



NZ ACCOUNTING
STANDARDS
BOARD

Fair Value Disclosures by Retirement Benefit Plans (Amendments to NZ IAS 26)

This Standard was issued on 4 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 2 October 2014.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part C.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend the relevant New Zealand Tier 1 and Tier 2 For-profit Accounting Standards as a result of additional New Zealand specific disclosures.

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FAIR VALUE DISCLOSURES BY RETIREMENT BENEFIT PLANS
(AMENDMENTS TO NZ IAS 26)

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Part A

Introduction

This Standard amends NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

This Standard requires additional New Zealand specific disclosures about applying the fair value hierarchy to retirement benefit plan investments measured at fair value in accordance with NZ IAS 26.

Part B

Amendments to NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Insert paragraphs NZ 35.7 to NZ 35.13 and a heading above those paragraphs.

All Plans – Valuation of Assets (paragraph 35(a)(ii))

NZ 35.7 To the extent that a retirement benefit plan has not already disclosed the following information in complying with paragraph 35(a)(ii), it shall also disclose information that helps users of its financial statements assess both of the following:

- (a) **for retirement benefit plan investments measured at fair value in the statement of net assets after initial recognition, the valuation techniques and inputs used to develop those measurements.**
- (b) **for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on the statement of changes of net assets available for benefits for the period.**

NZ 35.8 To meet the objectives in paragraph NZ 35.7, an entity shall consider all the following:

- (a) the level of detail necessary to satisfy the disclosure requirements;
- (b) how much emphasis to place on each of the various requirements;
- (c) how much aggregation or disaggregation to undertake; and
- (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard and other NZ IFRSs are insufficient to meet the objectives in paragraph NZ 35.7, an entity shall disclose additional information necessary to meet those objectives.

NZ 35.9 To meet the objectives in paragraph NZ 35.7, an entity shall disclose, at a minimum, the following information for each class of retirement benefit plan investments (see paragraph NZ 35.10 for information on determining appropriate classes of assets) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of net assets after initial recognition:

- (a) the fair value measurement at the end of the reporting period.
- (b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).
- (c) the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph NZ 35.11). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
- (d) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to

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comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

- (e) for fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - (i) total gains or losses for the period recognised in the statement of changes in net assets available for benefits, and the line item(s) in the statement of changes in net assets available for benefits in which those gains or losses are recognised.
 - (ii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (iii) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph NZ 35.11). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) for fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) that is attributable to the change in unrealised gains or losses relating to those retirement benefit plan investments held at the end of the reporting period, and the line item(s) in the statement of changes in net assets available for benefits in which those unrealised gains or losses are recognised.
- (g) for fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).
- (h) for fair value measurements categorised within Level 3 of the fair value hierarchy:
 - (i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).
 - (ii) for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, or total assets.
- (i) if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

NZ 35.10 An entity shall determine appropriate classes of retirement benefit plan investments on the basis of the following:

- (a) the nature, characteristics and risks of the retirement benefit plan investment; and
- (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of retirement benefit plan investments for which disclosures about fair value measurements should be provided requires judgement. A class of retirement benefit plan investments

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will often require greater disaggregation than the line items presented in the statement of net assets. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of net assets. If another NZ IFRS specifies the class for a retirement benefit plan investment, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

NZ 35.11 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph NZ 35.9(c) and (e)(iii). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) the date of the event or change in circumstances that caused the transfer;
- (b) the beginning of the reporting period; and
- (c) the end of the reporting period.

NZ 35.12 For each class of retirement benefit plan investments not measured at fair value in the statement of net assets but for which the fair value is disclosed, an entity shall disclose the information required by paragraph NZ 35.9(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph NZ 35.9(d). For such investments, an entity does not need to provide the other disclosures required by this Standard.

NZ 35.13 An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Insert paragraph NZ 37.3

Effective date

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NZ 37.3 *Fair Value Disclosures by Retirement Benefit Plans* (Amendments to NZ IAS 26), issued in September 2014, added paragraphs NZ 35.7 to NZ 35.13. An entity shall apply those amendments for annual periods beginning on or after 1 January 2015. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Part C

Effective date

This Standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted.

Basis for Conclusions

Insert NZASB Basis for Conclusions, paragraphs BC1 to BC8 after the FRSB Basis for Conclusions.

NZASB Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, NZ IAS 26.

Introduction

- BC1 This Basis for Conclusions summarises the matters the New Zealand Accounting Standards Board (NZASB) considered in amending NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* in 2014. Individual Board members gave greater weight to some factors than to others.
- BC2 In 2014 the NZASB amended NZ IAS 26 by adding New Zealand specific disclosure requirements about applying the fair value hierarchy to retirement benefit plan investments measured at fair value.
- BC3 Prior to the development of NZ IFRS 13 *Fair Value Measurement*, paragraphs 27 to 27B of NZ IFRS 7 *Financial Instruments: Disclosures* required disclosures about applying the fair value hierarchy and, along with other reporting entities, retirement benefit plans applied those requirements. When NZ IFRS 13 was issued, consequential amendments to NZ IFRS 7 removed paragraphs 27 to 27B from that Standard, as these disclosures were superseded by disclosure requirements in NZ IFRS 13. However, the scope of NZ IFRS 13 specifically excludes retirement benefit plan investments measured at fair value in accordance with NZ IAS 26 from the disclosure requirements of NZ IFRS 13.
- BC4 The relocation of these disclosure requirements to NZ IFRS 13 together with the scope exclusion in NZ IFRS 13 created ambiguity about the level of detail that retirement benefit plans should disclose in respect of the application of the fair value hierarchy to retirement benefit plan investments.
- BC5 The NZASB considered that disclosures about the application of the fair value hierarchy to retirement benefit plan investments provide relevant information to users and should continue to be required. Therefore, the NZASB included additional New Zealand specific disclosure requirements in NZ IAS 26, based on the disclosure requirements in NZ IFRS 13.

Development of additional disclosures

- BC6 In developing the additional fair value disclosures in NZ IAS 26 the NZASB made some changes to the NZ IFRS 13 disclosures on which these requirements were based. These changes included:
- (a) limiting the additional disclosures to retirement benefit plan investments measured at fair value in accordance with NZ IAS 26 as it is only those investments that are excluded from the scope of NZ IFRS 13. Assets and liabilities of retirement benefit plans other than retirement benefit plan investments are not excluded from the scope of NZ IFRS 13;
 - (b) referring to the specific financial statements presented by retirement benefit plans (for example, statement of changes in net assets available for benefits);
 - (c) not requiring a distinction between recurring and non-recurring measurements, nor the reason for making such a distinction;
 - (d) not requiring disclosure of whether a retirement benefit plan has made use of the exception in NZ IFRS 13 paragraph 48. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions; and
 - (e) not requiring disclosure of the existence of an inseparable third party credit enhancement issued with a liability measured at fair value and information about that credit enhancement (as required by NZ IFRS 13 paragraph 98).

RDR concessions

BC7 The NZASB noted that although NZ IFRS 13 includes RDR disclosure concessions for entities that qualify for and elect to apply Tier 2 for-profit accounting standards, NZ IAS 26 does not. The NZASB decided that there should be no RDR disclosure concessions in respect of the additional disclosures being added to NZ IAS 26 because of the nature of retirement benefit plans, the significance of retirement benefit plan investments and the importance of information about how the fair value of investments has been determined.

Australian requirements

BC8 AASB 1056 *Superannuation Entities* is an Australian specific standard which specifies the reporting requirements for superannuation entities in Australia. The NZASB noted that although Australia and New Zealand have taken different approaches to establishing requirements for retirement benefit plans, AASB 1056 requires that in determining fair value measurements, a superannuation entity applies the relevant principles and requirements in a number of other applicable Australian Accounting Standards, including AASB 13 *Fair Value Measurement*.