PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 47 FIRST-TIME ADOPTION OF PBE STANDARDS BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRSs (PBE FRS 47)

Issued May 2013

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation the purposes of the Regulations (Disallowance) Act 1989.

PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 47 FIRST-TIME ADOPTION OF PBE STANDARDS BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRSs (PBE FRS 47)

ISBN 978-1-927238-69-1

PBE FRS 47 FIRST-TIME ADOPTION OF PBE STANDARDS BY ENTITIES OTHER THAN THOSE PREVIOUSLY APPLYING NZ IFRSs

CONTENTS

Public Benefit Entity Financial Reporting Standard 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs* is set out in paragraphs 1–42 and Appendices A–C. All the paragraphs have equal authority. PBE FRS 47 should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to ensure that an entity's first set of financial statements prepared under PBE Standards, any interim financial reports for part of the period covered by those financial statements and any prospective financial statements presented prior to an entity's first set of financial statements under PBE Standards, contain high quality information that:

   (a) Is transparent for users and comparable over all periods presented;

   (b) Provides a suitable starting point for accounting in accordance with PBE Standards; and

   (c) Can be generated at a cost that does not exceed the benefits.

Scope

2. **This Standard applies to public sector public benefit entities that report in accordance with Tier 1 PBE Standards or are eligible for and elect to apply Tier 2 PBE Standards.**

3. **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

4. **An entity that has not previously applied standards in the NZ IFRS suites of standards including NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR in the immediately preceding period shall apply this PBE Standard in:**

   (a) **Its first set of financial statements under PBE Standards;**

   (b) **Each interim financial report, if any, that it presents in accordance with PBE IAS 34 *Interim Financial Reporting* for part of the period covered by its first set of financial statements under PBE Standards; and**

   (c) **Its first set of prospective financial statements presented in accordance with PBE FRS 42 *Prospective Financial Statements* where an entity presents such statements prior to presenting its first set of financial statements under PBE Standards.**

5. **An entity that has previously applied PBE Standards, but not in its most recent previous financial statements, shall apply:**

   (a) **This Standard; and**

   (b) **PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* to the extent that PBE IPSAS 3 does not conflict with this Standard.**

   The requirement to apply both these Standards may limit the ability of the entity to apply some of the concessions available in this Standard.

6. An entity's first set of financial statements under PBE Standards are the first annual financial statements in which the entity adopts PBE Standards by a statement that the financial statements have been prepared in accordance with PBE Standards. Financial statements prepared in accordance with PBE Standards are an entity's first set of financial statements under PBE Standards if, for example, the entity:

   (a) Presented its most recent previous financial statements in accordance with requirements that are not consistent with PBE Standards in all respects;

   (b) Prepared financial statements in accordance with PBE Standards for internal use only, without making them available to the entity's owners or any other external users; or

   (c) Did not present financial statements for previous periods.

7. This PBE Standard does not apply to changes in accounting policies made by an entity that already applies PBE Standards. Such changes are the subject of:

   (a) Requirements on changes in accounting policies in PBE IPSAS 3; and

   (b) Specific transitional requirements in other PBE Standards.

8. In applying this Standard, public benefit entities that are eligible for and elect to apply Tier 2 PBE Standards shall read all references to "PBE Standards" as references to "PBE Standards RDR".

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

Date of transition to PBE Standards is the beginning of the earliest period for which an entity presents full comparative information in its first set of financial statements under PBE Standards.

Deemed cost is an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

First reporting period under PBE Standards is the latest reporting period covered by an entity's first set of financial statements under PBE Standards.

First set of financial statements under PBE Standards is the first annual financial statements in which an entity adopts Public Benefit Entity Standards (PBE Standards).

First-time adopter is an entity that presents its financial statements under PBE Standards for the first time.

NZ IFRS are New Zealand equivalents to International Financial Reporting Standards (including standards and interpretations) issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board (NZASB).

NZ IFRS Diff Rep are NZ IFRS with differential reporting recognition, measurement and disclosure concessions.

NZ IFRS PBE are NZ IFRS with PBE modifications.

NZ IFRS RDR are NZ IFRS with disclosure concessions.

Old GAAP are New Zealand accounting standards and pronouncements that have authoritative support that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand, and comprises Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs).

Opening statement of financial position is an entity's statement of financial position at the date of transition to PBE Standards.

Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards.

Public benefit entities are 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 Benefit Entity Standards (PBE Standards) are standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board (NZASB) for public benefit entities comprising:

(a) Public Benefit Entity International Public Sector Accounting Standards;

(b) Public Benefit Entity International Financial Reporting Standards, including Public Benefit Entity International Accounting Standards; and

(c) Public Benefit Entity Financial Reporting Standards.

Recognition and Measurement

Opening Statement of Financial Position

10. **An entity shall prepare and present an opening statement of financial position at the date of transition to PBE Standards. This is the starting point for its accounting in accordance with PBE Standards.**

Accounting Policies

11. **Subject to the provisions in this Standard, an entity shall use the same accounting policies in its opening statement of financial position under PBE Standards and throughout all periods presented in its first set of financial statements under PBE Standards. Those accounting policies shall comply with each PBE Standard effective at the end of its first reporting period under PBE Standards, except as specified in paragraphs 18–23 and Appendices A–C.**

12. **An entity shall not apply different versions of PBE Standards that were effective at earlier dates. An entity may apply a new PBE Standard that is not yet mandatory if that PBE Standard permits early application.**

Example: Consistent application of latest version of PBE Standards

Background

The end of entity A's first reporting period under PBE Standards is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 25). Therefore, its date of transition to PBE Standards is the beginning of operations on 1 January 20X4 (or, equivalently, close of operations on 31 December 20X3). Entity A presented financial statements in accordance with its previous GAAP annually to 31 December each year up to, and including, 31 December 20X4.

Application of requirements

Entity A is required to apply the PBE Standards effective for periods ending on 31 December 20X5 in:

(a) Preparing and presenting its opening statement of financial position under PBE Standards at 1 January 20X4; and

(b) Preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new PBE Standard is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that PBE Standard in its first set of financial statements under PBE Standards.

13. The transitional provisions in other PBE Standards apply to changes in accounting policies made by an entity that already uses PBE Standards; they do not apply to a first-time adopter's transition to PBE Standards, except as specified in Appendices A–C.

14. **Except as described in paragraphs 18–23 and Appendices A–C, an entity shall, in its opening statement of financial position under PBE Standards:**

    (a) **Recognise all assets and liabilities whose recognition is required by PBE Standards;**

    (b) **Not recognise items as assets or liabilities if PBE Standards do not permit such recognition;**

    (c) **Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with PBE Standards; and**

    (d) **Apply PBE Standards in measuring all recognised assets and liabilities.**

15. **The accounting policies that an entity uses in its opening statement of financial position under PBE Standards may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to PBE Standards. Therefore, an entity shall recognise those adjustments directly in accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity) at the date of transition to PBE Standards.**

16. **This Standard establishes two categories of exceptions to the principle that an entity's opening statement of financial position under PBE Standards shall comply with each PBE Standard:**

    (a) **Paragraphs 18–21 and Appendix A prohibit retrospective application of some aspects of other PBE Standards.**

    (b) **Appendices B–C grant exemptions from some requirements of other PBE Standards.**

Exceptions to the Retrospective Application of Other PBE Standards

17. This Standard prohibits retrospective application of some aspects of other PBE Standards. These exceptions are set out in paragraphs 18–21 and Appendix A.

Estimates

18. **Subject to the requirements of this Standard, an entity's estimates in accordance with PBE Standards at the date of transition to PBE Standards shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**

19. **An entity may receive information after the date of transition to PBE Standards about estimates that it had made under previous GAAP. In accordance with paragraph 18, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting date in accordance with PBE IPSAS 14 *Events after the Reporting Date*.**

Example: Consistent use of estimates
For example, assume that an entity's date of transition to PBE Standards is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening statement of financial position under PBE Standards (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in surplus or deficit (or, if appropriate, in other comprehensive revenue and expense) for the year ended 31 December 20X4.

20. **An entity may need to make estimates in accordance with PBE Standards at the date of transition to PBE Standards that were not required at that date under previous GAAP. To achieve consistency with PBE IPSAS 14, those estimates in accordance with PBE Standards shall reflect conditions that existed at the date of transition to PBE Standards. In particular, estimates at the date of transition to PBE Standards of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.**

21. Paragraphs 18–20 apply to the opening statement of financial position under PBE Standards. They also apply to a comparative period presented in an entity's first set of financial statements under PBE Standards, in which case the references to the date of transition to PBE Standards are replaced by references to the end of that comparative period.

Exemptions from other PBE Standards

22. **An entity may elect to use one or more of the exemptions contained in Appendices B–C. An entity shall not apply these exemptions by analogy to other items.**

23. **Some exemptions in Appendices B–C refer to fair value. In determining fair values in accordance with this PBE Standard, an entity shall apply the definition of fair value in this Standard and any more specific guidance in other PBE Standards on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.**

Presentation and Disclosure

24. This Standard does not provide exemptions from the presentation and disclosure requirements in other PBE Standards.

Comparative Information

25. **An entity's first set of financial statements under PBE Standards shall include at least three statements of financial position, two statements of comprehensive revenue and expense, two separate statements of financial performance (if presented), two cash flow statements and two statements of changes in net assets/equity, and related notes, including comparative information.**

26. An entity's opening statement of financial position may be presented in the notes.

RDR 26.1 A Tier 2 entity is not required to provide a statement of financial position as at the beginning of the earliest comparative period in accordance with paragraph 25.

27. An entity is required to present all comparative information in accordance with PBE Standards, including the presentation of a comparative cash flow statement in accordance with PBE IPSAS 2 *Cash Flow Statements*.

Non-PBE Standards Comparative Information and Historical Summaries

28. **Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with PBE Standards. This Standard does not require such summaries to comply with the recognition and measurement requirements of PBE Standards. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by PBE IPSAS 1 *Presentation of Financial Statements*. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:**

    (a) **Label the previous GAAP information prominently as not being prepared in accordance with PBE Standards; and**

    (b) **Disclose the nature of the main adjustments that would make it comply with PBE Standards. An entity need not quantify those adjustments.**

Explanation of Transition to PBE Standards

*29. **An entity shall explain how the transition from previous GAAP to PBE Standards affected its reported financial position, statement of comprehensive revenue and expense, and cash flows.**

Reconciliations

30. **To comply with paragraph 29, an entity's first set of financial statements under PBE Standards shall include:**

    (a) **Reconciliations of its net assets/equity reported in accordance with previous GAAP to its net assets/equity in accordance with PBE Standards for both of the following dates:**

        (i) **The date of transition to PBE Standards; and**

        (ii) **The end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.**

    *(b) **A reconciliation to its total comprehensive revenue and expense in accordance with PBE Standards for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive revenue and expense in accordance with previous GAAP for the same period or, if an entity did not report such a total, surplus or deficit under previous GAAP.**

    *(c) **If the entity recognised or reversed any impairment losses for the first time in preparing its opening statement of financial position under PBE Standards, the disclosures that PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to PBE Standards.**

*31. **The reconciliations required by paragraph 30(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive revenue and expense. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.**

*32. **If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraphs 30(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.**

33. Except as otherwise specified in this Standard, PBE IPSAS 3 does not apply to the changes in accounting policies an entity makes when it adopts PBE Standards or to changes in those policies until after it presents its first set of financial statements under PBE Standards. Therefore, PBE IPSAS 3's requirements for disclosures about changes in accounting policies do not apply in an entity's first set of financial statements under PBE Standards.

*34. **If during the period covered by its first set of financial statements under PBE Standards an entity changes its accounting policies or its use of the exemptions contained in this PBE Standard, it shall explain the changes between its first interim financial report under PBE Standards and its first set of financial statements under PBE Standards, in accordance with paragraph 29, and it shall update the reconciliations required by paragraph 30(a) and (b).**

35. **If an entity did not present financial statements for previous periods, its first set of financial statements under PBE Standards shall disclose that fact.**

Designation of Financial Assets or Financial Liabilities

*36. **An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit or a financial asset as available for sale in accordance with paragraph C16. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.**

Use of Fair Value as Deemed Cost

*37. **If an entity uses fair value in its opening statement of financial position under PBE Standards as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs C2 and C4), the entity's first set of financial statements shall disclose, for each line item in the opening statement of financial position under PBE Standards:**

(a) **The aggregate of those fair values; and**

(b) **The aggregate adjustment to the carrying amounts reported under previous GAAP.**

Use of Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates

*38. **Similarly, if an entity uses a deemed cost in its opening statement of financial position under PBE Standards for an investment in a controlled entity, jointly controlled entity or associate in its separate financial statements (see paragraph C12), the entity's first separate financial statements under PBE Standards shall disclose:**

(a) **The aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;**

(b) **The aggregate deemed cost of those investments for which deemed cost is fair value; and**

(c) **The aggregate adjustment to the carrying amounts reported under previous GAAP.**

Interim Financial Reports

*39. **To comply with paragraph 29, if an entity presents an interim financial report in accordance with PBE IAS 34 for part of the period covered by its first set of financial statements under PBE Standards, the entity shall satisfy the following requirements in addition to the requirements of PBE IAS 34:**

(a) **Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:**

(i) **A reconciliation of its net assets/equity in accordance with previous GAAP at the end of that comparable interim period to its net assets/equity under PBE Standards at that date; and**

(ii) **A reconciliation to its total comprehensive revenue and expense in accordance with PBE Standards for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive revenue and expense in accordance with previous GAAP for that period or, if an entity did not report such a total, surplus or deficit in accordance with previous GAAP.**

(b) **In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with PBE IAS 34 for part of the period covered by its first set of financial statements under PBE standards shall include the reconciliations described in paragraph 30(a) and (b) (supplemented by the details required by paragraphs 31 and 32) or a cross reference to another published document that includes these reconciliations.**

(c) **If an entity changes its accounting policies or its use of the exemptions contained in this PBE Standard, it shall explain the changes in each such interim financial report in accordance with paragraph 29 and update the reconciliations required by paragraph 30(a) and (b).**

*40. **PBE IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, PBE IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.**

Prospective Financial Statements

41. **An entity's first set of prospective financial statements presented under PBE Standards (where such financial statements are presented prior to the entity's first set of interim or annual financial statements presented under PBE Standards) shall include a statement that the financial statements presented are its first set of prospective financial statements presented under PBE Standards.**

Effective date

42. **A public sector public benefit entity shall apply this Standard for its first set of annual financial statements, and any interim financial statements within that annual period, covering periods beginning on or after 1 July 2014. Earlier application is not permitted.**

Appendix A

Exceptions to the Retrospective Application of other PBE Standards

This Appendix is an integral part of PBE FRS 47.

A1. An entity shall apply the following exceptions:

(a) Derecognition of financial assets and financial liabilities (paragraphs A2 and A3); and

(b) Hedge accounting (paragraphs A4–A6).

Derecognition of Financial Assets and Financial Liabilities

A2. Except as permitted by paragraph A3, a first-time adopter shall apply the derecognition requirements in PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition to PBE Standards. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to PBE Standards, it shall not recognise those assets and liabilities in accordance with PBE Standards (unless they qualify for recognition as a result of a later transaction or event).

A3. Notwithstanding paragraph A2, an entity may apply the derecognition requirements in PBE IPSAS 29 retrospectively from a date of the entity's choosing, provided that the information needed to apply PBE IPSAS 29 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge Accounting

A4. As required by PBE IPSAS 29, at the date of transition to PBE Standards, an entity shall:

(a) Measure all derivatives at fair value; and

(b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

A5. An entity shall not reflect in its opening statement of financial position under PBE Standards a hedging relationship of a type that does not qualify for hedge accounting in accordance with PBE IPSAS 29 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged instrument is a net position). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with PBE Standards, provided that it does so no later than the date of transition to PBE Standards.

A6. If, before the date of transition to PBE Standards, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in PBE IPSAS 29, the entity shall apply paragraphs 102 and 112 of PBE IPSAS 29 to discontinue hedge accounting. Transactions entered into before the date of transition to PBE Standards shall not be retrospectively designated as hedges.

Appendix B

Exemptions for Business Combinations

This Appendix is an integral part of PBE FRS 47. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to PBE standards.

B1. A first-time adopter may elect not to apply PBE IFRS 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to PBE Standards). However, if a first-time adopter restates any business combination to comply with PBE IFRS 3, it shall restate all later business combinations and shall also apply PBE IPSAS 6 *Consolidated and Separate Financial Statements* from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to PBE Standards, and it shall also apply PBE IPSAS 6 from 30 June 20X6.

B2. An entity need not apply PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to PBE Standards. If the entity does not apply PBE IPSAS 4 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.

B3. An entity may apply PBE IPSAS 4 retrospectively to fair value adjustments and goodwill arising in either:

(a) All business combinations that occurred before the date of transition to PBE Standards; or

(b) All business combinations that the entity elects to restate to comply with PBE IFRS 3, as permitted by paragraph B1 above.

B4. If a first-time adopter does not apply PBE IFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:

(a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

(b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to PBE Standards that were acquired or assumed in a past business combination, other than:

(i) Some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph A2); and

(ii) Assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with PBE Standards in the separate statement of financial position of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).

(c) The first-time adopter shall exclude from its opening statement of financial position under PBE Standards any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under PBE Standards. The first-time adopter shall account for the resulting change as follows:

(i) The first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with PBE IPSAS 31 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and minority interests) as part of goodwill (unless it deducted goodwill directly from net assets/equity in accordance with previous GAAP, see (g)(i) and (ii) below).

(ii) The first-time adopter shall recognise all other resulting changes in accumulated comprehensive revenue and expense.[1]

(d) PBE Standards require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening statement of financial position under PBE Standards, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting accumulated comprehensive revenue and expense (or, if appropriate, another category of net assets/equity), rather than goodwill.

(e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with PBE Standards at that date. If PBE Standards require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.

(f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening statement of financial position under PBE Standards. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that PBE Standards would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as PBE IPSAS 13 *Leases* would require the acquiree to do in its statement of financial position under PBE Standards. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to PBE Standards, the acquirer shall recognise that contingent liability at that date unless PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under PBE IFRS 3, that asset or liability remains in goodwill unless PBE Standards would require its recognition in the financial statements of the acquiree.

(g) The carrying amount of goodwill in the opening statement of financial position under PBE Standards shall be its carrying amount in accordance with previous GAAP at the date of transition to PBE Standards, after the following two adjustments:

(i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and minority interests).

(ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply PBE IPSAS 26 *Impairment of Cash-Generating Assets* in testing the goodwill for impairment at the date of transition to PBE Standards and in recognising any resulting impairment loss in accumulated comprehensive revenue and expense. The impairment test shall be based on conditions at the date of transition to PBE Standards.

[1] Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from net assets/equity or (b) did not treat the business combination as an acquisition.

(h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to PBE Standards. For example, the first-time adopter shall not restate the carrying amount of goodwill:

   (i) To exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with PBE IPSAS 31 in the statement of financial position of the acquiree);

   (ii) To adjust previous amortisation of goodwill; or

   (iii) To reverse adjustments to goodwill that PBE IFRS 3 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to PBE Standards.

(i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from net assets/equity:

   (i) It shall not recognise that goodwill in its opening statement of financial position under PBE Standards. Furthermore, it shall not reclassify that goodwill to surplus or deficit if it disposes of the controlled entity or if the investment in the controlled entity becomes impaired.

   (ii) Adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in accumulated comprehensive revenue and expense.

(j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a controlled entity acquired in a past business combination (for example, because the controlling entity did not regard it as a controlled entity in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the controlled entity's assets and liabilities to the amounts that PBE Standards would require in the controlled entity's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to PBE Standards between:

   (i) The controlling entity's interest in those adjusted carrying amounts; and

   (ii) The cost in the controlling entity's separate financial statements of its investment in the controlled entity.

(k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

B5. The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph B1 applies equally for all such acquisitions.

Appendix C

Exemptions from other PBE Standards

This Appendix is an integral part of PBE FRS 47.

C1. An entity may elect to use one or more of the following exemptions:

(a) Deemed cost (paragraphs C2–C5);

(b) Leases (paragraphs C6 and C7);

(c) Employee benefits (paragraph C8);

(d) Cumulative translation differences (paragraphs C9 and C10);

(e) Investments in controlled entities, jointly controlled entities and associates (paragraphs C11 and C12);

(f) Assets and liabilities of controlled entities, associates and joint ventures (paragraphs C13 and C14);

(g) Compound financial instruments (paragraph C15);

(h) Designation of previously recognised financial instruments (paragraph C16);

(i) Fair value measurement of financial assets or financial liabilities at initial recognition (paragraph C17);

(j) Decommissioning liabilities included in the cost of property, plant and equipment (paragraph C18);

(k) Financial assets or intangible assets accounted for in accordance with PBE FRS 45 *Service Concession Arrangements: Operator* (paragraph C19);

(l) Borrowing costs (paragraph C20);

(m) Revenue from non-exchange transactions (paragraph C21);

(n) Service concession arrangements: grantor (paragraphs C22–C28);

(o) The Effects of Changes in Foreign Exchange Rates (paragraph C29); and

(p) Intangible assets (paragraph C30).

An entity shall not apply these exemptions by analogy to other items.

Deemed Cost

C2. An entity may elect to measure an item of property, plant and equipment at the date of transition to PBE Standards at its fair value and use that fair value as its deemed cost at that date.

C3. A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to PBE Standards as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost in accordance with PBE Standards, adjusted to reflect, for example, changes in a general or specific price index.

C4. The elections in paragraphs C2 and C3 are also available for:

(a) Investment property, if an entity elects to use the cost model in PBE IPSAS 16 *Investment Property*; and

(b) Intangible assets that meet:

(i) The recognition criteria in PBE IPSAS 31 *Intangible Assets* (including reliable measurement of original cost); and

(ii) The criteria in PBE IPSAS 31 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

C5. A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a restructuring.

(a) If the measurement date is *at or before* the date of transition to PBE Standards, the entity may use such event-driven fair value measurements as deemed cost for PBE Standards at the date of that measurement.

(b) If the measurement date is *after* the date of transition to PBE Standards, but during the period covered by the first financial statements under PBE Standards, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in accumulated comprehensive revenue and expense (or if appropriate, another category of net assets/equity) at the measurement date. At the date of transition to PBE standards, the entity shall either establish the deemed cost by applying the criteria in paragraphs C2–C4 or measure assets and liabilities in accordance with the other requirements in this PBE Standard.

Leases

C6. In applying the provisions in Appendix C Application Guidance *Determining whether an Arrangement contains a Lease* in PBE IPSAS 13 *Leases,* a first-time adopter may determine whether an arrangement existing at the date of transition to PBE Standards contains a lease on the basis of facts and circumstances existing at that date.

C7. If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by Appendix C of PBE IPSAS 13 but at a date other than the date of transition to PBE Standards, the first-time adopter need not reassess that determination when it adopts PBE Standards. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying PBE IPSAS 13, including Appendix C.

Employee Benefits

C8. An entity may disclose the amounts required by paragraph 141(p) of PBE IPSAS 25 as the amounts are determined for each accounting period prospectively from the date of transition to PBE Standards.

Cumulative Translation Differences

C9. PBE IPSAS 4 requires an entity:

(a) To recognise some translation differences in other comprehensive revenue and expense and accumulate these in a separate component of net assets/equity; and

(b) On disposal of a foreign operation, to recognise the cumulative translation differences in surplus or deficit.

C10. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to PBE Standards. If a first-time adopter uses this exemption:

(a) The cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to PBE Standards; and

(b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to PBE Standards and shall include later translation differences.

Investments in Controlled Entities, Jointly Controlled Entities and Associates

C11. When an entity prepares separate financial statements, PBE IPSAS 6 requires it to account for its investments in controlled entities, jointly controlled entities and associates either:

(a) Using the equity method as described in PBE IPSAS 7;

(b) At cost; or

(c) As a financial instrument in accordance with PBE IPSAS 29.

C12. If a first-time adopter measures such an investment at cost in accordance with PBE IPSAS 6, it shall measure that investment at one of the following amounts in its separate opening statement of financial position under PBE Standards:

(a) Cost determined in accordance with PBE IPSAS 6; or

(b) Deemed cost. The deemed cost of such an investment shall be its:

(i) Fair value (determined in accordance with PBE IPSAS 29) at the entity's date of transition to PBE Standards in its separate financial statements; or

(ii) Previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each controlled entity, jointly controlled entity or associate that it elects to measure using a deemed cost.

Assets and Liabilities of Controlled Entities, Associates and Joint Ventures

C13. If a controlled entity becomes a first-time adopter later than its controlling entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:

(a) The carrying amounts that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of transition to PBE Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the controlling entity acquired the controlled entity; or

(b) The carrying amounts required by the rest of this PBE Standard, based on the controlled entity's date of transition to PBE Standards. These carrying amounts could differ from those described in (a):

(i) When the exemptions in this Standard result in measurements that depend on the date of transition to PBE Standards.

(ii) When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the cost model in PBE IPSAS 17 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

C14. However, if an entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the controlled entity. Similarly, if a controlling entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Compound Financial Instruments

C15. PBE IPSAS 28 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and net assets/equity components. If the liability component is no longer outstanding, retrospective application of PBE IPSAS 28 involves separating two portions of net assets/equity. The first portion is in accumulated comprehensive revenue and expense and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this PBE Standard, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to PBE Standards.

Designation of Previously Recognised Financial Instruments

C16. PBE IPSAS 29 permits a financial asset to be designated on initial recognition as available-for-sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through surplus or deficit. Despite this requirement exceptions apply in the following circumstances:

(a) An entity is permitted to make an available-for-sale designation at the date of transition to PBE Standards.

(b) An entity is permitted to designate, at the date of transition to PBE Standards, any financial asset or financial liability as at fair value through surplus or deficit provided the asset or liability meets the criteria in paragraphs 10 or 13 of PBE IPSAS 29 at that date.

Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition

C17. Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of paragraph AG108 and in paragraph AG109 of PBE IPSAS 29 prospectively to transactions entered into on or after the date of transition to PBE Standards.

Decommissioning Liabilities Included in the Cost of Property, Plant and Equipment

C18. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to PBE Standards. If a first-time adopter uses this exemption, it shall:

(a) Measure the liability as at the date of transition to PBE Standards in accordance with PBE IPSAS 19;

(b) To the extent that the liability is within the scope of Appendix A of PBE IPSAS 19, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and

(c) Calculate the accumulated depreciation on that amount, as at the date of transition to PBE Standards, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with PBE Standards.

Financial Assets or Intangible Assets Accounted for in Accordance with PBE FRS 45

C19. A first-time adopter need not apply PBE FRS 45 *Service Concession Arrangements: Operator* retrospectively at the start of the earliest period presented if it is impracticable for the operator to apply the Standard retrospectively for any particular service arrangement. In those circumstances, the operator shall:

(a) Recognise financial assets and intangible assets that existed at the start of the earliest period presented;

(b) Use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and

(c) Test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

Borrowing Costs

C20. Where application of PBE IPSAS 5 *Borrowing Costs* constitutes a change in accounting policy and a first-time adopter elects to capitalise borrowing costs relating to qualifying assets, the entity shall apply PBE IPSAS 5 to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the date of transition to PBE Standards. However, a first-time adopter may designate any date before the date of transition to PBE Standards and apply PBE IPSAS 5 to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

Revenue from Non-Exchange Transactions

C21. On first-time adoption of PBE Standards, assets and liabilities arising from revenue from non-exchange transactions that occurred before the date of transition to PBE Standards are recognised and measured in accordance with PBE Standards. The entity shall recognise any resulting change by adjusting net assets/equity.

Service Concession Arrangements: Grantor

C22. Where a grantor entity had previously accounted for service concession arrangements in accordance with IPSAS 32 *Service Concession Arrangements: Grantor*, the entity shall retain that accounting policy on transition to the PBE Standards.

C23. Where a grantor entity had not previously recognised service concession assets and related liabilities, revenues or expenses in accordance with IPSAS 32, the entity shall either:

(a) Apply the requirements in PBE IPSAS 32 *Service Concession Arrangements: Grantor* retrospectively in accordance with PBE IPSAS 3; or

(b) Recognise and measure service concession assets and related liabilities at deemed cost at the date of transition to PBE Standards in accordance with paragraphs C24–C28 of this Standard.

C24. A grantor entity may elect under paragraph C23(b) of this Standard to recognise and measure service concession assets and related liabilities in accordance with PBE IPSAS 32 using deemed cost. Deemed cost is determined at the date of transition to PBE Standards.

C25. Deemed cost for service concession assets shall be determined using the following measurement bases:

(a) For property, plant, and equipment − fair value including depreciated replacement cost as a means of estimating fair value in the circumstances permitted by PBE IPSAS 17 *Property, Plant and Equipment* (see PBE IPSAS 17, paragraphs 46–48); and

(b) For intangible assets − fair value.

C26. Depreciation or amortisation shall be based on the deemed cost determined under paragraph C25 and commence from the date of transition to PBE Standards.

Use of Deemed Cost under the Financial Liability Model

C27. Where the grantor uses deemed cost under the financial liability model, the grantor shall measure:

(a) The service concession asset in accordance with paragraph C25 of this Standard; and

(b) The financial liability using the remaining contractual cash flows specified in the binding arrangement and the rate described in PBE IPSAS 32 (paragraphs AG41–AG46) at the beginning of the date of transition to PBE Standards. Any difference between the value of the asset and the financial liability is recognised directly in net assets/equity. If the entity chooses as its accounting policy the revaluation model in PBE IPSAS 17 or PBE IPSAS 31, this difference is included in any revaluation surplus.

Use of Deemed Cost under the Grant of a Right to the Operator Model

C28. Where the grantor uses deemed cost under the grant of a right to the operator model, the grantor shall measure:

(a) The service concession asset in accordance with paragraph C25 of this Standard; and

(b) The liability representing the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

The Effects of Changes in Foreign Exchange Rates

C29. An entity that previously translated a transaction measured in a foreign currency using an exchange rate at settlement date rather than an exchange rate at transaction date need not restate the transaction recognised in the periods prior to the date of transition to PBE Standards to comply with PBE IPSAS 4. The entity may apply PBE IPSAS 4 prospectively from the date of transition to PBE Standards.

Intangible Assets

C30. An entity that previously expensed all development costs in the period in which they were incurred need not apply PBE IPSAS 31 to those expenses recognised in the periods prior to the date of transition to PBE Standards. The entity may apply PBE IPSAS 31 prospectively from the date of transition to PBE Standards.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE FRS 47.

BC1. In developing Tier 1 and Tier 2 PBE Standards, based on International Public Sector Accounting Standards (IPSASs), the New Zealand Accounting Standards Board (NZASB) noted that there is no single IPSAS that addresses issues arising from first-time application of IPSASs. Some IPSASs contain transitional provisions which provide temporary relief from certain requirements in individual IPSASs and some provide guidance on how to deal with changes in reported figures, such as accumulated balances and comparative amounts, resulting from the first-time application of a specific IPSAS.

BC2. The NZASB decided that it would be easier for entities to transition to PBE Standards if the transitional provisions for an entity applying PBE Standards for the first time were set out in a single standard. The development of a standard dealing with first-time adoption issues would also make it easier for the NZASB to tailor transitional provisions to the needs of different groups of entities (for example, the needs of entities might differ depending on the basis of accounting an entity used prior to applying PBE Standards).

BC3. The NZASB noted that public benefit entities (PBEs) transitioning to PBE Standards could be classified as those that had previously applied standards in the NZ IFRS suites of standards[1] in the immediately preceding period and those that had not previously applied standards in the NZ IFRS suites of standards in the immediately preceding period.

BC4. The NZASB therefore developed two standards:

(a) PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs;* and

(b) PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*.

BC5. Entities that have not previously applied standards in the NZ IFRS suites of standards may be public sector or not-for-profit entities. The NZASB noted that these entities may have applied Old GAAP or may have applied other accounting policies in the preparation of their financial statements. In some cases, entities may not have prepared financial statements. In all cases, these entities would not have applied NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The NZASB considered that a standard based on NZ IFRS 1 would provide entities transitioning to PBE Standards with concessions similar to those made available to other entities when they transitioned to NZ IFRSs.

BC6. The NZASB has retained in PBE FRS 47 all relevant concessions contained in NZ IFRS 1. In addition, the NZASB has included transitional provisions for revenue from non-exchange transactions and service concessions arrangements from the grantor perspective: these transactions are not addressed in NZ IFRSs. Transitional provisions similar to those contained in PBE FRS 46 are also included for entities that may have (i) previously measured transactions at a foreign exchange rate prevailing at settlement date rather than at the date of the transaction and (ii) previously expensed development costs rather than recognising them as assets. The NZASB considered that specific transitional provisions for these two cases are appropriate as it may be onerous for entities to restate these transactions retrospectively.

[1] The NZ IFRS suites of standards include the various sets of standards based on IFRS that will exist at the time of transition, including NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep and NZ IFRS RDR.

History of Amendments

PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs* was issued in May 2013.

This table lists the pronouncements establishing and substantially amending PBE FRS 47. The table is based on amendments approved as at 31 May 2013.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*	May 2013	Early application not permitted	1 July 2014