

New Accounting Standards and Interpretations for Tier 1 Public Sector and Not-for-Profit Public Benefit Entities

For 31 March 2021 year-end reports



New and changed requirements

We provide you with an overview of the accounting pronouncements issued as of 31 March 2021 that:

- ▶ **Must** be applied for the first time for 31 March 2021 year-ends. **They are contained in yellow boxes.**
- ▶ **May** be applied early for 31 March 2021 year-ends. **They are contained in grey boxes.**

Implementing new accounting standards often impacts entities beyond their financial reporting function. We hope that this publication will:

- ▶ Support you in having better conversations about accounting changes with your stakeholders
- ▶ Help you respond in a timely manner to all accounting changes in your next financial report
- ▶ Keep you focused on future changes in financial reporting and their impact on your implementation efforts

Accounting change disclosures

Financial statements are required to:

- ▶ Present the impact of initial application of new accounting standards applied
- ▶ Disclose the possible impact of initial application of forthcoming accounting standards not yet applied, or otherwise indicate the reason for not doing so

Please note, Tier 2 public benefit entities applying the *Reduced Disclosure Requirements* are not required to disclose the possible impact of accounting pronouncements issued but not yet effective.

Remain alert to further changes

This publication is updated as of 31 March 2021. Any pronouncements issued afterwards (up until the date of authorisation of your financial report) must also be considered. Our [Eye on Reporting](#) publications will keep you informed of further changes.

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¹ For full access to PBE Standards please visit <https://www.xrb.govt.nz/>.

² Effective for annual reporting periods beginning on or after this date.

³ Assuming that the entity has not early adopted the pronouncement according to specific provisions in the Standard.

New pronouncements issued as of 31 March 2021

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⁴ PBE IFRS 17 *Insurance Contracts* and its amendments only apply to not-for-profit public benefit entities.

Financial instruments

Amendments to PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41, PBE IFRS 9 - PBE Interest Rate Benchmark Reform

Effective for annual reporting periods beginning on or after 1 January 2020

This amending standard is based on amendments issued by the IASB. The objective of the amendments is to provide temporary relief to enable hedge accounting to continue during a period of uncertainty before the replacement of an existing interest rate benchmark, such as interbank offered rates (IBORs), with an alternative nearly risk-free interest rate.

The amendments affect PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41 and PBE IFRS 9 and modify some specific hedge accounting requirements.

In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2020 or when an entity applies those standards, whichever comes first.

Amendments to PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41, PBE IFRS 9 - PBE Interest Rate Benchmark Reform - Phase 2

Effective for annual reporting periods beginning on or after 1 January 2021

The amendments address the accounting issues that arise when financial instruments that reference Interbank Offered Rates (IBOR) transition to nearly risk-free rates. The main elements of the amendments are that the effective interest rate on financial instruments must be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis.

The amendments also introduced some significant new disclosure requirements.

Early adoption is permitted. In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2021 or when an entity applies those standards, whichever comes first.

Financial instruments

PBE IPSAS 41 Financial Instruments

Effective for annual reporting periods beginning on or after 1 January 2022

This Standard, when applied, supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and supersedes PBE IFRS 9 *Financial Instruments*.

This new standard:

- ▶ Introduces a classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held
- ▶ Applies a forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing
- ▶ Introduces a hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy

Requirements on transition depend on whether the entity is transitioning from PBE IPSAS 29 or PBE IFRS 9.

Transitional provisions require mostly retrospective application with some exceptions.

Along with PBE IPSAS 41, *Effective date of PBE IFRS 9* was also issued. This amendment limits the early adoption of PBE IFRS 9 to annual periods beginning before 1 January 2020. For periods beginning on or after that date, entities can only early adopt PBE IPSAS 41.

Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact.

Group accounts

PBE IPSAS 40 PBE Combinations

Effective for annual reporting periods beginning on or after 1 January 2021

This Standard was issued in July 2019 and replaces PBE IFRS 3 *Business Combinations*.

PBE IFRS 3 excludes combinations under common control and combinations arising from local authority reorganisations from its scope.

The new Standard has a broader scope, and establishes requirements for accounting for both acquisitions and amalgamations (using the modified pooling of interests method).

In general, the Standard is to be applied prospectively to PBE combinations for which the amalgamation date or acquisition date is on or after 1 January 2021.

Earlier application is permitted.

Income taxes

Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)

Effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

Amendments to PBE IAS 12 *Income Taxes*

The amendments incorporate guidance based on that in NZ IFRIC 23 *Uncertainty over Income Tax Treatments* to clarify recognition and measurement requirements when there is uncertainty over income tax treatments.

The amendments address the following:

- ▶ Whether an entity considers uncertain tax treatments separately. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▶ How an entity considers changes in facts and circumstances

On first time adoption, entities can choose to apply these amendments either retrospectively (restating comparatives) by applying PBE IPSAS 3, or retrospectively by adjusting the impact via retained earnings at date of initial application with comparatives not being restated.

Amendments to PBE FRS 47 First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS

When developing IFRIC 23 *Uncertainty over Income Tax Treatments*, the IFRS Interpretations Committee observed that retrospective application of IFRIC 23 without the use of hindsight would often be impossible for entities. The Committee also observed that if a first-time adopter's date of transition to IFRS Standards is before the date IFRIC 23 is issued, the first-time adopter may face the same hindsight difficulties as entities that already apply IFRS Standards. Consequently, IFRS 1 provides that first-time adopters whose date of transition to IFRS Standards is before 1 July 2017 are not required to present in their first IFRS financial statements comparative information that reflects IFRIC 23.

The same provision was included in NZ IFRS 1 when NZ IFRIC 23 *Uncertainty over Income Tax Treatments* was issued in August 2017. The NZASB therefore included this provision in PBE FRS 47 when issuing *Uncertainty over Income Tax Treatments (Amendments to PBE IAS 12)*, albeit referring to a date of transition to PBE Standards before 1 October 2019.

Insurance contracts

PBE IFRS 17 Insurance Contracts (only applies to not-for-profit public benefit entities)

Effective for annual reporting periods beginning on or after 1 January 2023

This Standard was issued in July 2019 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

PBE IFRS 17 applies to not-for-profit PBEs ONLY and is applied to:

- ▶ Insurance contracts, including reinsurance contracts issued by an entity
- ▶ Reinsurance contracts held by an entity and
- ▶ Investment contracts with discretionary participation features issued by the entity, provided the entity also issues insurance contracts

PBE IFRS 17 will be mandatory from 1 January 2023 for not-for-profit PBEs, with early adoption permitted for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17.

Amendments to PBE IFRS 17 Insurance Contracts

Effective for annual reporting periods beginning on or after 1 January 2023

To simplify implementation of PBE IFRS 17, the NZASB made the following key amendments:

- ▶ Deferring the effective date of PBE IFRS 17 for insurers by one year to annual periods beginning on or after 1 January 2023

- ▶ Excluding additional contracts from the scope of PBE IFRS 17, such as loans that include an agreement by the lender to compensate the borrower - by waiving some or all the payments due from the borrower - if a specified uncertain event occurs (for example, if the borrower dies), and credit card contracts that provide insurance coverage for purchases made using the credit card
- ▶ Permitting policy acquisition costs (such as commissions paid to brokers) to be allocated to related expected contract renewals, recognising those costs as an asset until contract renewal takes place
- ▶ Requiring the expected profit on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment activity services
- ▶ Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through profit or loss, are used to mitigate the effects of the time value of money and other financial risks
- ▶ Reducing a potential accounting mismatch for reinsurance contracts by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract, or on the addition of further onerous contracts to that group
- ▶ Simplifying the presentation of insurance contract assets and liabilities in the statement of financial position using broader portfolios of insurance contracts rather than narrower groups of insurance contracts
- ▶ Introducing additional transition relief mechanisms

Other topics

Amendments to PBE IPSAS 1 - Going Concern Disclosures

Effective for annual reporting periods ending on or after 30 September 2020

These amendments introduce more specific disclosure requirements about going concern assessments to help preparers of financial statements to provide relevant and transparent information to users of those financial statements about the matters considered when making such assessments.

2019 Amendments to XRB A1 Appendix A When is an Entity a Public Benefit Entity?

Effective for annual reporting periods beginning on or after 1 January 2020

This amendment updates XRB A1 Appendix A, which provides guidance on determining whether an entity is classified as a PBE.

The guidance on the definition of a PBE is amended to clarify that:

- ▶ Both parts of the definition of a PBE need to be assessed when determining an entity's classification
- ▶ The classification as a PBE or for-profit entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level
- ▶ It is possible for an entity to be classified as a for-profit entity for financial reporting purposes and to be a registered charity

Other minor amendments have been made, and a new illustrative example has been added.

Other topics

Amendments to PBE IPSAS 2 Cash Flow Statements

Effective for annual reporting periods beginning on or after 1 January 2021.

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Earlier application is permitted.

There is no requirement to provide comparative information for preceding periods.

Amendments to PBE FRS 47 - Withdrawal of PBE FRS 46

Revocation of PBE FRS 46

Effective for annual reporting periods beginning on or after 1 January 2021.

PBE FRS 46 and PBE FRS 47 were developed to address the needs of entities adopting PBE Standards for the first time. There are now few entities that fall within the scope of PBE FRS 46 (i.e. entities that previously applied NZ IFRS and are transitioning to PBE Standards).

Further, the increasing differences between NZ IFRS and PBE Standards mean that the approach taken in PBE FRS 46 is no longer the most appropriate approach for entities moving from NZ IFRS to PBE Standards.

Consequently, the NZASB issued *Revocation of PBE FRS 46*, and issued *Amendments to PBE FRS 47*, as a result of the withdrawal of PBE FRS 46, in February 2020.

The Amendments to PBE FRS 47 mainly include a change in scope meaning that PBE FRS 47 will be the sole standard for first time adoption of PBE Standards by Tier 1 and Tier 2 PBEs.

The revocation and amendments are effective from 1 January 2021, with early application permitted.

Other topics

PBE FRS 48 Service Performance Reporting

Effective for annual reporting periods beginning on or after 1 January 2022

This Standard was issued in November 2017 and establishes requirements for PBEs to select and present service performance information.

PBEs within the scope of this Standard will need to provide users with:

- ▶ Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this
- ▶ Information about what the entity has done during the reporting period in working towards its broader aims and objectives

This Standard applies to:

(a) All not-for-profit public benefit entities

(b) Public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP). If an entity is required by legislation to report service performance information on only some of its activities, this Standard applies only to those activities.

Earlier application is permitted.

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