

# 2024 Omnibus Amendments to PBE Standards

## Proposed Amendments to PBE IPSAS 1 and PBE IAS 12

Consultation document



May 2024

Consultation closes 15 August 2024



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# PART ONE: Introduction



## 1.



## What is this consultation document about?

The External Reporting Board (XRB) has issued this consultation document to seek feedback on its [Exposure Draft 2024 Omnibus Amendments to PBE Standards](#) (ED) that proposes the following limited-scope amendments:

- Amendments to PBE IPSAS 1 *Presentation of Financial Reports*, based on *Improvements to IPSAS, 2023* recently issued by the International Public Sector Accounting Standards Board (IPSASB).
- Amendments to PBE IAS 12 *Income Taxes*, based on *International Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12)* recently issued in New Zealand for for-profit entities.

The amendments would apply to public benefit entities (PBEs) in Tier 1 and Tier 2.

### What is changing and why?

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on International Public Sector Accounting Standards (IPSAS) issued by the IPSASB.

In April 2024, the IPSASB issued *Improvements to IPSAS, 2023*, which includes amendments to IPSAS 1 *Presentation of Financial Statements*. Those amendments are based on *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants (Amendments to IAS 1)*, issued by the International Accounting Standards Board (IASB), which were incorporated into the New Zealand for-profit standard NZ IAS 1 in 2023.

Consistent classification of liabilities as current or non-current is useful in both the for-profit and PBE sectors. We propose to incorporate the IPSASB's amendments into PBE Standards.

At the same time, we propose amendments to PBE IAS 12 *Income Taxes*, which provide accounting relief to entities affected by the Organisation for Economic Co-operation and Development's (OECD) Pillar Two tax rules. Those amendments are based on *Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12)*, issued by NZASB for for-profit entities in July 2023, which were closely based on recent IASB amendments.

While we are not aware of PBEs affected by the Pillar Two tax rules, such PBEs may exist now or in the future, and as such they should be provided with the same accounting relief as for-profit entities.

#### Proposed amendments to PBE IPSAS 1

Clarify the principles for classifying a liability as either current or non-current, specifically in relation to:

- The right to defer settlement for at least twelve months (with or without covenants); and
- The meaning of 'settlement' when a liability is rolled over under an existing loan facility.

#### Proposed amendments to PBE IAS 12

Give entities temporary relief from accounting for deferred taxes arising from the OECD's international tax reform – referred to as '*Tax Reform—Pillar Two Model Rules*'.



## 2.

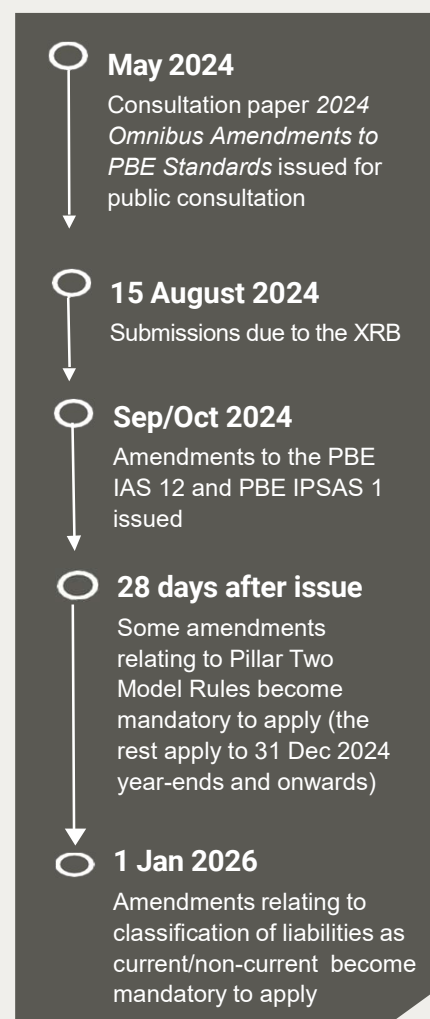
### How to provide feedback?

#### Responding to consultation questions

We are seeking comments on the questions below. We will consider all comments received before finalising the amendments to PBE IPSAS 1 and PBE IAS 12.

- Q1.** Do you agree with the proposed amendments to PBE IPSAS 1? If not, why not?
- Q2.** Do you agree with the proposed amendments to PBE IAS 12? If not, why not?
- Q3.** Do you agree with the proposed mandatory dates for the amendments to PBE IPSAS 1 and PBE IAS 12 (see section 5 of this Consultation Document)?
- Q4.** Do you have any other feedback on the ED proposals?

#### Timeline



#### Making a submission

You can provide feedback to us via:

- the [consultation page](#) on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz)

The consultation closes on **15 August 2024**

#### Publication of submissions, the Official Information Act and the Privacy Act

We intend on publishing all submissions on the XRB website ([xrb.govt.nz](http://xrb.govt.nz)), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.

# **PART TWO:** **Overview of proposals**



## 3.



## Overview of the proposed amendments to PBE IPSAS 1

### AT A GLANCE

- Clarifications of the principles related to the following, in the context of **classifying liabilities as current or non-current**:
  - The right to defer settlement for at least twelve months (with or without covenants); and
  - The meaning of ‘settlement’ when a liability is rolled over under an existing loan facility.
- New disclosure requirements.

### Approach to amending PBE IPSAS 1

The proposed amendments to PBE IPSAS 1 are closely based on the IPSASB’s amendments to IPSAS 1 introduced by *Improvements to IPSAS, 2023* which, in turn, are aligned with IASB’s *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants*.

In amending the PBE IPSAS 1 based on the updates to the IPSASB’s *Improvements to IPSAS, 2023*, the NZASB has considered the need for any enhancements to make the standard more appropriate for public benefit entities in New Zealand. The NZASB made no substantive changes to the IPSASB’s amendments.

### Summary of proposed amendments to PBE IPSAS 1

	Amendments
<b>Right to defer settlement for at least twelve months</b> [ED ref: Para 80(d), 83A – 86A]	<p>In PBE IPSAS 1, the right to defer the settlement of a liability for at least 12 months after the reporting date is one of the criteria for classifying a liability as non-current. The proposed amendments clarify the following with respect to this requirement:</p> <ol style="list-style-type: none"> <li>a) The classification of liabilities as either current or non-current is based on <i>the entity’s rights at the end of the reporting period</i>, meaning <i>only rights in place at the reporting date</i> should affect this classification.</li> <li>b) For liabilities arising from loans: If the entity’s right to defer settlement of the liability for at least 12 months after the reporting date depends on compliance with specified conditions, referred to as ‘covenants’, such covenants affect the liability’s classification as current or non-current <i>only if the entity is required to comply with the covenant on or before the reporting date</i>. The key consideration is the time at which compliance with the covenant is required, not the time when compliance is assessed. For example:               <ol style="list-style-type: none"> <li>i. A covenant based on the entity’s financial position at the reporting date but assessed for compliance only after the reporting date would be taken into account when classifying the liability as current or non-current.</li> <li>ii. A covenant based on the entity’s financial position six months after the reporting date would not be taken into account when classifying the liability as current or non-current.</li> </ol> </li> <li>c) Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date.</li> </ol>



## Summary of proposed amendments to PBE IPSAS 1 (continued)

	Amendments (continued)
<p><b>Meaning of “settlement”</b></p> <p>[ED ref: Para 87B - 87C]</p>	<p>The proposed amendments clarify that settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:</p> <ol style="list-style-type: none"> <li>Cash or other resources—for example, goods or services; or</li> <li>The entity’s own equity instruments – except that when the counterparty has an option to request the entity to transfer its own equity instruments as settlement, and that option is classified as an equity instrument and recognised separately from the liability as an equity component of a compound financial instrument, in such cases the option does not affect classification of liability as current or non-current.</li> </ol>
<p><b>New disclosure requirements</b></p> <p>[ED ref: Para 87A]</p>	<p>When the entity’s right to defer settlement of liabilities is subject to the entity <i>complying with covenants within 12 months after the reporting date</i>, and when the entity <i>classifies those liabilities as non-current</i>, the proposed amendments require the entity to disclose information that enables users of financial statements to understand the <i>risk that the liabilities could become repayable within twelve months after the reporting date</i>, including:</p> <ol style="list-style-type: none"> <li>Information about the covenants and the carrying amount of related liabilities; and</li> <li>Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.</li> </ol>

### Question 1:

Do you agree with the proposed amendments to PBE IPSAS 1? If not, why not?



## 4.



## Overview of the proposed amendments to PBE IAS 12

### AT A GLANCE

- Introduction of a temporary exception to the requirements in PBE IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to **Pillar Two income taxes**.
- New disclosure requirements for entities affected by the Pillar Two tax legislation.



### Background: What are the Pillar Two Model Rules?

In October 2021, more than 135 countries and jurisdictions, including New Zealand, agreed to join the OECD-sponsored “Inclusive Framework” that includes a two-pillar solution to address tax challenges arising from the increasing globalisation and digitalisation of the global economy. This major international tax reform introduces a global minimum tax for large multinational enterprises.

In March 2024, the New Zealand Government has enacted legislation to implement the [OECD’s Pillar Two Model Rules](#) (‘the Rules’) in New Zealand.

Predominantly, the Rules apply to fiscal years beginning on or after 1 January 2025 and apply to all multinational groups operating in New Zealand with consolidated accounting revenue exceeding €750m in at least two of the preceding four years.

The Rules do not apply to government entities, international organisations (e.g. UN, IMF) and most non-profit and charitable entities – but there is a possibility that a PBE may be subject to the Rules, now or in the future.

### Approach to amending PBE IAS 12

PBE IAS 12 *Income Taxes* is based on the for-profit standard NZ IAS 12 *Income Taxes* (there is no equivalent IPSAS). The proposed amendments to PBE IAS 12 *Income Taxes* are closely based on the New Zealand Accounting Standards Board’s (NZASB) amendments to *International Tax Reform—Pillar Two Model Rules* (Amendments to NZ IAS 12), which are in turn based on equivalent amendments issued by the IASB.

*International Tax Reform—Pillar Two Model Rules* provides for-profit entities with a **temporary exception from recognising deferred tax with respect to Pillar Two income taxes**. This is intended to provide relief for affected for-profit entities and to allow stakeholders time to assess the impact of the Pillar Two legislation, while avoiding the development of diverse accounting interpretations – considering the complexity of the Pillar Two tax legislation, which was enacted in several jurisdiction within a short time period .

The NZASB considered the rationale for providing the temporary exception to for-profit entities, and concluded that the same exception should be provided to those PBEs that are affected by Pillar Two tax legislation (if any).

The NZASB made no substantive changes to *International Tax Reform—Pillar Two Model Rules* when developing the equivalent PBE amendments, other than with respect to the ‘mandatory date’ (see Section 5 of this Consultation Document).



## Summary of proposed amendments to PBE IAS 12

**Exception from recognising deferred tax relating to Pillar Two**

See the previous page.

[ED ref: Para 4A]

### New disclosure requirements

Disclose that the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes was applied, and:

○ When the Pillar Two tax legislation is enacted or substantively enacted but not yet in effect

→ Disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

○ When the Pillar Two tax legislation is in effect

→ Disclose separately current tax expense (or income) related to Pillar Two income tax.

[ED ref: Para 88A–88D]

### Question 2:

Do you agree with the proposed amendments to PBE IAS 12? If not, why not?



# 5.

## Mandatory date and other comments

### Proposed mandatory date for amendments to PBE IPSAS 1

- We propose that the amendments to the PBE IPSAS 1 have a mandatory date of **1 January 2026**, meaning that they would have to be applied for accounting periods that begin on or after that date.
- Application would be permitted for accounting periods that begin before 1 January 2026, but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

#### Rationale for the proposed mandatory date

This date is aligned with the mandatory date of the *Improvements to IPSAS, 2023* recently issued by the IPSASB, and provides PBEs sufficient time to prepare for the implementation of the new requirements.

### Proposed mandatory date for amendments to PBE IAS 12

- We propose that the **temporary exception** and requirement to disclose application of the exception **applies from the date that this amending Standard takes effect** (which is 28 days after the final amendments are issued).
- We propose that the **other proposed disclosure requirements** (i.e. paragraphs 88A–88D) would have a mandatory date of **1 January 2024** – meaning that they would have to be applied for accounting periods that begin on or after that date. An entity is not required to provide those disclosures for any interim period ending on or before 31 December 2024.

#### Rationale for the proposed mandatory date

The NZASB concluded that for the temporary exception to work effectively, it needs to be available to entities affected by the Pillar Two tax legislation immediately from the date that this amending Standard takes effect.

Requiring a PBE to apply the rest of the disclosure requirements (paragraphs 88B–88D) for annual reporting periods beginning on or after 1 January 2024—but not for interim periods ending on or before 31 December 2024 — should provide enough time to prepare the required information.

The timing of this mandatory date reflects the fact that Pillar Two legislation has already been enacted in New Zealand and will come into effect from 1 January 2025.

#### Question 3:

Do you agree with the proposed mandatory date for the proposed amendments to PBE IPSAS 1 and PBE IAS 12? If not, why not?

#### Question 4:

Do you have any other feedback on the ED proposals?

