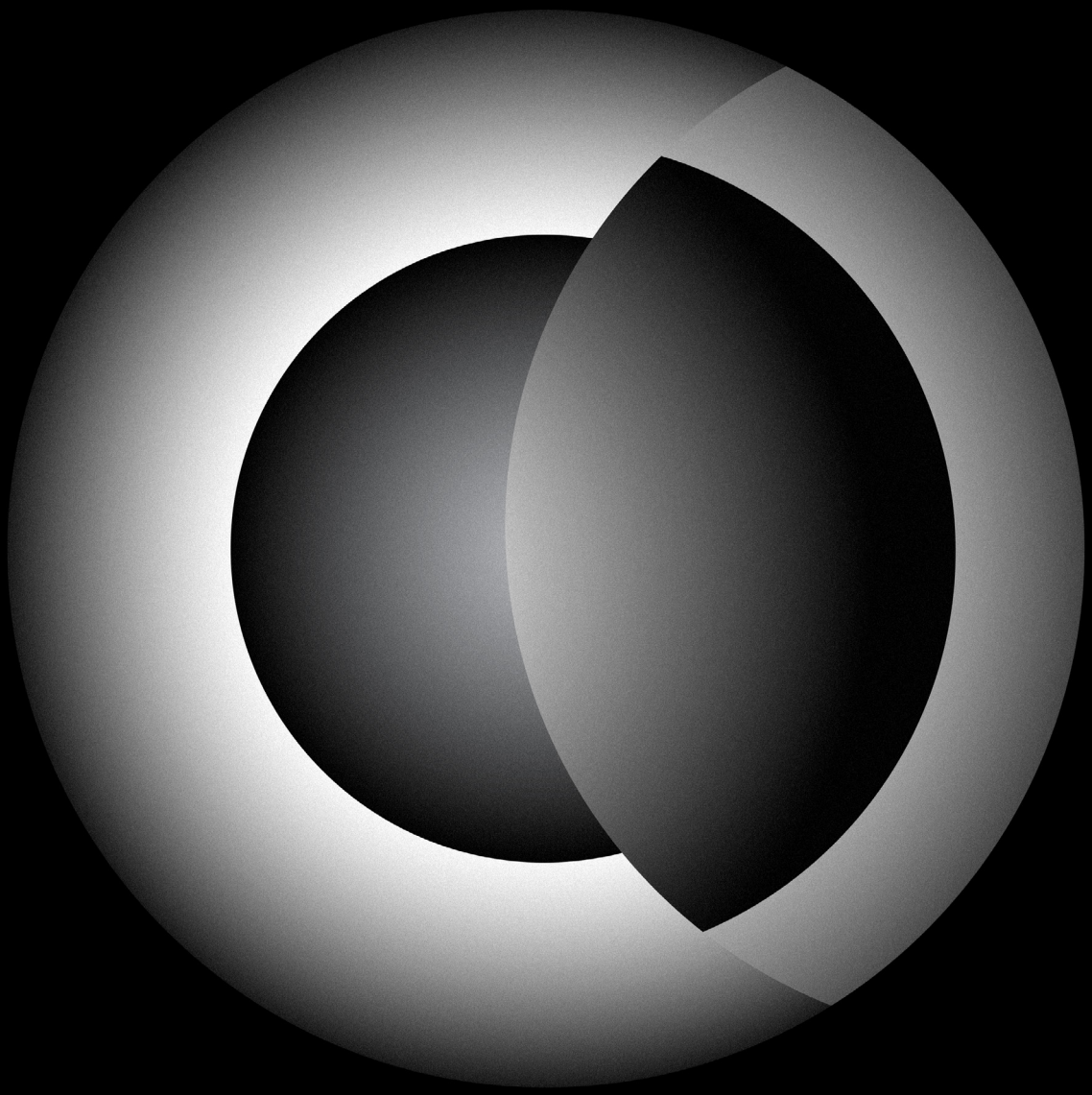
Deloitte.



Accounting Alert

Quarterly update – Public Benefit Entities

What's new in financial reporting for September 2019?

This quarterly update provides a high level overview of the new and revised financial reporting requirements that need to be considered by public benefit entities (PBEs) using the new suite of PBE Accounting Standards for annual and interim financial reporting periods ending on 30 September 2019. Information is also included for June 2019 year ends for entities who are still finalising their financial statements. We have included links to relevant Deloitte publications which provide further detail, where appropriate.

Entities will need to assess whether they are a PBE or a for-profit entity. Further guidance on determining this is included in Appendix A of XRB A1 *Application of the Accounting Standards Framework* (XRB A1). XRB A1 Appendix A has been amended in May 2019 to provide clearer guidance. Some subsidiaries of PBEs may be for-profit entities. These entities should refer to our quarterly alert for for-profit entities **here**.

PBEs may be either public sector (PS) PBEs or not-for-profit (NFP) PBEs. Refer to Appendix C for the summary of Accounting Standards Framework for PBEs.

Financial reporting standards update

There are two new PBE financial reporting amendments applicable for financial years ending 30 September 2019. PBE IPSAS 34-38 (relating to separate and consolidated financial statements, associates, joint ventures, joint arrangements and disclosure of interests in other entities), PBE IPSAS 39 *Employee Benefits* and new financial reporting amendments are already applicable for interim periods ending 30 September 2019. All entities will need to assess the impact of these new standards and amendments and ensure that relevant policies and functionalities are in place to implement and comply with the changes.

There are also four significant new standards and amendments on the horizon which entities may wish to consider for early adoption, including PBE FRS 48 *Service Performance Reporting*, PBE IPSAS 40 *PBE Combinations*, PBE IPSAS 41 *Financial Instruments* and PBE IFRS 17 *Insurance Contracts* (for not-for-profit PBEs only). PBE IFRS 9 *Financial Instruments,* an interim standard which will be superseded by PBE IPSAS 41, is also available for early adoption before 1 January 2020. All Tier 1 entities need to consider the new requirements and appropriate disclosure of these approved but not yet effective standards.

The information below was updated on 13 September 2019 for developments to that date.

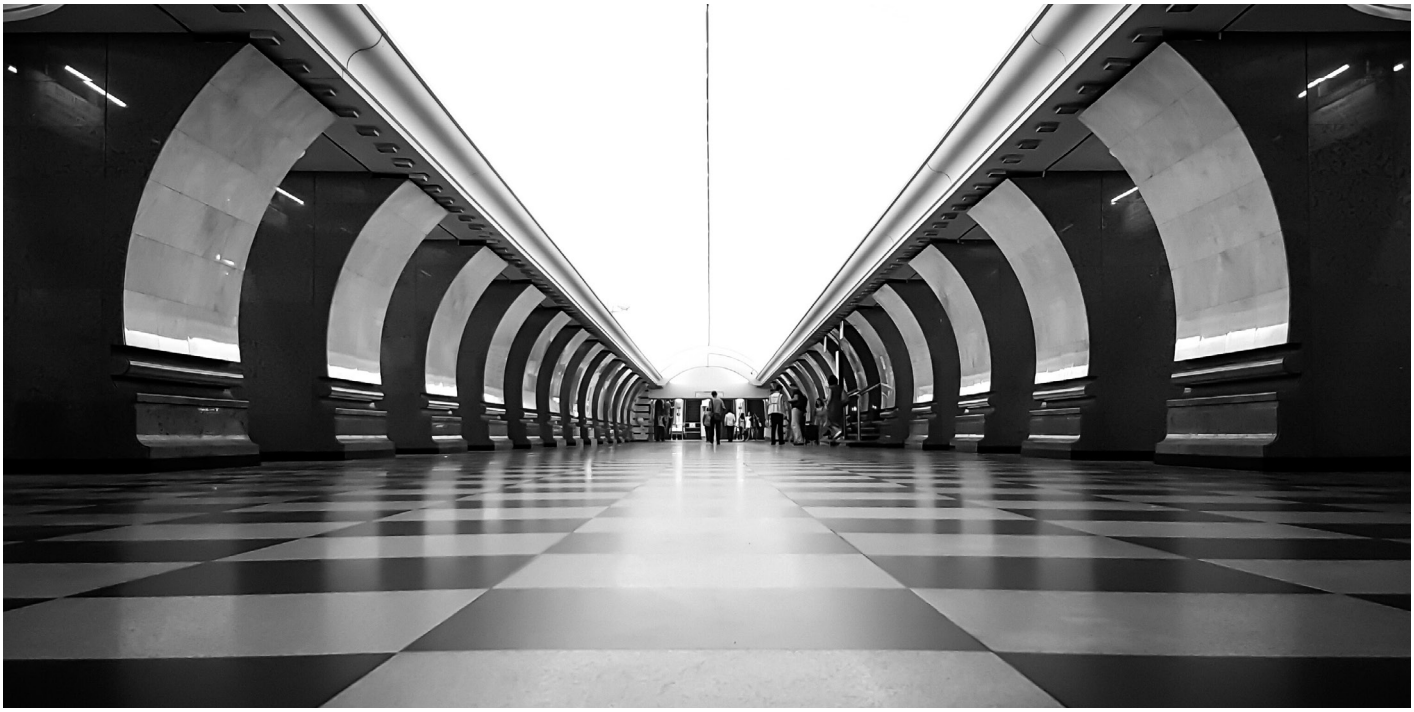
What are the new and revised accounting pronouncements for September 2019?

As occurs so often with changes in accounting standards and financial reporting requirements, some of the new or revised pronouncements may have a substantial impact on particular entities. Therefore, it is important that the pronouncements listed below are carefully reviewed for any potential impacts or opportunities.

The tables overleaf outline the new and revised pronouncements that are either to be applied for the first time for a 30 September 2019 annual or interim reporting period, or which may be early adopted at that date[1]. The footnotes distinguish between mandatory initial application, and pronouncements which were also mandatory in a previous period. We have also included links to relevant Deloitte publications which provide further detail, where appropriate.

In the majority of cases, the disclosure requirements of the individual pronouncements listed in the tables below would not be applicable to half-year financial reports; however, the recognition and measurement requirements would be applied where those pronouncements have been adopted by the entity.

In addition, disclosure of the application of new and revised accounting pronouncements needs to be carefully considered, along with the impact of those that are approved but not yet effective. We have outlined some considerations in respect of these in Appendix A.



[1] Amendments to PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* have not been fully considered in this publication. First time adopters should consult the latest version of PBE FRS 46 and PBE FRS 47 when preparing their first financial statements in compliance with PBE Standards. Entities will also need to monitor approvals between the date of this publication and the date the financial statements are approved.

Summary of amendments to PBE Accounting Standards

The tables below set out the recent new pronouncements for PS PBEs and NFP PBEs respectively, and whether they are optional or mandatory for the financial year ending 30 June 2019 and the financial year or interim period ending 30 September 2019. Further information on each pronouncement can be found in the next section.

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE Standards (Tiers 1 and 2)							
Approved Budget (Amendments to **PBE IPSAS 1***)*	1 Jan 2018	M	M	M	M	M[2]	M[2]
2016 Omnibus Amendments to PBE Standards - bearer plants	1 Jan 2018	M	M	M	M	M[2]	M[2]
Impairment of Revalued Assets (Amendments to **PBE IPSASs 21** *and* **26)**	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 34 *Separate Financial Statements*	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 35 *Consolidated Financial Statements*	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 36 *Investments in Associates and Joint Ventures*	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 37 *Joint Arrangements*	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 38 *Disclosure of Interests in Other Entities*	1 Jan 2019	O	O	O	O	M	M
PBE IPSAS 39 *Employee Benefits*	1 Jan 2019	O	O	O	O	M	M
2018 Omnibus Amendments to PBE Standards	Refer to page 8 for more detail						
Uncertainty over Income Tax Treatments (Amendments to **PBE IAS 12)**	1 Jan 2020	O	O	O	O	O	O
PBE FRS 48 *Service Performance Reporting*	1 Jan 2021	O	O	O	O	O	O
PBE IPSAS 40 *PBE Combinations*	1 Jan 2021	O	O	O	O	O	O
PBE IFRS 9 *Financial Instruments*[1]	1 Jan 2022	O	O	O	O	O	O
PBE IPSAS 41 *Financial Instruments*	1 Jan 2022	O	O	O	O	O	O
PBE IFRS 17 *Insurance Contracts*[2]	1 Jan 2022	N/A	O	N/A	O	N/A	O
Simple Format Reporting (Tiers 3 and 4)							
2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	1 Jan 2019	O	O	O	O	M	M

Key

O Optional

M Mandatory – first time

M[2] – Mandatory in a previous period

* Annual reporting periods beginning on or after

N/A - Not applicable

[1] Will be superseded by PBE IPSAS 41 but early adoption is still permitted before 1 January 2020

[2] Applies to Not-for-profit PBEs only

Impact of each new and revised pronouncement

The following tables set out information on the impact of the recent new pronouncements (see key on page 3).

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE Standards (Tiers 1 and 2)							
Approved Budget (Amendments to* PBE IPSAS 1*)	1 Jan 2018	M	M	M	M	M[2]	M[2]
PBE IPSAS 1 previously included a requirement that when an entity makes publicly available its approved budget, it is to disclose a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements. There was a similar requirement in respect of interim financial statements in PBE IAS 34 *Interim Financial Reporting*. This amendment replaced the reference to an approved budget with a reference to general purpose prospective financial statements, in both PBE IPSAS 1 for annual reporting and PBE IAS 34 for interim reporting. In addition the comparison is to be presented: • on the face of the financial statements or as a separate statement for public sector entities; and • on the face of the financial statements, as a separate statement or in the notes for not-for-profit entities. These amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
2016 Omnibus Amendments to PBE Standards – *Bearer Plants*	1 Jan 2018	M	M	M	M	M[2]	M[2]
The *2016 Omnibus Amendments* arising from *Improvements to IPSAS 2015* include amendments to treatment of bearer plants. The amendments bring bearer plants, which are used solely to grow produce, into the scope of PBE IPSAS 17 *Property, plant and equipment* (and out of the scope of PBE IPSAS 27 *Agriculture*) so that they are accounted for in the same way as property, plant and equipment. A bearer plant is defined as "a living plant that: • is used in the production or supply of agricultural produce; • is expected to bear produce for more than one period; and • has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales." The amendments clarify that produce growing on bearer plants continues to be accounted for under PBE IPSAS 27. These amendments apply to annual periods beginning on or after 1 January 2018.							
Impairment of Revalued Assets (Amendments to* PBE IPSASs 21 *and* 26*)	1 Jan 2019	O	O	O	O	M	M
This amends the scope of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* to include property, plant and equipment and intangible assets measured at revalued amounts and also amends PBE IPSAS 17 to clarify that the recognition of impairment losses and reversals of impairment losses for a revalued asset does not necessarily require the entire class of assets to which that item belongs to be revalued. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted.							
PBE IPSAS 34 ***Separate Financial Statements***	1 Jan 2019	O	O	O	O	M	M
This new Standard, when applied with PBE IPSAS 35, supersedes PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP). The requirements of PBE IPSAS 34 are substantially the same as the previous requirements for separate financial statements contained in PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP). This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 35 *Consolidated Financial Statements*	1 Jan 2019	O	O	O	O	M	M
This new Standard, when applied with PBE IPSAS 34, supersedes PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP). The objective of PBE IPSAS 35 is to have a single basis for consolidation for all entities, regardless of the nature of the entity, and that basis is control. An entity controls another entity when these three elements are present: • power over the other entity; • exposure or rights to variable benefits from involvement with the other entity; and • the ability to use power over the other entity to affect the nature or the amount of the benefits from involvement with the other entity. The Standard provides detailed guidance on how to apply the control principle in a number of situations, including discussion around predetermined activities and network and partner agreements. The mixed group guidance contained in PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP) has also been incorporated into PBE IPSAS 35, with minimal adjustment. The Standard introduces a new concept of an "investment entity". Investment entities do not consolidate their subsidiaries but rather account for their interests at fair value. The new Standard also includes an exemption from consolidating controlled investment entities. Instead it requires the controlling entity to present consolidated financial statements which i) measure the investments of the controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with PBE IPSAS 35. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.							
PBE IPSAS 36 *Investments in Associates and Joint Ventures*	1 Jan 2019	O	O	O	O	M	M
This new Standard, when applied, supersedes PBE IPSAS 7 *Investments in Associates*. The new Standard combines the accounting for both associates and joint ventures as a result of requiring the use of the equity method to account for investments in joint ventures as well as for investments in associates. Some of the significant differences between PBE IPSAS 7 and the new Standard are as follows: • the scope of the Standard has been expanded to include all "quantifiable ownership interests" – PBE IPSAS 7 previously required an ownership interest in an associate to be "in the form of a shareholding or other formal equity structure"; • in instances where an entity is precluded by PBE IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, the carrying amount may be used as cost on initial recognition of the financial asset. PBE IPSAS 7 did not allow this option; and • the new Standard contemplates the accounting for interests in investment entities and requires the investor to retain the fair value measurement applied by the investment entity associate or joint venture. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 37 *Joint Arrangements*	1 Jan 2019	O	O	O	O	M	M
This new Standard classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (which will include some of the entities currently classified as jointly controlled entities). A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation. However, this Standard requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 38 are also applied early.							
PBE IPSAS 38 *Disclosure of Interests in Other Entities*	1 Jan 2019	O	O	O	O	M	M
This Standard applies to entities that have an interest in controlled entities, joint arrangements, associates or unconsolidated structured entities. It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. An entity should disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The disclosure requirements are extensive and significant effort may be required to accumulate the necessary information. In particular a number of new disclosures are required by investment entities, entities which control investment entities and which are not themselves investment entities, and in relation to unconsolidated structured entities. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37 are also applied early.							
PBE IPSAS 39 *Employee Benefits*	1 Jan 2019	O	O	O	O	M	M
This Standard revises and replaces PBE IPSAS 25, and mainly updates PBE IPSAS 25 for changes made to the equivalent IFRS over recent years (NZ IAS 19 Employee Benefits). The main changes from PBE IPSAS 25 are: • removal of the corridor approach and introduction of the net interest approach for defined benefit plans; • simplification of the accounting for certain contributions from employees or third parties to defined benefit plans; and • amendments to the disclosure requirements for defined benefit plans and multi-employer plans. The disclosures required in respect of defined benefit plans and multi-employer plans are also changed. This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
2018 Omnibus Amendments to PBE Standards	Different effective dates depending on the specific amendment						

The amendments consist of the following:
• amendments arising from *Improvements to IPSAS, 2018;*
• amendments arising from IASB amendments;
• other New Zealand amendments, which include:
  · amending wording in paragraph 31 of PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations;*
  · removing reference to the old PBE *Framework* in relation to recognition in PBE IAS 34 *Interim Financial Reporting*; and
  · removing references to old suite of standards such as NZ IFRS PBE and NZ IFRS Diff Rep in PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS;* and,
• editorial corrections such as correcting references and removing duplicates and old definition.
 	
Amendments arising from *Improvements to IPSAS, 2018* and IASB amendments are covered in Appendix B. Entities will need to review each individual amendment to identify if any are relevant.
 	
Other New Zealand amendments and editorial corrections are effective for annual periods beginning on or after 1 January 2019.							

Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)	1 Jan 2020	O	O	O	O	O	O
This amendment sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The amendment requires an entity to determine whether uncertain tax positions are assessed separately or as a group (depending on which approach gives a better prediction of the resolution of the uncertainty), and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If it is probable a tax authority will accept the treatment, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, the entity should reflect the effect of uncertainty in determining its accounting tax position by estimating the tax payable (or receivable), using either the most likely amount or the expected value method. On transition, an entity may either use full retrospective method or modified retrospective method without restatement of comparatives. Earlier application is permitted.							
PBE FRS 48 *Service Performance Reporting*	1 Jan 2021	O	O	O	O	O	O
This new standard introduces high-level requirements for Tier 1 and Tier 2 PBEs relating to service performance information. All NFP PBEs, and those PS PBEs which are legally required to provide service performance information, must provide the following information: • the reason for the entity's existence, what the entity aims to achieve over the medium to long term (in broad terms), and how it will go about achieving this; and • what the entity has done in order to achieve its broader aims and objectives, as stated above. This Standard has an effective date for annual periods beginning on or after 1 January 2021, with early application permitted.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 40 *PBE Combinations*	1 Jan 2021	O	O	O	O	O	O
The new standard, when applied, supersedes PBE IFRS 3 *Business Combinations*. PBE IPSAS 40 has a broader scope than PBE IFRS 3 since it establishes requirements for accounting for both acquisitions and amalgamations. PBE combination is the bringing together of separate operations into one public benefit entity, which might occur by mutual agreement or by compulsion (for example by legislation). **Identifying a PBE Combination** PBE IPSAS 40 requires an entity to determine whether a transaction or event is a PBE combination, which requires that the assets and liabilities constitute an operation. PBE IPSAS 40's definition of an "operation" is similar to the definition of a "business" under PBE IFRS 3, which includes three elements: input, process and output. Similar to PBE IFRS 3, to qualify as an operation, two essential elements are required – inputs and processes applied to those inputs, which together are or will be used to create outputs. **Classification of PBE Combination** A PBE combination can be classified as an amalgamation or an acquisition. • An **amalgamation** is where no party to a PBE combination gains control of one or more operations as a result of the combination or if one party gains control, the economic substance of the PBE combination based on the evidence relating to the consideration, the decision-making process and other matters is that of an amalgamation. A "resulting entity" shall account for the amalgamation by applying the modified pooling of interests method. • An **acquisition** is where one party to a PBE combination gains control of one or more operations as a result of the combination and the economic substance is not that of an amalgamation. An acquirer shall account for each acquisition by applying the acquisition method of accounting. The modified pooling of interests method requires recognition and measurement of the assets, liabilities and non-controlling interests at their carrying amounts and recognition and measurement of any other adjustments (e.g. to align accounting policies) within net assets/equity. An amalgamation does not give rise to goodwill. The acquisition method of accounting is consistent with PBE IFRS 3 and requires recognition and measurement of assets, liabilities and non-controlling interests at fair values and recognition and measurement of goodwill or gain or loss from acquisition. This standard has an effective date for annual periods beginning on or after 1 January 2021. Earlier application is permitted.							
PBE IFRS 9 *Financial Instruments*	1 Jan 2022	O	O	O	O	O	O
PBE IFRS 9 was issued as an interim standard by the NZASB to address concerns relating to mixed groups and will be superseded by PBE IPSAS 41. Refer discussion on PBE IPSAS 41 for the differences between the two standards. PBE IFRS 9 (effective date delayed by one year to 1 January 2022) is still available for early adoption before 1 January 2020.							

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 41 *Financial Instruments*	1 Jan 2022	O	O	O	O	O	O

The NZASB has issued PBE IPSAS 41 after the IPSASB issued its own financial instruments standard. PBE IPSAS 41 will supersede PBE IFRS 9 and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

PBE IPSAS 41 introduces a new classification and measurement regime for financial instruments and will need to be carefully considered by each entity. Some key changes include:

Financial assets

- debt instruments meeting both a 'management model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances);
- the new measurement category of 'fair value through other comprehensive revenue and expense' (FVTOCRE) will apply for debt instruments held within a management model whose objective is achieved both by collecting contractual cash flows and selling financial assets;
- investments in equity instruments can be designated as FVTOCRE with only dividends being recognised in surplus or deficit;
- all other instruments (including all derivatives) are measured at fair value with changes recognised in surplus or deficit;
- the concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines; and
- all equity investments are measured at fair value (including unquoted equity investments).

Financial liabilities

- PBE IPSAS 29 classification categories of amortised cost and fair value through surplus or deficit are retained;
- changes in credit risk on liabilities designated as at fair value through surplus or deficit is recognised in other comprehensive revenue and expense, unless it creates or increases an accounting mismatch, and is not recycled to surplus or deficit;
- the meaning of credit risk is clarified to distinguish between asset-specific and performance credit risk; and
- the cost exemption in PBE IPSAS 29 for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated.

Hedge accounting and credit risk on own liabilities

- a broadening of the risks eligible for hedge accounting;
- changes in the way forward contracts and derivative options are accounted for when in a hedge accounting relationship, which reduces surplus or deficit volatility;
- the effectiveness test has been replaced with the principle of an "economic relationship" and retrospective assessment of effectiveness is no longer required; and
- enhanced disclosures regarding an entity's risk management activities.

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 41 *Financial Instruments*	1 Jan 2022	O	O	O	O	O	O

The expected credit loss impairment model

The expected credit loss impairment model will apply to debt instruments measured at amortised cost or FVTOCRE, lease receivables, and certain written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses (the latter applies if credit risk has increased significantly since initial recognition). The lifetime expected losses or the simplified approach is required for receivables that result from exchange and non-exchange transactions. A different approach applies to purchased or originated credit-impaired financial assets and accounting policy choices apply to lease receivables. Simplifications on the accounting treatment of credit-impaired short-term receivables are available. Extensive disclosure requirements have also been added to PBE IPSAS 30 *Financial Instruments: Disclosures*.

PBE-specific issues addressed

PBE IPSAS 41 has incorporated PBE-specific differences that currently exist between the requirements in NZ IAS 39 and PBE IPSAS 29 (e.g. requirements for concessionary loans and guidance on initial recognition of financial assets arising from non-exchange transactions). Many of these requirements are similar except that PBE IPSAS 41 contains guidance on how to distinguish concessionary loans from originated credit-impaired loans. If a concessionary loan is also originated credit-impaired, both the credit losses and concessionary element are recognised as concession.

Alignment to existing PBE Standards has been addressed by the IPSASB in its own financial instrument standard and is carried by the NZASB into PBE IPSAS 41 – e.g. there is no PBE Standard-equivalent for NZ IFRS 13 *Fair Value Measurement* or NZ IFRS 15 *Revenue from Contracts with Customers*.

Differences between PBE IPSAS 41 and PBE IFRS 9

The majority of the requirements in PBE IPSAS 41 are identical or almost identical to the requirements in PBE IFRS 9. However, there are general and specific differences between the two standards.

PBE IPSAS 41 is more closely based on for-profit entities' financial instruments standard compared to PBE IFRS 9 (e.g. PBE IPSAS 41 requires simplified approach for trade receivables while PBE IFRS 9 provides accounting policy choices). PBE IPSAS 41 incorporates some of the narrow scope amendments made to other IFRS Standards relating to financial instruments over recent years or recent interpretations (e.g. prepayment features with negative compensation, offsetting financial assets and financial liabilities and extinguishing financial liabilities with equity instruments).

Included in PBE IPSAS 41 are the transition provisions for those entities that have early adopted PBE IFRS 9.

Consequential amendments

Consequential amendments affecting a number of standards including PBE IPSAS 30 can be found in Appendix D of PBE IPSAS 41 and should be considered. These have been issued with the same effective date as PBE IPSAS 41.

Effective date

PBE IPSAS 41 is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
PBE IFRS 17 *Insurance Contracts*	1 Jan 2022	N/A	O	N/A	O	N/A	O

The NZASB has issued PBE IFRS 17 with a scope modification to limit its application to Tier 1 and Tier 2 not-for-profit PBEs.

PBE IFRS 17, when applied by not-for-profit PBEs, supersedes PBE IFRS 4 *Insurance Contracts*. PBE IFRS 17 is closely based on NZ IFRS 17 *Insurance Contracts*. The scope of PBE IFRS 17 differs from PBE IFRS 4 because it introduces:

- a requirement that in order to apply the insurance standard to investment contracts with discretionary participation features, an entity has to also issue insurance contracts; and
- an option to apply PBE IPSAS 9 *Revenue from Exchange Transactions* to customers to fixed-fee contracts, provided certain criteria are met.

PBE IFRS 17 requires not-for-profit PBEs to identify portfolios of insurance contracts which are subject to similar risks and managed together. Each portfolio shall be divided into a minimum of three groups:

- a group of contracts that are onerous at initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

A not-for-profit PBE is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio would fall into different groups only because law or regulation constrains the not-for-profit PBE's practical ability to set a different price or level of benefits for policyholders with different characteristics, the not-for-profit PBE may include those contracts in the same group.

The standard measures insurance contracts either under the general model or a simplified version of this called *Premium Allocation Approach*.

The general model is defined such that at initial recognition an entity shall measure a group of contracts at the total of:

- the amount of the fulfilment cash flows ("FCF"), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money ("TVM") and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and
- the contractual service margin ("CSM").

On subsequent measurement, the carrying amount shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims is measured as the FCF related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the *premium allocation approach* on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

The new standard may also result in changes to presentation in the statement of financial performance.

New Pronouncement	Effective date*	Year ending				Interim ending	
		Jun 2019		Sep 2019		Sep 2019	
		PS	NFP	PS	NFP	PS	NFP
A not-for-profit PBE shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach. At the date of initial application of the standard, those not-for-profit PBEs already applying PBE IPSAS 41 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the standard. PBE IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted for entities that apply PBE IPSAS 41 on or before the date of initial application of PBE IFRS 17.							
Simple Format Reporting (Tiers 3 and 4)							
2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	1 Jan 2019	O	O	O	O	O	O
The scope of these omnibus amendments is as follows: • updates to align the terminology and concepts to align the requirements to the PBE Conceptual Framework issued in May 2016; • limited changes to clarify existing requirements; • the addition of a requirement to sign and date the performance report; • updates to reflect amendments from 2017 amendments to XRB A1 Application of accounting standards, the requirements are explained further on page 2 of this alert; and • minor editorial amendments and corrections to glossaries to update for definitions related to PBE IPSAS 34 *Separate Financial Statements* and 35 *Consolidated Financial Statements* which were not updated when those standards were issued in January 2017.							

Appendix A – Shedding light on the disclosures required

PBE Standards require disclosures in relation to all the new or revised Standards and Interpretations that have had or may have a material impact on the annual financial report of the entity, **whether they have been adopted or not.** The requirements for interim financial reports are less onerous but must still be considered.

The disclosure requirements surrounding new or revised accounting pronouncements are specified by:

- for annual reporting periods – PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- for interim reporting periods – PBE IAS 34 *Interim Financial Reporting.*

Entities reporting under RDR (Tier 2 entities) are permitted exemptions from certain disclosures as noted below.

What disclosures are required?

Applicability of new or revised pronouncement	Summary of disclosures required	
	Annual financial report	Interim financial report
Initial mandatory or voluntary application of a new or revised pronouncement	The relevant pronouncement, the nature of the change in accounting policy, details of any transitional provisions, line-by-line analysis of the effect of the change in policy on the financial statements and the impacts on earnings per share. *Tier 2 entities would not need to disclose details of transitional provisions.* (PBE IPSAS 3.33) In addition, each standard may have specific transitional provisions which the entity needs to comply. When initial application has not had a material impact on the financial statements (and is also not expected to have a material impact in future periods), an entity may wish to include a generic disclosure such as: *"All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements."*	The nature and effect of any change in accounting policy compared with the most recent annual financial report. (PBE IAS 34.16A(a)) PBE IAS 34 does not specify the level of detail of the disclosures required, and accordingly the level of detail may be less than is presented in an annual financial report in accordance with PBE IPSAS 3. However, best practice might suggest that the requirements of PBE IPSAS 3 be used as a guide.

Applicability of new or revised pronouncement	Summary of disclosures required	
	Annual financial report	**Interim financial report**
Pronouncement on issue but not adopted	The financial report must disclose which pronouncements have been issued but not adopted in the financial report, when the pronouncements have mandatory application, when those pronouncements are going to be applied by the entity and the possible impact on the entity's financial report (where known or reasonably estimable). The tables within the body of this update could be reviewed to identify such pronouncements for periods ending 30 June 2019 or 30 September 2019 (updated to 13 September 2019). When initial application is genuinely not expected to have a material impact on the financial statements, an entity may wish to include a generic disclosure such as: *"There are a number of Standards, Amendments and Interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become mandatory. None are expected to result in a material impact on the Company's financial statements."* *Tier 2 entities are exempt from these disclosures.* (PBE IPSAS 3.35-36)	The impacts of new or revised accounting pronouncements that have not been early adopted are not explicitly required to be disclosed in interim financial reports. Entities should consider making additional disclosures where the effects of these pronouncements are expected to be material and those effects have not been previously disclosed in the prior annual financial report. *Tier 2 entities are exempt from these disclosures in an annual financial report, and accordingly would also be exempt at the interim period.*

Deciding on the early adoption of Interpretations

Interpretations that merely interpret the requirements of existing Standards are often considered best practice and so would ordinarily be adopted at an entity's next reporting date or at the mandatory adoption date.

Other Interpretations that effectively introduce new recognition and measurement requirements not explicitly covered under existing Standards might not ordinarily be early adopted, particularly where they change established industry practice and/or require substantial effort to implement.

Accordingly, where an Interpretation is on issue but is not yet mandatory, entities should carefully consider the requirements of each Interpretation and its potential impacts when making a decision whether early adoption is appropriate.

Appendix B –Omnibus Amendments to PBE Standards

This appendix includes a list of the Standards affected and subject matters of the amendments passed in the 2018 *Omnibus Amendments to PBE Standards*:

PBE Standard	Subject of amendment
PBE IPSAS 2 *Cash Flow Statements*	The amendments require disclosures that allow users of financial statements to evaluate changes in liabilities which arise from financing activities. Illustrative examples for public sector and not-for-profit entities have been included in the amendments to demonstrate how to meet the objective; namely, to improve the information provided by entities about their financing activities.
PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*	The amendments provide guidance on determining the date of a transaction where advance consideration is received or paid in a foreign currency. The following consensus was reached: • the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability relating to the payment or receipt of advance consideration; and, • where there are multiple receipts or payments in advance, then there is a separate date of transaction for each receipt or payment.
PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*	The foreign currency transactions and advance consideration has been added as one of the exemptions in transition to PBE Standards.
PBE IPSAS 5 *Borrowing Costs*	The amendments clarify that when calculating the capitalisation rate on general borrowings, any specific borrowing which remains outstanding after the related asset is ready for its intended use or sale shall be included in the calculation.
PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies* and **PBE IPSAS 22** *Disclosure of Financial Information about the General Government Sector*	The term "primary financial statements" (which is not defined in IPSAS) has been replaced with the term "financial statements" (which is a defined term).
PBE IPSAS 16 *Investment Property*	The amendments clarify that a transfer to or from investment property shall occur only when a property meets or ceases to meet the definition of an investment property and when there is evidence of a change in use of the property. In addition, the list of circumstances in which a transfer occurs is re-characterised as a non-exhaustive list of examples to be consistent with this principle.
PBE IPSAS 34 *Separate Financial Statements*	This is a correction of a requirement for a controlling entity which is not itself an investment entity and is required to apply the requirements of paragraph 58 of PBE IPSAS 35 *Consolidated Financial Statements* [which is to (i) measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and (ii) consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity] to disclose its accounting policy choice for measuring the investment in the investment entity in its separate financial statements.
PBE IPSAS 36 *Investments in Associates and Joint Ventures*	The amendments clarify that upon initial recognition, a venture capital organisation, or a mutual fund, unit trust and similar entities can elect to measure investments in associate or joint venture at fair value through surplus or deficit on an investment-by-investment basis.
PBE IPSAS 37 *Joint Arrangements*	The amendment clarifies that when an entity obtains control of a business that is a joint operation, then it does not remeasure previously held interests in that business.
PBE IPSAS 39 *Employee benefits*	The amendments require that when a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendment also clarifies the effect that plan amendment, curtailment or settlement has on the requirements regarding the asset ceiling.

PBE Standard	Subject of amendment
PBE IFRS 3 *Business Combinations*	The amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
PBE IAS 12 *Income Taxes*	The amendments clarify that all income tax consequences of dividends should be recognised in surplus or deficit, other comprehensive revenue and expense or net assets/equity according to where the entity originally recognised those past transactions/events.
PBE IPSAS 38 *Disclosure of Interests in Other Entities*	The amendment clarifies that PBE IPSAS 38 applies to an entity's interests in controlled entities, joint arrangements, associates and unconsolidated structured entities classified (or included in a disposal group that is classified) as held for sale or held for distribution or discontinued operations in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the entity is not required to disclose summarised financial information for that controlled entity, joint venture or associate in accordance with paragraphs AG10-AG16.

(Applicable for periods beginning on or after 1 January 2019 except for the amendments to PBE IPSAS 2, which are applicable for periods beginning on or after 1 January 2021.)

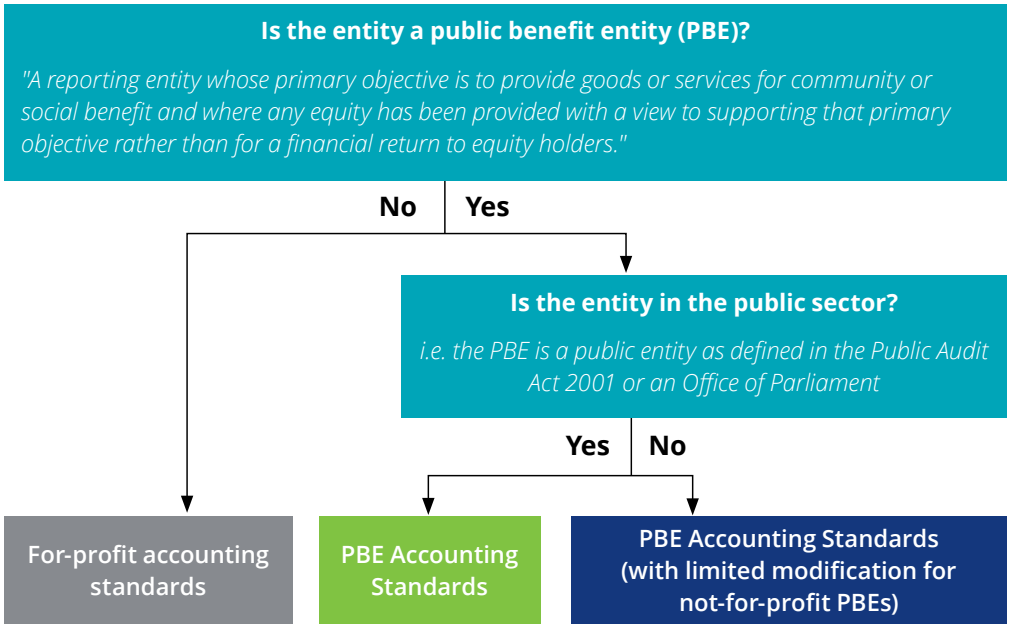
Appendix C - The New Zealand Accounting Standards Framework

The Accounting Standards Framework is a two sector (for-profit and PBE), multi-tiered Framework. This approach has been adopted in order to meet the differing information needs of each sector's users of financial statements. The framework for PBEs is based on International Public Sector Accounting Standards (IPSAS).

XRB A1 *Application of the Accounting Standards Framework* sets out the tiers for reporting, the standards that apply to each tier and the requirements for transitioning between tiers. Entities will need to carefully consider which tier applies.

2019 Amendments to XRB A1 Appendix A was issued to improve the guidance for determining whether an entity is a for-profit or PBE. The amendments include clarifications to the guidance on the definition of a PBE, new indicators and merging of existing indicators to be considered in determining whether an entity is a PBE, paragraphs on conflicting indicators to explain how to use professional judgement, and revised and new illustrative examples.

The following flowchart summarises which suite of standards applies:



The Accounting Standards Framework for PBEs consists of the following suites of standards:

Accounting Standards Framework for Public Benefit Entities		
	Public sector PBEs	**Not-for-profit PBEs**
Tier 1	**PBE Standards** Public accountability[1], or Large (expenses[2] > $30m)	PBE Standards Public accountability[1], or Large (expenses[2] > $30m)
Tier 2	**PBE Standards RDR** Non-publicly accountable and non-large Elect to be in Tier 2	**PBE Standards RDR** Non-publicly accountable and non-large Elect to be in Tier 2
Tier 3	**Simple Format (Accrual) (PS)** Non-publicly accountable & expenses[2] ≤ $2 million Elect to be in Tier 3	**Simple Format (Accrual) (NFP)** Non-publicly accountable and expenses[2] ≤ $2 million Elect to be in Tier 3
Tier 4	**Simple Format (Cash) (PS)[3]** Entities allowed by law to use cash accounting Elect to be in Tier 4 Non-GAAP standard	**Simple Format (Cash) (NFP)[3]** Entities allowed by law to use cash accounting Elect to be in Tier 4 Non-GAAP standard

[1] Definition of 'public accountability':

- Entities that meet the International Accounting Standards Board's (IASB) definition of public accountability:
  - entities that have debt or equity instruments that are traded, or that will be traded, in a public market; or
  - entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- Entities deemed to be publicly accountable. An entity would be deemed to be publicly accountable in the New Zealand context if:
  - it is an FMC reporting entity or a class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013 (FMCA 2013); or
  - it is an FMC reporting entity or class of FMC reporting entities that is considered by the FMA to have a higher level of public accountability by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the FMCA 2013; or
  - it is an issuer under the transitional provisions of the Financial Reporting Act 2013.

For information on which entities the FMA has designated as having 'higher or lower public accountability' refer to the link:

https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information/#accountability

[2] 'Expenses' are the total expenses (including losses and grant expenses) recognised and measured in accordance with the relevant tier's standards.

[3] In order for an entity to be able to report under Tier 4 PBE Accounting Standards, an entity must, among other requirements, meet the legislative size threshold to be a "specified not-for-profit entity". An amendment to XRB A1 (effective for annual periods beginning on or after 1 January 2018, with early application permitted) clarifies that when applying the legislative size threshold entities must consider combined total operating payments of the entity **and all its controlled entities**.

The above Framework applies when an entity is required to comply with NZ GAAP or a non-GAAP Standard. Requirements to comply with GAAP or a non-GAAP Standard are specified in legislation but may be included in other arrangements (e.g. contracts).

The XRB's website reflects the multiple sets of accounting standards that are available, so check you are using the right version. You can find the PS PBE standards **here** and the NFP PBE standards **here**.

New Zealand Directory

Auckland Private Bag 115033, Shortland Street, Ph +64 (0) 9 303 0700, Fax +64 (0) 9 303 0701
Hamilton PO Box 17, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810
Rotorua PO Box 12003, Rotorua, 3045, Ph +64 (0) 7 343 1050, Fax +64 (0) 7 343 1051
Wellington PO Box 1990, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023
Christchurch PO Box 248, Ph +64 (0) 3 379 7010, Fax +64 (0) 3 366 6539
Dunedin PO Box 1245, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650
Queenstown PO Box 794 Ph +64 (0) 3 901 0570, Fax +64 (0) 3 901 0571
Internet address http://www.deloitte.co.nz

This publication is intended for the use of clients and personnel of Deloitte. It is also made available to other selected recipients. Those wishing to recieve this publication are asked to communicate with:

The Editor,
Accounting Alert

Private Bag 115033,
Shortland Street,
Auckland, 1140

Ph +64 (0) 9 309 4944
Fax +64 (0) 9 309 4947