p>	<p>Same in principle.</p>

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
<p>18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:</p> <p>(a) the amount of the transactions;</p> <p>(b) the amount of outstanding balances, including commitments, and:</p> <p>(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and</p> <p>(ii) details of any guarantees given or received;</p> <p>(c) provisions for doubtful debts related to the amount of outstanding balances; and</p> <p>(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.</p>	<p>33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:</p> <p>(a) the amount of the transactions;</p> <p>(b) the amount of outstanding balances, including commitments and:</p> <p>(i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and</p> <p>(ii) details of any guarantees given or received.</p> <p>(c) provisions for uncollectable receivables related to the amount of outstanding balances; and</p> <p>(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.</p> <p>Such transactions could include purchases, sales or transfers of goods or services; leases; guarantees; and settlements by the entity on behalf of the related party or vice versa.</p>	Same in principle.
<p>18A Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.</p>	<p>33.7A ...the amounts incurred by an entity for the provision by a separate management entity of such services shall be disclosed.</p>	Same in principle.
<p>19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:</p> <p>(a) the parent;</p> <p>(b) entities with joint control of, or significant influence over the entity;</p> <p>(c) subsidiaries;</p> <p>(d) associates;</p> <p>(e) joint ventures in which the entity is a joint venturer;</p> <p>(f) key management personnel of the entity or its parent; and</p> <p>(g) other related parties.</p>	<p>33.10 An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:</p> <p>(a) entities with control, joint control or significant influence over the entity;</p> <p>(b) entities over which the entity has control, joint control or significant influence;</p> <p>(c) key management personnel of the entity or its parent (in the aggregate); and</p> <p>(d) other related parties.</p>	Same in principle.
<p>21 The following are examples of transactions that are disclosed if they are with a related party:</p> <p>(a) purchases or sales of goods (finished or unfinished);</p> <p>(b) purchases or sales of property and other assets;</p> <p>(c) rendering or receiving of services;</p> <p>(d) leases;</p> <p>(e) transfers of research and development;</p> <p>(f) transfers under licence agreements;</p> <p>(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);</p> <p>(h) provision of guarantees or collateral;</p> <p>(i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised); and</p> <p>(j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.</p>	<p>33.12 The following are examples of transactions that shall be disclosed if they are with a related party:</p> <p>(a) purchases or sales of goods (finished or unfinished);</p> <p>(b) purchases or sales of property and other assets;</p> <p>(c) rendering or receiving of services;</p> <p>(d) leases;</p> <p>(e) transfers of research and development;</p> <p>(f) transfers under licence agreements;</p> <p>(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);</p> <p>(h) provision of guarantees or collateral;</p> <p>(ha) commitments to do something if a particular event occurs or does not occur in the future;</p> <p>(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party...</p>	Same in principle.
<p>22 Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 42 of NZ IAS 19 (as amended in 2011)).</p>	<p>33.12(j) ... participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities.</p>	Same in principle.
<p>23 Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.</p>	<p>33.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated</p>	Same in principle.
<p>24 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.</p>	<p>33.14 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity</p>	Same in principle.

NZ IFRS RDR	IASB ED <i>Third edition of the IFRS for SMEs Accounting Standard</i>	Comparison
<p>25 A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:</p> <p>(a) a government that has control or joint control of, or significant influence over, the reporting entity; and</p> <p>(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.</p>	<p>33.11 An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions and outstanding balances, including commitments, with:</p> <p>(a) a government that has control, joint control or significant influence over the reporting entity; and</p> <p>(b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.</p>	<p>Same in principle.</p>
	<p>33.15 If a reporting entity applies the exemption in paragraph 33.11, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 33.11:</p> <p>(a) the name of the government and the nature of its relationship with the reporting entity (that is, control, joint control or significant influence).</p> <p>(b) the nature and amount of each individually significant transaction.</p> <p>(c) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 33.12.</p>	<p>Tier 2 entities are not required to comply with the equivalent to 33.15 (i.e. paragraph 26 of NZ IAS 24).</p>
<p>NZ IAS 27 <i>Separate Financial Statements</i></p>	<p>Section 9 Consolidated and Separate Financial Statements</p>	
<p>15 An entity shall apply all applicable NZ IFRSs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16–17.</p>	<p>9.26 When a parent, an investor in an associate or an investor a venturer with an interest in a jointly controlled entity prepares separate financial statements and describes them as conforming to the IFRS for SMEs Accounting Standard, those statements shall comply with all of the requirements of this Standard except as follows...</p>	<p>Same in principle, although the IFRS for SMEs paragraph encompasses recognition and measurement requirements as well.</p>
<p>16A When an investment entity that is a parent (other than a parent covered by paragraph 16) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by NZ IFRS 12 <i>Disclosure of Interests in Other Entities</i>.</p>		<p>N/A for SMEs - there is no concept of an 'investment entity' in IFRS for SMEs.</p>
<p>17 When a parent (other than a parent covered by paragraphs 16–16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with NZ IFRS 10, NZ IFRS 11 or NZ IAS 28 (as amended in 2011) to which they relate...</p>	<p>9.27(c) When a parent, an investor in an associate or an investor with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose either: (i) the consolidated financial statements or other financial statements to which they relate; or (ii) if the entity has elected not to prepare consolidated financial statements, in accordance with paragraph 9.3, the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with full IFRS Accounting Standards or with this Standard.</p>	<p>Same in principle for 9.27(c)(i). Tier 2 entities are not required to comply with the equivalent to paragraph 9.27(c) (ii) (i.e. part of paragraph 16 of NZ IAS 27).</p>
<p>17(a) The parent or investor shall also disclose in its separate financial statements the fact that the statements are separate financial statements ... [RDR 17.2].</p>	<p>9.27(a) When a parent, an investor in an associate or an investor with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose that the statements are separate financial statements</p>	<p>Same in principle.</p>
<p>RDR 17.1 A Tier 2 parent or a Tier 2 investor with joint control of, or significant influence over, an investee, that prepares separate financial statements shall disclose the methods used to account for the investment when the investment is significant.</p>	<p>9.27(b) When a parent, an investor in an associate or an investor with an interest in a jointly controlled entity prepares separate financial statements, those separate financial statements shall disclose a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates.</p>	<p>Same in principle.</p>

xx February 2023

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
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United Kingdom

Submitted to: www.ifrs.org

Dear Andreas

IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard*

Thank you for the opportunity to comment on IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard* (the ED).

We have not exposed the ED for comment in New Zealand as the *IFRS for SMEs Accounting Standard* is not part of the New Zealand Accounting Standards Framework. However, we do use the IASB definition of public accountability to establish the reporting requirements for certain entities. Therefore, this comment letter is focused on Question 1 of this ED only.

Our response to Question 1 is provided in the Appendix to this letter. We have recommended suggestions to help improve the clarity of the proposed amendments to the definition of public accountability. Changes are recommended in response to application challenges that have arisen in New Zealand when applying the definition.

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

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Question 1 – Definition of public accountability

Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of ‘public accountability’ in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs Accounting Standard* (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

- (a) there is both a high degree of outside interest in the entity and a broad group of users of the entity’s financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
- (b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

- 1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?
- 1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Response to Question 1

Amendment to paragraph 1.3(b) – changing ‘most’ to ‘often’

1. We agree with the deletion of the word ‘most’ from part (b) of the IASB definition of public accountability, as that term has contributed towards concerns raised in New Zealand in relation to brokers. In New Zealand, many entities known as ‘brokers’ do not hold clients’ funds – yet the current IASB definition of public accountability says that ‘most’ securities brokers/dealers would meet the ‘fiduciary capacity’ part of the definition.
2. We do not agree with changing ‘most’ to ‘often’. Saying that brokers (and other entities specified in part (b) of the definition) would *often* meet the ‘fiduciary capacity’ part of the

definition – as proposed by the IASB – may give rise to similar challenges as those that were caused by the term ‘most’. We recommend that the IASB use alternative wording, such as ‘may meet’. This would remove the implicit assumption that the majority of these types of entities meet part (b) of the definition.

Proposed new paragraph 1.3A

3. Our understanding is that the proposed new paragraph 1.3A is intended to clarify the circumstances in which brokers and other entities mentioned in paragraph 1.3(b) would usually have public accountability (by meeting the ‘fiduciary capacity’ part of the definition). Paragraph 1.3A may therefore help with confirming that, for example, a broker that does not hold clients’ funds (and does not issue shares/debt on a public market) does not have public accountability in accordance with the IASB definition – which would confirm (albeit indirectly) that the broker does not meet the ‘fiduciary capacity’ part of the IASB definition of public accountability. This could be helpful for addressing the abovementioned application challenge in New Zealand relating to brokers.
4. The new paragraph 1.3A could, however, be read as an additional set of criteria for meeting the definition of public accountability, i.e., in addition to the criteria in parts (a) and (b) of paragraph 1.3. For example, an entity that does not issue shares or debt in a public market and does not hold assets in a fiduciary capacity for a broad group of outsiders may think that it also needs to assess whether it meets paragraph 1.3A as an additional criterion of public accountability. This could be read as widening the scope of the IASB definition of public accountability.
5. We recommend making it clearer that the new paragraph 1.3A does not add to the definition in paragraph 1.3 but is intended to help apply this definition (we believe this was the IASB’s intention). To achieve this clarity, we suggest adding a sentence to the end of paragraph 1.3(b) as follows: *“Paragraph 1.3A provides further guidance on applying this criterion”*.

Questions 2 – 15

6. We have not commented on Questions 2 – 15.