



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Need to Know series

Accounting Update Public benefit entities

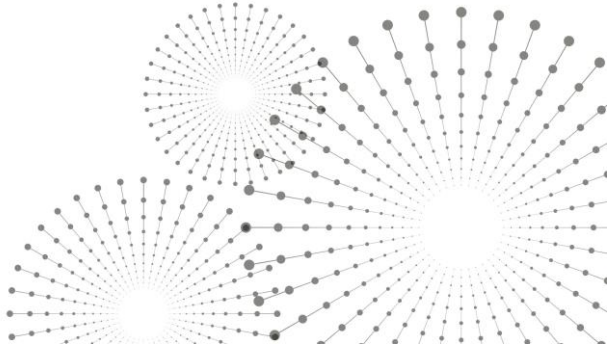
February 28 2023

Anthony Heffernan
Jamie Cattell

Our Vision

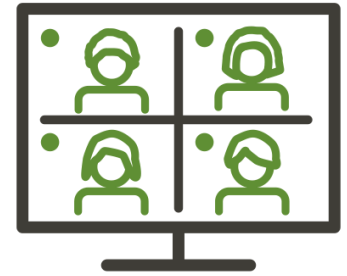


New Zealand prospers through effective decision making for resource allocation informed by high-quality, credible, integrated reporting.

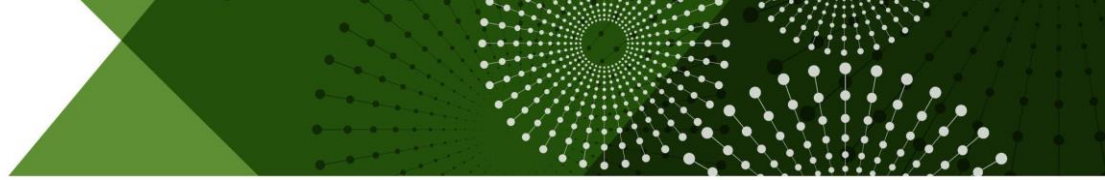


Presentation Overview

- Going concern disclosure requirements
- Service Performance Reporting
- PBE Leases – accounting standard under development
- Disclosure of fees paid to audit firms
- Tier 3 and Tier 4 Improvements
- IPSASB projects on the horizon
- Questions



Going concern



Financial statements must be prepared on a going concern basis unless the entity:

intends to liquidate
or to cease trading

OR

has no realistic
alternative but
to do so.

Polling Question 1



How familiar are you with the New Zealand specific going concern disclosures requirements?

- A. Never heard of them
- B. Don't know much about them
- C. I'm fairly familiar with them
- D. I know all about them



Going concern New requirements



Amendment to NZ standard PBE IPSAS 1 Presentation of Financial Reports

Effective immediately in 2020

Introduced enhanced **disclosure requirements** when the going concern assessment involved:

- The application of **significant judgement**
- The consideration of **material uncertainties**

Main change – when the going concern assumption is **materially uncertain** at the reporting date – an entity shall disclose this fact together with information about **management's plans to mitigate those uncertainties**

Disclosure requirements

Going concern assessment outcome

Events or conditions identified that may cast significant doubt on the company's ability to continue as a going concern?

No

Yes

Material uncertainty regarding the company's ability to continue as a going concern?

No

Yes

Intention to liquidate, or cease trading or no other realistic alternative but to do so?

No

Yes

Going concern basis for financial statement preparation no longer appropriate.

Going concern disclosures

No specific going concern disclosures required, unless material to users

Information about **significant judgements and assumptions**

- Information about **events or conditions** giving rise to material uncertainties
- Information about how **management plan** to mitigate the effects of any material uncertainties
- Information about how assets and liabilities **may not be realised/discharged** in the normal course of business

Information that the going concern basis was not used, alternative basis of preparation, reason why the company is not regarded as a going concern

New PBE Standard

PBE FRS 48 *Service Performance Reporting*

An entity's service performance information shall provide users with **sufficient information** to understand:

- **why the entity exists,**
- **what it hopes to achieve** over the medium to long term, and how it goes about this; and
- **what the entity has done** during the reporting period in working towards achieving its desired aims and objectives.

PBE FRS 48 can be downloaded [here](#)

Key challenge

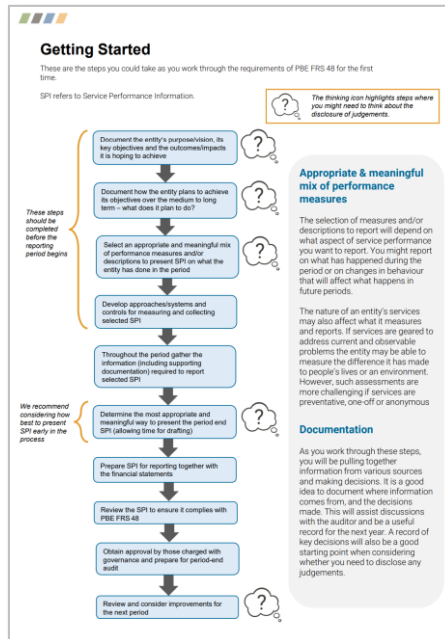
The need to apply judgement when selecting the service performance information to report, selecting an appropriate mix of performance measures, and deciding how to present the information.

Requires the selection of information that is “**appropriate and meaningful**” to the users.

New PBE standard

Service performance reporting guidance

Refreshed XRB staff guidance available [here](#)



Other useful guidance

- XRB [Explanatory Guidance A10](#) (aimed at Tier 2 not-for-profit PBEs, but may also be useful to public sector entities)
- Treasury guidance: [A new standard for service performance reporting](#)
- OAG guidance: [Good practice in reporting about performance](#)

Proposed PBE Standard on Leases

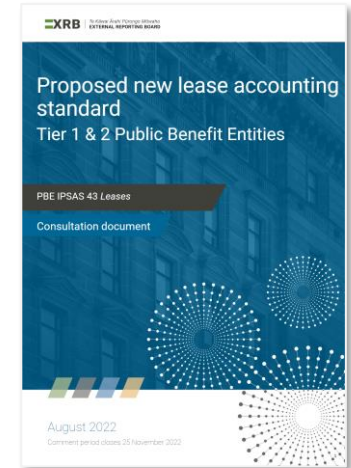
In 2022, the XRB consulted on **Exposure Draft PBE IPSAS 43 Leases**

Key elements of proposed new standard

- Based on IPSAS 43 *Leases*, aligned with IFRS 16 *Leases*
- New right-of-use model for lessees: recognise most leases on balance sheet
- NZ scope clarification: concessionary leases not accounted for at fair value
 - To reconsider when IPSASB issues final requirements for concessionary leases

Key benefits of proposals:

- International alignment with IPSASB and IASB
- Greater transparency around leases in lessees' financial statements
- Easier reporting for 'mixed groups' containing PBEs and for-profit entities



We have received **mixed feedback** on the ED PBE IPSAS 43 *Leases*

Public sector perspective:

General support for incorporating IPSAS 43 into PBE Standards



- Some refinements recommended (e.g. relating to sale and leaseback, low-value threshold, etc.)
- Some constituents would like us to think about concessionary leases and lease-type arrangements more deeply

NFP perspective:

Concerns about cost and complexity of right-of-use model



- Costs would outweigh the benefits
- Cost/benefit 'equation' is different for NFPs as compared to for-profit/public sector entities

Next steps for the PBE lease accounting standard

The NZASB deliberated on this at its February 2023 meeting

- proceed with PBE IPSAS 43 **without** waiting for final requirements for concessionary leases; but
- **After** considering the concerns raised by NFP entities



IPSASB ED: Concessionary Leases

Recent IPSASB developments:

- In January 2023, IPSASB issued [Exposure Draft 84: Concessionary Leases and Right-of-Use Assets In-Kind](#)
- Main proposal: for **concessionary leases** and **'leases' for no consideration, lessees** recognise the **right-of-use asset** based on what the lease payments would have been **at market rates** (unless 'not readily available')



Previous consultations indicated that **NZ stakeholders have concerns** about the possibility of having to measure concessionary leases at fair value/market value

Polling Question 2

Are concessionary leases relevant to your organisation?

- A. Yes, as a lessor
- B. Yes, as a lessee
- C. Yes, as both lessee and lessor
- D. No, we don't deal with them



Domestic PBE Standard in development

Disclosure of Fees Paid to Audit Firms

Agreed categories:

Audit or Review of the Financial Statements

Other non-audit or review services:

Audit or review related services

Other assurance services and other agreed upon procedures engagements

Taxation services

Other services

provide a **description of each type** of service received and the total **fees** incurred

Tier 3 and Tier 4 Improvements

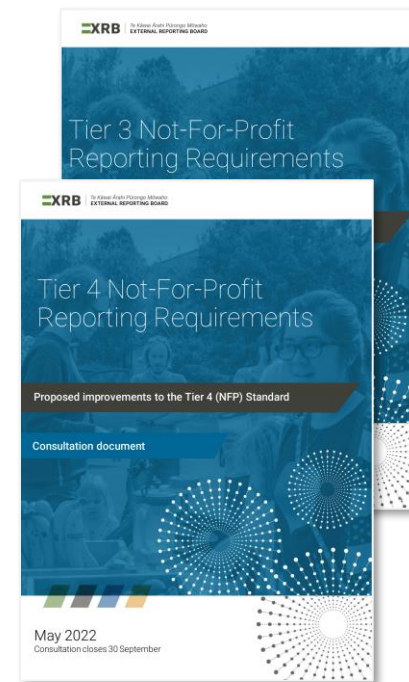
In 2022, the XRB consulted on **Exposure Drafts for the Tier 3 and Tier 4 Standards**

Key elements of Tier 3 proposals

- Increased ability to defer revenue
- Align SSP terms with Tier 1/2
- New, simplified revaluation requirements
- Refreshed revenue and expense categories
- Enhanced disclosures for accumulated funds

Key elements of Tier 4 proposals

- Full rewrite of standard
- Align SSP terms with Tier 1/2
- Removed requirements
- Additional concessions for “small Tier 4 entities”
- Refreshed receipts and payments categories



Tier 3 consultation feedback



What we have heard:

- Revaluation of assets
- Refreshed categories
- Enhanced accumulated funds disclosures



What we have changed:





- Allow a choice for recognising gains/losses on financial investments
- Shortened category labels and added more specific guidance
- Reinstating restricted reserves and focusing enhanced disclosures on reserves

Expect Tier 3 and Tier 4 to be issued in **March 2023** with an effective date of **1 April 2024**

Tier 4 consultation feedback



What we have heard:

- Service performance 
- Refreshed categories 
- Desire for further simplification 
- Small entity concessions 

What we have changed:

- Removed requirement to disclose medium to long term objectives
- Shortened category labels and added more specific guidance
- Made some requirements more rules-based e.g., significant assets
- Extended several small entity concessions to **all Tier 4 entities**

Expect Tier 3 and Tier 4 to be issued in **March 2023** with an effective date of **1 April 2024**

Tier 4 small entity concessions

Removed for all Tier 4 entities

- Entity structure
- Name of controlled entities
- Grants or donations expected to be used in the future
- Post-balance date information
- Additional information

Reinstated for all Tier 4 entities

- Quantify activities if possible
- Cost or estimated value of significant assets

Expect Tier 3 and Tier 4 to be issued in **March 2023** with an effective date of **1 April 2024**

International developments



Some of the IPSASB's key projects currently in progress:

Project	Next steps
<ul style="list-style-type: none">• Advancing Public Sector Sustainability Reporting	Scoping and research phase
<ul style="list-style-type: none">• Concessionary leases and lease-like arrangements	ED open for comment – standard expected Mar 2024
<ul style="list-style-type: none">• Revenue and Transfer Expenses	Possible re-exposure (Mar 2023)
<ul style="list-style-type: none">• Measurement	New standard (Mar 2023)

IPSASB Measurement project



IPSASB Exposure Drafts on Measurement (2020):

- Align **fair value** in IPSAS with IFRS® Standards (IFRS 13)
- Develop an alternative to fair value: **current operational value**
- Develop **guidance** on measurement
- Consider matters relating to **heritage** and **infrastructure** assets

Fair Value	Current Operational Value
Highest and best use	Existing use
Exit value	Entry value
Market participants	Entity-specific

Current Operational Value definition:

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

Questions ?



Stakeholder Survey



We're checking in...

Take part in our short stakeholder survey and let us know what you think of our performance, products, and interactions.

[Take the survey](#)

Anthony Heffernan

Director, Accounting Standards

Anthony.Heffernan@xrb.govt.nz

Jamie Cattell

Project Manager, Accounting Standards

Jamie.Cattell@xrb.govt.nz

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accounting@xrb.govt.nz