Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Basis for Conclusions

Reporting Requirements for Tier 3 Public Sector Entities

May 2023

Basis for Conclusions on *Reporting Requirements for Tier 3 Public Sector Entities — (Tier 3 (PS) Standard)*

This Basis for Conclusions accompanies but is not part of the Tier 3 (PS) Standard.

The Basis for Conclusions summarises the key matters considered by the New Zealand Accounting Standards Board (NZASB) in developing *the Tier 3 (PS) Standard* issued May 2023.

Basis for Conclusions

Introduction

BC1. The New Zealand Accounting Standards Framework includes four reporting tiers for public sector public benefit entities. *Reporting Requirements for Tier 3 Public Sector Entities* ("Tier 3 (PS) Standard" or the "Standard") contains requirements for the third tier and may be applied by a public sector entity that does not have "public accountability" (as defined in XRB A1 *Application of the Accounting Standards Framework*) and whose annual expenses are less than, or equal, to $2 million.

BC2. This Basis for Conclusions summarises the NZASB's considerations in developing the Standard. The Standard, when applied, supersedes the PBE Simple Format Reporting – Accrual (Public Sector) Standard (PBE SFR-A (PS)).

BC3. The Tier 3 (PS) Standard is substantively based on PBE SFR-A (PS). Therefore, paragraphs BC4–BC20 set out the approach to developing PBE SFR-A (PS).

Approach to developing PBE SFR-A (PS)

BC4. PBE SFR-A (PS) was issued in November 2013 and became applicable for periods beginning on or after 1 July 2014. PBE SFR-A (PS) was developed 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 PBE SFR-A (PS) 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 a public sector entity 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.

BC5. In preparing PBE SFR-A (PS), the NZASB was conscious of the fact that some Tier 3 public sector entities, as well as users of their performance reports, may have limited access to professional accounting expertise. The NZASB was of the view that PBE SFR-A (PS) should be able to be applied by persons who are managing the finances of the reporting entity without them needing to seek additional professional support.

BC6. The NZASB agreed 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, PBE SFR-A (PS):

(a) addresses only those transactions that are commonly undertaken by an entity 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 PBE Accounting Standards are likely to outweigh the benefits;

(c) excludes certain options contained in Tier 1 and Tier 2 PBE Accounting 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 PBE SFR-A (PS). These transactions included:

(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 key simplifications in PBE SFR-A (PS) compared to the Tier 1 and Tier 2 PBE Accounting Standards were 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; and

(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. 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). 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*, due to cost/benefit considerations. The NZASB decided to simplify the principles to require a "use or return" condition before a liability is recorded.

BC12. The NZASB made other simplifications in order to reduce the amount of professional judgement required and to make the Standard simpler to apply. Those simplifications included 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 was aware that some Tier 3 public sector 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 for certain transactions. Accordingly, the NZASB included an option to permit an entity 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. An entity is required to disclose the use of this option, where applied.

Financial Information

BC14. PBE SFR-A (PS) 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 an entity to reflect its own circumstances on the other.

Non-Financial Information

BC15. To enhance financial reporting with non-financial information that explains the activities of the entity, PBE SFR-A (PS) 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 was 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 encouraged public sector 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 reporting 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 a single entity 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 a Tier 3 public sector entity. 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 PBE SFR-A (PS), thereby detracting from its usefulness for most public sector entities.

BC17.4 The NZASB agreed to require a Tier 3 public sector entity 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 PBE SFR-A (PS). 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 Tier 3. 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.

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 PBE SFR-A (PS). Rather than delay its application, PBE SFR-A (PS) permits an entity to:

(a) apply PBE SFR-A (PS) in the first year without restating the comparative information. An entity taking this option is required to attach its 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 the entity to attempt to identify, recognise and measure the assets in accordance with the PBE SFR-A (PS).

Development of the Tier 3 (PS) Standard

Post-implementation Review and the development of the Tier 3 (PS) Standard Exposure Draft

BC21. The NZASB completed a post-implementation review of the Simple Format Reporting Standards in 2021 to assess whether these standards were working as intended and achieving their original objectives. Over 100 submissions were received, which were considered as the basis for developing proposed amendments to PBE SFR-A (PS) in May 2022.

BC22. Many respondents to the post-implementation review considered that, in general, PBE SFR-A (PS) was working well. However, there were some key issues raised in the feedback which highlighted areas where the Standard could be improved.

BC23. In response to the issues raised by respondents during the post-implementation review, the NZASB issued ED NZASB 2022-7 – Tier 3 (PS) Standard Exposure Draft (ED NZASB 2022-7) in May 2022, which proposed amendments to the following specific areas of the Standard.

Service Performance Reporting

BC24. The NZASB noted that the statement of service performance requirements in PBE SFR-A (PS) were developed before PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) was developed and issued. The NZASB decided to re-express the service performance reporting requirements for Tier 3 public sector entities so that they were more in line with the requirements in PBE FRS 48.

BC25. The NZASB proposed to remove terms such as “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.

BC26. The NZASB also proposed 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 was aligned with PBE FRS 48.

Asset valuation

BC27. PBE SFR-A (PS) requires 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 values rather than fair value when revaluing property, plant and equipment. Many respondents to the post-implementation review considered that the Standard should include simple requirements for measuring assets such as land, buildings and financial investments (such as shares, bonds, and units in managed funds) on an alternative basis to cost.

BC28. The NZASB agreed that there was 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 proposed to incorporate a simplified asset revaluation approach in the Tier 3 (PS) Standard.

The simplified asset revaluation approach, introduced as an alternative subsequent measurement approach, included the following key features.

(a) An entity 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) An entity is still required to recognised 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 proposed 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 PBE SFR-A (PS) is silent on investment property and so the NZASB also proposed 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 proposed to allow financial investments to be revalued where those investments are publicly traded, as revaluations based on readily observable inputs (such as quoted market prices) are generally simple and easily verifiable. 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.

Required categories for presenting revenue and expenses

BC31. PBE SFR-A (PS) 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.

BC32. After considering the views of respondents to the post-implementation review, the NZASB proposed 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 was 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 proposed to separate:

(a) revenue and expenses which relate solely to commercial activities from other revenue and expenses. As a public sector entity has 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.

(d) “employee remuneration” from “other employee-related expenditure”.

BC34. Respondents to the post-implementation review also noted that the extent of disaggregation and relabelling of the minimum categories permitted by PBE SFR-A (PS) was unclear, resulting in diversity in practice. As the amount of mandatory disaggregation has increased (where applicable), the NZASB proposed to remove the option to provide further disaggregation in the statement of financial performance, noting that if an entity wants to provide more disaggregated information, they are still able to do so in the notes to the performance report.

Revenue recognition

BC35. In PBE SFR-A (PS), donations and grants received with “use or return” conditions are 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 concerns about the restrictive nature of the “use or return” revenue recognition approach.

BC36. Respondents to the post-implementation review 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 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 proposed to introduce the principle of recognising revenue as or when documented resource provider “expectations” over use are satisfied (i.e., the “documented expectation model”). The NZASB did not propose to define the term “expectations” but instead included criteria in the Standard as to 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. A set of 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 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 are revenue streams where there may be a resource provider expectation over use. The NZASB considered 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 proposed to make it clear in the Standard that each separate expectation identified is the appropriate unit of account for the recognition of significant donations, grants and bequests with documented expectations over use.

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 proposed to include common scenarios and the likely patterns of revenue recognition within the Standard but also make an explicit statement in the Standard that judgement will be required to determine an appropriate approach to the timing of revenue recognition.

Accumulated funds

BC41. Respondents to the post-implementation review considered that greater disclosure was needed about an entity's 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 proposed to expand the disclosures required in the notes to the performance report. This additional narrative information should enable users of an entity's financial statements to evaluate the entity's objectives' policies, and processes for managing its reserves. This specifically included a brief description of the entity's plans for applying its accumulated funds toward its stated purposes. Rather than require further specific disclosures, the NZASB proposed to provide further guidance on the types of information an entity may wish to disclose towards this.

BC43. The NZASB also proposed to remove the requirement to disclose information about restricted reserves, given the proposals to allow revenue to be deferred in a wider set of circumstances.

Opting up

BC44. PBE SFR-A (PS) 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.

BC45. In response to this feedback, the NZASB proposed to include a requirement in Appendix C[1] 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 propose introducing an "other comprehensive revenue and expense" category in the statement of financial performance, to avoid adding unnecessary complexity to the Standard.

Other proposals

BC46. In response to feedback on the post-implementation review, the NZASB proposed to:

(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 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 which noted that the definition of cash in the Standard does not align with Tier 1 and Tier 2 PBE Standards, potentially making the consolidation of entities reporting under different tiers more challenging. In the interests of limiting complexity, the NZASB decided not to propose adding the term "cash equivalents" or related guidance in the Standard.

Feedback on ED NZASB ED 2022-7

BC47. The NZASB received three submissions on ED NZASB 2022-7. Overall, there were mixed views on the proposals. The NZASB decided to amend its proposals in certain areas in response to specific feedback from respondents.

BC48. The NZASB also decided to amend its proposals where an amendment was made to a similar requirement in *Reporting Requirements for Tier 3 Not-for-Profit Entities* (Tier 3 (NFP) Standard), to maintain alignment between the two Tier 3 standards (except where there is a not-for-profit or public sector reason for a difference).

BC49. The key changes from the proposals in ED NZASB ED 2022-7 are set out in paragraphs BC50−BC62.

Asset valuation

BC50. There was consensus among respondents that PBE SFR-A (PS) should allow for the optional revaluation of assets. However, there were mixed views about the proposals on how to treat the resulting revaluation gains/losses. There was feedback to suggest that revaluation gains/losses should be recognised in the statement of financial performance, but rather than being included in the main revenue and expense categories, the gains/losses should be presented as additional line items below operating surplus/deficit.

BC51. In light of respondents' mixed views, the NZASB considered whether to amend the proposals in ED NZASB 2022-7. As decided at the time ED NZASB 2022-7 was developed, an "other comprehensive revenue and expense" category in the statement of financial performance would not be introduced, to avoid adding unnecessary complexity to the Standard. Therefore, the NZASB considered requiring all revaluation gains/losses (irrespective of the type of asset) to be recognised directly in accumulated funds. This would ensure consistency in the accounting treatment of revaluation gains/losses.

BC52. However, it was ultimately decided that Tier 3 entities should be allowed the flexibility to present revaluation gains/losses on financial investments in a way that best represents the entity's specific

[1] This is now Appendix D in the published Standard.

circumstances and core activities. Therefore, the NZASB decided to allow Tier 3 entities to elect to recognise revaluation gains/losses on financial investments either in revenue or expenses in the statement of financial performance, or in accumulated funds in the statement of financial position.

BC53. With respect to investment property, to maintain alignment with the Tier 3 (NFP) Standard (as discussed in paragraph BC48), the NZASB decided to clarify in the Standard that it is optional to report investment property as a separate class of property, plant and equipment. The NZASB made this clarification due to feedback on the proposals on the Tier 3 (NFP) Standard Exposure Draft, which suggested that it could be confusing for some preparers and present difficulties if assets need to be moved from property, plant and equipment to investment property.

Required categories for presenting revenue and expenses

BC54. Respondents suggested several refinements and amendments to the proposed required categories. In response to this feedback, the NZASB decided to:

(a) remove the categories relating to commercial activities, as feedback suggested that it would be rare for a Tier 3 public sector entity to engage in commercial activities or sales where the primary intention is to derive a surplus.

(b) combine “employee remuneration” and “other employee related expenses” into one required category.

(c) clarify that independent contractor costs are included in the “employee remuneration and other related expenses category” – this change was made to maintain alignment with the Tier 3 (NFP) Standard.

BC55. The NZASB also decided to re-introduce the option to disaggregate the required categories further in the statement of financial performance. This is in response to feedback that there is a wide range of Tier 3 public sector entities with diverse transactions, and that allowing entities flexibility in how they present their revenue and expenses in the statement of financial performance is important to enable presentation of information that is useful to the users of public sector entity financial statements.

Revenue recognition

BC56. Overall, there was strong support for the documented expectation model put forth in the ED (see paragraphs BC37−BC40). However, in response to feedback on certain areas of the proposals, and in the interests of clarifying the principles of the new model further, the NZASB decided to:

(a) clarify that recognition of revenue shall not be deferred, even if insignificant donations and bequests with documented expectations over use are significant in the aggregate. The NZASB decided that, from a cost-benefit perspective, this approach is simple for Tier 3 entities to apply without a loss of significant information for users. The NZASB also noted that revenue from individually insignificant grants and donations will still be reported in the statement of financial performance and in many cases, the aggregation of insignificant grants and donations for the purposes of applying the documented expectation model is not likely to provide users with meaningful information.

(b) add a definition of “documented expectation” to the Standard’s Glossary. The NZASB considers the concept of a “documented expectation” to be a key concept for revenue recognition and therefore warrants a clear definition to assist entities in applying the documented expectation model appropriately to its revenue transactions.

(c) for the purposes of evidencing a documented agreement, remove the example of using a recording from a virtual meeting. The NZASB agreed with feedback that 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.

Accumulated funds

BC57. There was some feedback that expressed concerns about the proposal to remove the requirement to disclose information about restricted reserves, specifically:

(a) while it makes sense to remove the requirement due to the ability to defer revenue in a wider set of circumstances, the requirement should instead be optional.

(b) the information provided by this requirement 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).

BC58. Some respondents on the Tier 3 (NFP) Standard Exposure Draft highlighted concerns with the proposal to require additional disclosures of the purpose for which accumulated funds are held, i.e.:

(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) 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.

BC59. After considering these concerns, the NZASB agreed that there may be a risk of unintended consequences of requiring additional disclosures about accumulated funds in general. The NZASB also agreed that some entities could be adversely impacted by the removal of the ability to disclose restricted reserves entirely. However, the NZASB also noted that despite the concerns raised by respondents to the Tier 3 (NFP) Standard Exposure Draft, there is a general consensus from those respondents 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).

BC60. Therefore, in response to feedback and to maintain alignment with the Tier 3 (NFP) Standard, the NZASB decided to:

(a) retain the requirement to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing its reserves; and

(b) 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.

Other feedback received

BC61. In NZASB ED 2022-7, the NZASB proposed that a Tier 3 public sector entity that is not required by law to prepare a statement of service performance would still be required to disclose information on the significant activities it has undertaken during the financial year to achieve its objectives. This proposal is similar to the requirement in PBE SFR-A (PS) for an entity to include a general description of the outputs of the entity in the entity information section (if it is not required by law to prepare a statement of service performance).

BC62. However, feedback on this proposal indicated that the Standard would therefore require more disclosure than a Tier 2 public sector entity would be required to disclose under similar circumstances. The NZASB agreed that, in the absence of a compelling reason to require this disclosure, the proposed requirement is unnecessarily onerous. The proposal has therefore been removed from the final Standard.

Decision to issue a new Tier 3 standard for public sector entities

BC63. The NZASB issued ED NZASB 2022-7 as a set of proposed amendments to PBE SFR-A (PS). However, considering the extent of the amendments to PBE SFR-A (PS) (both minor and substantive), the NZASB decided that a new standard to supersede PBE SFR-A (PS) would improve the readability of the Standard. The NZASB also decided to give the Standard a simpler, more understandable name.

Transition

BC64. The NZASB considered whether specific transitional provisions are required to assist Tier 3 entities in applying the Standard for the first time, or whether existing requirements within the Standard relating to a change in accounting policy and presentation of information are sufficient.

BC65. The Standard sets out requirements relating to consistency of presentation and changes in accounting policies; specifically:

(a) an entity changes the way it presents information (or a category of disclosure) if the Standard requires this change. Comparative information must be similarly restated.

(b) an entity changes its accounting policy if required by the Standard, and comparative information is not restated due to the change.

BC66. Based on the requirements noted in paragraph BC65, the NZASB decided that no specific transitional provisions are required. However, the NZASB identified four areas of the Standard where further guidance could be helpful to entities.

Topic	**NZASB decision**
Categories of revenue and expense	The NZASB decided to refer entities to paragraph A27 which states that *"any changes to presentation or categories of disclosure due to the application of paragraph A26 also require similar changes to the comparative amounts, unless it is impracticable to do so."*.
Revenue recognition	The NZASB decided to refer entities to paragraph A218, which states that entities apply changes in accounting policy from the beginning of the current year. To provide further clarity in the application of the documented expectations model, the NZASB decided to add paragraph C16, which explicitly states that an entity shall not reassess its recognition of revenue derived from significant grants, donations and bequests received in previous reporting periods. Paragraph C16 also notes that applying the requirements in the Standard may result in an entity recognising revenue from unused donations or grants with conditions on a different basis than it would have if it had continued to apply the requirements in PBE SFR-A (PS).
Asset valuation	The NZASB identified two groups of Tier 3 entities that will be affected by the Standard in different ways: (a) Group 1 – entities that previously accounted for property, plant and equipment and/or publicly traded investments at cost in accordance with the requirements of PBE SFR-A (PS). (b) Group 2 – entities that have previously opted up to the relevant Tier 2 PBE Standard in order to revalue property, plant and equipment and/or publicly traded investments. Some entities in Group 1 may want to start revaluing property, plant and equipment and/or publicly traded investments in accordance with the Standard. For these entities, the NZASB decided to refer these entities to the change in accounting policy requirements in the Standard. These requirements state that

Topic	NZASB decision
	any change in accounting policy shall be applied from the beginning of the current reporting period. This approach may result in revaluations gains being recognised in the current period rather than through opening balances. However, the NZASB did not consider there to be sufficient benefit to justify introducing an exception to the general rule in the Standard. For entities in Group 2, the NZASB decided to allow an option to move from the requirements in the applicable Tier 2 PBE Standard to the requirements in the Standard, and that the change should be accounted for as a change in accounting policy in accordance with the requirements in the Standard. As the revaluation requirements in the Standard are based on those in the Tier 2 PBE Standards, the NZASB does not consider that many entities will need to make significant changes to their accounting treatment on transition.
Opting-up	The NZASB decided to refer entities to paragraph A27, where a change in presentation may be required as a result of requiring the effect of a transaction to be recognised directly in accumulated funds (in a separate reserve) where, in accordance with a Tier 2 PBE Standard, the effect would be recognised as an item of other comprehensive revenue and expense.