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

For 30 September 2020 year-end reports

EY
Building a better working world

New and changed requirements

We provide you an overview of the accounting pronouncements issued as of 30 September 2020 that:

- **Must** be applied for the first time for 30 September 2020 year-ends. They are contained in yellow boxes.
- **May** be applied early for 30 September 2020 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 30 September 2020. 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.

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New pronouncements issued as of 30 September 2020

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[4] The *Effective date of PBE IFRS 9* was issued in March 2019. 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.

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

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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.

PBE IFRS 9 Financial Instruments

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

PBE IFRS 9 introduces into PBE Standards the reforms introduced by NZ IFRS 9 in the for-profit sector.

This standard replaces most of the requirements of PBE IPSAS 29.

This new standard:

- Introduces a new classification model for financial assets, which may cause certain financial assets to be classified and measured differently as compared to PBE IPSAS 29
- Introduces a more flexible and less rules-based hedge accounting model, which allows hedge accounting to be applied to a wider range of risk management strategies
- Introduces a more forward-looking impairment model for financial assets, based on expected credit loss, which may cause certain assets to be impaired earlier than they would be under the current "incurred loss" model
- Requires PBEs to provide additional disclosures about hedge accounting and impairment

Amendment to PBE IFRS 9 *Effective date of PBE IFRS 9* was issued in March 2019. 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.

Once the entity adopted PBE IPSAS 41, or after effective date of PBE IPSAS 41 from 1 January 2022, PBE IPSAS 41 will supersede PBE IFRS 9.

Early application of the standard is permitted before 1 January 2020.

Financial instruments

Amendments to PBE IPSAS 29, PBE IPSAS 30, PBE IPSAS 41, PBE IFRS 9 – 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.

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 2020 or when an entity applies those standards, whichever comes first.

Group accounts

PBE Standards on interests in other entities:

PBE IPSAS 34 Separate Financial Statements

PBE IPSAS 35 Consolidated Financial Statements

PBE IPSAS 36 Investments in Associates and Joint Ventures

PBE IPSAS 37 Joint Arrangements

PBE IPSAS 38 Disclosure of Interests in Other Entities

Effective for annual reporting periods beginning on or after 1 January 2019

These standards were issued to incorporate the equivalent standards issued by the IPSASB into the PBE Standards, which reflect the reforms introduced by NZ IFRS 10, 11 and 12 in the for-profit sector in 2011.

These standards replace PBE IPSAS 6 (both the public sector and not-for-profit versions), PBE IPSAS 7 and PBE IPSAS 8.

The new standards:

- Introduce an amended definition of control and extensive guidance on control (and continues to require all controlled entities to be consolidated in the controlling entity's financial statements, except as noted below)
- Introduce the concept of "investment entity", exempts investment entities from consolidating controlled entities, and requires investment entities to recognise controlled entities at fair value through surplus or deficit instead
- Introduce a new classification of joint arrangements - joint operations and joint ventures, set out the accounting requirements for each type of arrangement and remove the option of using the proportionate consolidation method
- Require PBEs to disclose information on their interests in other entities, including some additional disclosures that are not currently required under PBE IPSAS 6, 7 and 8.

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.

Group accounts

2018 Omnibus Amendments to PBE Standards

Effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Amendments to PBE IPSAS 34 *Separate Financial Statements*

The amendments align the requirements in PBE IPSAS 34 with the corrected requirements in IPSAS 34 in relation to a controlling entity with controlled investment entities which is not itself an investment entity.

Amendments to PBE IPSAS 36 *Investments in Associates and Joint Ventures*

The amendments clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, on initial recognition, to measure investments in an associate or joint venture at fair value through surplus or deficit separately for each associate or joint venture.

Amendments to PBE IPSAS 37 *Joint Arrangements*

An entity that participates in, but does not have joint control of, a joint operation might subsequently obtain joint control. The activity of the joint operation might constitute a business as defined in PBE IFRS 3. Although such a transaction changes the nature of an entity's interest in the joint operation, it does not result in a change to the group boundaries as defined by what businesses are controlled. Accordingly, the amendments to PBE IPSAS 37 *Joint Arrangements* clarify that the previously held interest in that joint operation is not remeasured.

Amendments to PBE IPSAS 38 *Disclosure of Interests in Other Entities*

The amendments clarify the scope of PBE IPSAS 38 by specifying which disclosure requirements in the Standard apply to an entity's interests in other entities that are classified

(or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Amendments to PBE IFRS 3 *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that was a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interest in the assets and liabilities of the joint operation at fair value. The resulting gain or loss is recognised in profit or loss or other comprehensive income, as appropriate. A transaction gaining control is a significant change in the nature of the interest in the joint operation, hence remeasuring the previously held interest at fair value becomes necessary.

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

Earlier application is permitted, and certain transition reliefs are available. If an entity applies these amendments for an earlier period, it shall disclose that fact.

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.

Amendments to PBE IAS 12 (Part of 2018 Omnibus Amendments to PBE Standards)

Effective for annual reporting periods beginning on or after 1 January 2019

The amendments clarify that the requirements to recognise the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. Earlier application is permitted.

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

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Employee Benefits

PBE IPSAS 39 Employee Benefits

Effective for annual reporting periods beginning on or after 1 January 2019

PBE IPSAS 39 *Employee Benefits* replaces the current standard on employee benefits, PBE IPSAS 25. PBE IPSAS 39 is based on IPSAS 39, which was issued by the IPSASB to update its standards for the amendments to IAS 19 made by the IASB during the 2011-2015 period.

The new standard:

- Removes the option to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the "corridor approach")
- Eliminates some of the presentation options for actuarial gains and losses arising from defined benefit plans (which enhances comparability)
- Introduces the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans
- Structures the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans

In general, entities must apply PBE IPSAS 39 retrospectively.

Amendments to PBE IPSAS 39 (Part of 2018 Omnibus Amendments to PBE Standards)

Effective for annual reporting periods beginning on or after 1 January 2019

The amendments clarify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated actuarial assumptions to determine current service cost and net interest for the period following such an event when the entity remeasures its net defined benefit liability (asset) in accordance with PBE IPSAS 39.

Impairment

Amendments to PBE IPSAS 21 and PBE IPSAS 26 – Impairment of Revalued Assets

Effective for annual reporting periods beginning on or after 1 June 2019

The amendments amend the scope of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* to include assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets* ("revalued assets").

As a result of the amendments, revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model.

However, where an impairment loss is recognised for an asset (or group of assets) that is revalued, an entity is not necessarily required to revalue the entire class of assets to which that impaired asset (or group of assets) belongs.

The amendments also clarify, that for revalued assets, impairment losses and reversals thereof are accounted for in the same way as revaluation decreases and increases.

Consequential amendments were also made to PBE IPSAS 17 and PBE IPSAS 31.

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.

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.

Earlier application of the revised Appendix A is permitted.

Other topics

2018 Omnibus Amendments to PBE Standards

Effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted

Amendments to PBE IPSAS 4 The Effects of Changes in Foreign Exchange Rates

In December 2016 the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

IFRIC 22 addresses how to determine the exchange rate to use on the initial recognition of an asset, revenue or expense when an entity had paid or received advance consideration in foreign currency prior to recognising the asset, revenue or expense.

The interpretation clarifies that, for the purpose of determining the exchange rate to use on initial recognition of the asset, expense or income (or part of it), the date of the transaction is the date on which the entity initially recognised the related non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated the requirements of IFRIC 22 in IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates*. The NZASB amended PBE IPSAS 4 in *2018 Omnibus Amendments to PBE Standards*.

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

The NZASB amended PBE FRS 47 to incorporate the requirements of IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (included in Appendix A of PBE IPSAS 4 *The Effects of Changes in Foreign Currency Exchange Rates*). The amendments introduce an exemption whereby a first-time adopter need not apply Appendix A of PBE IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognised before the date of transition to PBE Standards.

Amendments to PBE IPSAS 5 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

Amendments to PBE IPSAS 10 Financial Reporting in Hyperinflationary Economies

In November 2018 the IPSASB issued *Improvements to IPSAS, 2018* which amended IPSAS 10 *Financial Reporting in Hyperinflationary Economies* by replacing the term "primary financial statements" (which is not defined in IPSAS) with the term "financial statements" (which is a defined term). The NZASB amended PBE IPSAS 10 in 2018 *Omnibus Amendments to PBE Standards*.

Amendments to PBE IPSAS 16 Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments clarify that:

- A change in use of a property occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use
- A change in management's intentions for the use of a property does not, by itself, provide evidence of a change in use

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Other topics

***2018 Omnibus Amendments to PBE Standards* cont.**

Effective for annual reporting periods beginning on or after 1 January 2019.

Amendments to PBE IPSAS 22 Disclosure of Financial Information about the General Government Sector

In November 2018 the IPSASB issued *Improvements to IPSAS, 2018* which amended IPSAS 22 *Disclosure of Financial Information about the General Government Sector* by replacing the term "primary financial statements" (which is not defined in IPSAS) with the term "financial statements" (which is a defined term).

The NZASB amended PBE IPSAS 22 in *2018 Omnibus Amendments to PBE Standards*.

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.

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.

Earlier application is permitted.

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.

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