Accounting Alert

Quarterly update – Public Benefit Entities

Connect to what's new in financial reporting for June 2022

This quarterly update includes a high-level overview of new and revised financial reporting requirements that need to be considered by public benefit entities for annual and interim financial reporting periods ending on 30 June 2022. Information is also included for March 2022 year-ends for entities who are still finalising their financial statements.

Financial reporting standards update

Three new financial reporting standards or amendments are effective for financial years ending 30 June 2022, including **PBE IPSAS 40 *PBE Combinations***. Two new standards are effective for interim periods ending 30 June 2022, including **PBE FRS 48 *Service Performance Reporting*** and **PBE IPSAS 41 *Financial Instruments***. All entities will need to assess the impact of the new standards and amendments and ensure that relevant policies are in place to implement and comply with the changes.

There are three significant new standards which are not required for June 2022 annual financial statements, but which entities may wish to consider for early adoption, including **PBE FRS 48 *Service Performance Reporting***, **PBE IPSAS 41 *Financial Instruments*** and **PBE IFRS 17 *Insurance Contracts*** (for not-for-profit PBEs only). All Tier 1 entities need to consider the new requirements and appropriate disclosure of these approved but not yet effective standards. PBE FRS 48 is effective for annual reporting periods beginning on or after 1 January 2022, so affected entities should start preparing now if they haven't already done so, because systems need to be in place to collect all necessary service performance information. Refer to Page 11 for further information.

Importance of disclosures

Judgement will be required to determine what additional disclosure is appropriate to explain the impact of changes the new standards and amendments introduce to the financial statements.

Climate disclosures

Financial statement preparers must consider the accounting implications of climate change as well as the appropriate disclosures to include in the entity's financial statements. See Page 13 for information about reflecting climate risk in financial statements.

The IFRS Interpretations Committee (IFRIC®) has published two agenda decisions clarifying how arrangements in respect of a specific part of cloud technology, **Software-as-a-Service** should be accounted for. Although specific to for-profit entities, public benefit entities (PBEs) should also consider the implications of the agenda decisions for their SaaS arrangements. Refer to our accounting alert here.

What's new?

Frequently Asked Questions Tier 1 & 2 (NFP)

The XRB has provided FAQs as general guidance for Tiers 1 and 2 not-for-profit entities. These FAQs include those that relate to accounting standards framework, accounting for donations, statement of service performance, deciding on materiality, low interest loans, etc. Find out more here

Spotlight

Entities should consider relevant disclosures in relation to the impact of the Government's responses to the delta and omicron variant outbreaks on their operations. Refer to page 10 of this publication for Covid-19 related resources.

The New Zealand Accounting Standards Framework

The Accounting Standards Framework is a two sector (for-profit and public benefit entities (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 PBE framework is based on International Public Sector Accounting Standards (IPSAS). Refer to Appendix B for the suite of standards that applies to PBEs.

XRB A1 *Application of the Accounting Standards Framework* (XRB A1) 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, to determine whether they will be required to apply PBE Standards or PBE Standards RDR. Each reporting period, entities should consider whether there have been any changes to their operations that would result in a change in reporting requirements. These could include changes resulting from higher or lower expenses causing the entity to cross the threshold between tiers.

You may find our framework publication, '**The New Zealand financial reporting landscape**' useful. This publication provides a summary of the legislative and accounting standards requirements for New Zealand entities and is available: here.

Coming soon

Service performance reporting will be mandatory for periods beginning on or after 1 January 2022 for Tier 1 and 2 not-for-profit PBEs and certain public sector PBEs. Entities should be designing their new statements and collecting the comparative information this year. Refer to page 11 of this publication for service performance reporting related resources and information.

What are the new and revised accounting pronouncements for June 2022?

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 table below outlines the new and revised pronouncements that are either to be applied for the first time for a 30 June 2022 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.

The summary of new pronouncements below was updated on 8 June 2022 for developments to that date.

New pronouncements	Effective date*	Year ending				Interim ending	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
PBE Standards (Tiers 1 and 2)							
PBE IPSAS 40 *PBE Combinations*	1 Jan 2021	M	M	M	M	M^2	M^2
PBE Interest Rate Benchmark Reform – Phase 2 (Amendments to **PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29** *and* **PBE IPSAS 30***)*	1 Jan 2021	M	M	M	M	M^2	M^2
2018 Omnibus Amendments to PBE Standards (**PBE IPSAS 2***)*	1 Jan 2021	M	M	M	M	M^2	M^2
PBE FRS 48 *Service Performance Reporting*	1 Jan 2022[Y]	O	O	O	O	M	M
PBE IPSAS 41 *Financial Instruments*	1 Jan 2022	O	O	O	O	M	M
PBE IFRS 17 *Insurance Contracts*	1 Jan 2023[Y]	N/A	O	N/A	O	N/A	O
Amendments to **PBE IFRS 17**	1 Jan 2023[Y]	N/A	O	N/A	O	N/A	O

Key

O Optional
M Mandatory – first time
M^2 Mandatory in a previous period

* Annual reporting periods beginning on or after
[Y] Effective date delayed due to Covid-19

1 Amendments to PBE FRS 47 *First-time Adoption of PBE Standards* have not been fully considered in this publication. First time adopters should consult the latest version of PBE FRS 47 when preparing their first financial statements in compliance with PBE Standards.

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	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 40 PBE Combinations	1 Jan 2021	M	M	M	M	M[2]	M[2]

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. A 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 is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

New pronouncement	Effective date*	Year ending				Interim ending	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
PBE Interest Rate Benchmark Reform – Phase 2 (Amendments to PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30)	1 Jan 2021	M	M	M	M	M[2]	M[2]
This is the second part of the two-phase project on interest rate benchmark reform. These amendments enable PBEs to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The amendments affect many entities and in particular those with financial assets or financial liabilities that are subject to interest rate benchmark reform and those that apply the hedge accounting requirements in PBE IPSAS 41, PBE IFRS 9 or PBE IPSAS 29 to hedging relationships that are affected by the reform. PBEs should apply the amendments retrospectively and reinstate the hedge relationships that were discontinued solely due to changes directly required by the reform. Early application is permitted.							
2018 Omnibus Amendments to PBE Standards (PBE IPSAS 2)	1 Jan 2021	M	M	M	M	M[2]	M[2]
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 FRS 48 Service Performance Reporting	1 Jan 2022	O	O	O	O	M	M
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. The NZASB issued an explanatory guide, **EG A10 Service Performance Reporting**, to help Tier 2 PBEs understand the requirements of PBE FRS 48 and think about how these requirements will be met. The *2020 Amendments to PBE FRS 48* clarifies that explanations of major variances are only required if PBEs report comparisons of actual and previously published prospective service performance information.							

New pronouncement	Effective date*	Year ending				Interim ending	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
PBE IPSAS 41 Financial Instruments	1 Jan 2022	O	O	O	O	M	M

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.

New pronouncement	Effective date*	Year ending				Interim ending	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
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. **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).							

<table>
<tr><th rowspan="3">New pronouncement</th><th rowspan="3">Effective date*</th><th colspan="4">Year ending</th><th colspan="2">Interim ending</th></tr>
<tr><th colspan="2">Mar 2022</th><th colspan="2">Jun 2022</th><th colspan="2">Jun 2022</th></tr>
<tr><th>PS</th><th>NFP</th><th>PS</th><th>NFP</th><th>PS</th><th>NFP</th></tr>
<tr><td> 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. </td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>PBE IFRS 17 Insurance Contracts</td><td>1 Jan 2023</td><td>N/A</td><td>O</td><td>N/A</td><td>O</td><td>N/A</td><td>O</td></tr>
<tr><td> 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 fixed-fee contracts with customers, 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 the 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").
</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
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New pronouncement	Effective date*	Year ending				Interim ending	
		Mar 2022		Jun 2022		Jun 2022	
		PS	NFP	PS	NFP	PS	NFP
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. 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. On 13 August 2020, the NZASB issued *Amendments to PBE IFRS 17* which includes deferral of the effective date by one year from annual periods beginning on or after 1 January 2022 to 1 January 2023. Early application is permitted for entities that apply PBE IPSAS 41 on or before the date of initial application of PBE IFRS 17. Other amendments to ensure alignment of PBE IFRS 17 with NZ IFRS 17 are discussed below.							
Amendments to PBE IFRS 17	1 Jan 2023	N/A	O	N/A	O	N/A	O
The other amendments to PBE IFRS 17 include the following: • Scope exclusion for credit card contracts and similar contracts and optional scope exclusion for loan contracts with insurance coverage limited to the loan amount; • Recognition of insurance acquisition cash flows relating to expected contract renewals, including guidance for insurance acquisition cash flows recognised in a PBE combination; • Application of PBE IFRS 17 in interim financial statements; • Allocation of CSM attributable to investment-return service and investment-related service; • Risk mitigation option using instruments other than derivatives; • Recovery of losses from underlying insurance contracts through reinsurance contracts held; • Presentation in the statement of financial position; • Transition issues: classification of contracts acquired in their settlement period and guidance on the restatement of the risk mitigation option applied in prior periods; and • Minor application issues.							

Deloitte Covid-19 resources

Global Accounting Considerations related to COVID-19

Deloitte Global has a dedicated web page which includes news items and resources in connection with COVID-19 developments that highlights some of the key accounting and disclosure issues to be considered by entities that may arise as a result of COVID-19 in preparing their financial statements.

Covid-19 video series

A series of webcasts (5 to 10 minutes long) is also available which presents certain key IFRS accounting considerations related to conditions that may result from the Covid-19 pandemic.

To review in more detail the accounting considerations related to the Covid-19 pandemic that may impact the financial statements, please refer to Deloitte's IFRS in Focus Newsletter **'Accounting Considerations related to the Coronavirus 2019 Disease'** here. Some sections will be applicable for PBEs where the PBE Standards are aligned with IFRS.


Deloitte.
IFRS in Focus

Other Covid-19 guidance

Several organisations have issued guidance for entities and their directors in preparing their financial statements and reminders on their responsibilities during the current economic environment.

Financial Markets Authority (FMA)

The FMA has released key findings from its review of financial reporting on areas of interest including significant accounting judgements and sources of estimation uncertainty, impact of new accounting standards and non-GAAP financial information. The document published also provides guidance for entities and directors in light of Covid-19 and reiterates FMA's focus on ensuring that entities provide meaningful disclosures around Covid-19. Find the document here.

External Reporting Board (XRB)

The XRB has issued four alerts to date as a response to the impact of Covid-19. Refer to the XRB COVID-19 Reporting information page here.

The first alert covers the likely impact of Covid-19 on audit reports including explanation of the types of audit reports (e.g. modified audit reports) which may be issued by auditors during the current economic environment.

The second alert highlights the importance of going concern disclosures in response to the impact of Covid-19 and the nature and extent of the disclosures depending on the entity's specific facts and circumstances. The XRB has also issued a third alert that is relevant for not-for-profit entities such as registered charities (Tier 1 and 2) in their assessment of going concern in the current economic environment. In addition, a series of FAQs was issued for not-for-profit Tier 3 entities which may be helpful in their assessment and reporting on their ability to continue operating.

The XRB's fourth alert explains in detail the auditors' reporting of key audit matters and use of emphasis of matter paragraphs in their audit reports in the current Covid-19 environment. Refer to the XRB's dedicated page on "COVID-19 Reporting information" for other implications on financial reporting and auditing.

International Accounting Standards Board (IASB)

The IASB has released the following educational material:

IFRS 9 and COVID-19: This document highlights requirements within IFRS 9 *Financial Instruments* that are relevant to entities in relation to the impact of the pandemic on the entities' accounting for expected credit losses. It does not change, remove nor add to, the requirements of IFRS 9. This educational material may also be relevant for PBEs that early adopted PBE IPSAS 41 *Financial Instruments* or PBE IFRS 9 *Financial Instruments.*

Going concern – a focus on disclosure: This document brings together the requirements in IFRS Standards relevant for going concern assessments. It does not change, remove nor add to, the requirements of existing IFRS Standards. It echoes the specific going concern disclosure requirements issued by the NZASB which were effective from annual periods ended 30 September 2020.

International Public Sector Accounting Standards Board (IPSASB)

COVID-19: Relevant IPSAS Accounting Guidance was issued to highlight the accounting implications arising from Covid-19 including the accounting considerations in relation to Governments' responses to the pandemic (e.g. economic packages). It does not constitute an authoritative pronouncement, nor does it intend to amend, or override the requirements of existing International Public Sector Accounting Standards (IPSASs) or provide further implementation guidance.

While PBE Standards are aligned with the IPSASs issued by the IPSASB, there are specific differences and standards which the NZASB has not issued in New Zealand. PBEs should always refer to the standards issued by the NZASB in assessing any transactions or other implications arising from the impact of COVID-19.

Statement of Service Performance

PBE FRS 48 outlines service performance reporting requirements for Tier 1 and Tier 2 PBEs. While many public sector PBEs are already providing service performance information, this type of reporting will be new for many entities. The Standard requires PBEs to provide information to their stakeholders explaining why the entity exists, what it aims to achieve over the medium to long term, and how it has performed during the current period in meeting its objectives.

The Standard is designed to apply to all sizes and types of PBEs. It outlines principles and high-level requirements that allow each entity the flexibility to determine the disclosures that will be most appropriate for their stakeholders. For this reason, there are no Tier 2 disclosure concessions. The lack of prescriptive requirements means that entities will need to apply significant judgement in determining the information to be provided.

Entities required to apply PBE FRS 48

This standard applies to all Tier 1 and Tier 2 not-for-profit PBEs. It applies to Tier 1 and Tier 2 Public Sector PBEs if they are legally required to provide service performance information in accordance with generally accepted accounting practice.

Key Disclosures

Why does the PBE exist? – the entity must provide contextual information about its purpose, which is likely to include some information relating to past and future periods (such as baseline data). This background information should be consistent with the entity's founding, governance, and planning documents (such as the mission statement).

The entity should also include information about how it operates. For example, does the entity deliver goods or services? Give grants to individuals or organisations? Collaborate with other entities?

What has the PBE accomplished? – The entity must report on its activities in the current period. Where an entity engages in a wide range of activities, judgement will be required to determine the measures that provide the most meaningful information to readers. Considerations include:

- The amount of focus placed on current year targets compared to reporting progress made towards long-term objectives.
- Which measures to report. A few things to consider:
    - The entity may report both quantitative measures and qualitative measures and descriptions. However, entities will need to make sure all reported information is verifiable (particularly where an audit is required).
    - The entity may determine the appropriate format for presenting performance information. This could include graphs, tables, and other visual aids to make the information easy to understand.
    - If the entity has identified specific targets (for example in a funding application), the performance report will likely focus on the extent to which those were achieved. Management will also need to consider any internal reporting and how the entity measures its own performance.
- Linking the performance information to the financial information to better assist readers in understanding what the PBE accomplished with the resources it received. For example, an entity delivering goods to recipients could disclose the cost per unit of goods.

Comparative information

Service performance information for the comparative period is required, including in the year of initial application of PBE FRS 48. Entities must therefore plan ahead so that they will be able to gather the appropriate data.

Interim Financial Statements

PBE IAS 34 does not require service performance information in interim financial statements. However, if a PBE includes a complete set of service performance information in its interim financial statements, that information must comply with PBE FRS 48. If a PBE includes condensed service performance information in interim financial statements, the information should be presented in a manner that is consistent with the service performance information in its most recent annual financial statements (or the PBE should provide an explanation of any differences).

Audit Requirement

The Statement of Service Performance is part of the entity's general purpose financial statements prepared in accordance with PBE Standards. Therefore, if your financial statements are required by law (or otherwise, for example under your founding documents) to be audited, your Statement of Service Performance will be covered by that audit requirement.

Other information in the annual report

The Statement of Service Performance should include the most important measures of the entity's performance during the year that are critical to stakeholders for accountability and decision-making purposes.

It is important to note, however, that not all information about the entity's services needs to be included in the Statement of Service Performance. The entity may wish to include additional information in its annual report in a section that is separate to the financial statements.

Statement of Service Performance (continued)

Tips for getting started

Engage with your stakeholders – Management should consider talking to key stakeholders to understand what information is important to them for accountability and decision-making purposes.

Consider what data is already being collected – Some performance information that is currently provided to the entity's governing body may also be useful for readers of the entity's financial statements.

Consider materiality - Management will need to consider materiality in the context of the Statement of Service Performance, including the level of aggregation of performance measures. Reporting too many measures may obscure the information that is most critical to stakeholders.

Involve your finance team – The entity will need systems and processes in place to collect the data necessary to compile the Statement of Service Performance. The finance team is likely best placed to assist in determining how best to collect the required data for the proposed performance measures and consider any additional systems and processes that need to be implemented.

Consider the key judgements - Management will need to make judgements around selection, measurement, and presentation of information in the Statement of Service Performance. Ensure key judgements are documented, approved by those charged with governance, and disclosed in the Statement of Service Performance.

Engage with your auditor – If your financial statements are audited, you should discuss your proposed performance measures with your auditor. This will enable you to agree on the timing of verification procedures as well as the documentation that the entity will be required to produce for the purpose of the audit.

Other available guidance

Several organisations have issued guidance to assist entities in implementing PBE FRS 48.

External Reporting Board (XRB)

Explanatory Guide (EG A10) This explanatory guide for Tier 2 not-for-profit entities provides a summary of the requirements and examples of how to report the components of the Statement of Service Performance.

Charities Services

Charities Services has some information about service performance reporting for registered charities.

Office of the Auditor General (OAG)

Performance reporting: The OAG has issued performance reporting guidance for public organisations. Other entities may find the guidance useful in preparing their own performance reports.

Need some good examples?

Zealandia / Karori Sanctuary Trust, 2021 winner of the NZ Charity Reporting Award for Tier 2 reporters, has an audited Statement of Service Performance which includes a range of measures. You can see the 2020-2021 Annual Report here.

The Fred Hollows Foundation NZ is another Tier 2 PBE whose audited Performance Report, including the Statement of Service Performance, was recognised as high quality by Charities Services. The section of the accounting policies on significant judgements includes an explanation of how the Foundation selected the performance measures to report.

Reflecting climate risk in financial statements

Climate change is an urgent risk that entities around the world are already facing. With growing pressure from stakeholders, as well as increased government activity, entities must take action to consider and provide meaningful and useful disclosure about climate-related risks that could impact the entity and how management are responding to these risks.

The IFRS Foundation has issued educational materials on the Effects of climate-related matters on financial statements. The International Public Sector Accounting Standards Board (IPSASB) staff have also issued a Q&A publication on climate change.

As New Zealand financial reporting standards are based on IASB and IPSASB developed standards, the guidance is also relevant for financial statements prepared in accordance with NZ Generally Accepted Accounting Practice (NZ GAAP).

Preparers of financial statements must consider the accounting implications of climate change as well as the appropriate disclosures to include in the entity's financial statements, including the consistency of that disclosure with other information in the annual report or other entity publications.

Impacts to measurement and recognition

The risks and uncertainties arising from climate change are likely to have some impact on the financial statements of all entities, whether directly, or indirectly (through the supply / value chain).

For example, climate change could result in:

- changes to assumptions in forecasts when considering asset impairment, including for goodwill,
- effects on impairment calculations because of increased costs or reduced demand,
- changes in the useful life of assets,
- changes in the fair values of assets,
- changing availability of future tax profits when assessing recoverability of deferred tax assets,
- changes in provisions for onerous contracts because of increased costs or reduced demand,
- changes in provisions and contingent liabilities arising from fines and penalties,
- changes in expected credit losses for loans and other financial assets, and
- new financing arrangements and terms to be considered.

Forecasts used to assess going concern over a period of at least 12 months from the date of signing the financial statements may also be significantly affected in some cases. The likelihood and extent of impact will require judgement because there is significant uncertainty as to how much the global temperature will increase, what the impact of different climate change scenarios on an entity's operations might be, and how these factors may result in changes to cash flow projections or to the level of risk associated with achieving those cash flows.

Assumptions made will need to be consistent with:

- risk management, strategy and operating model disclosure,
- commitments made by the organisation to stakeholders,
- commitments made by governments of jurisdictions in which the entity operates, e.g., the NZ Government's commitment to 'net zero by 2050' and a carbon neutral public sector by 2025, and
- other disclosures made by the entity (such as the new proposed climate-related disclosures or other ESG reporting).

If your organisation has made climate commitments, the financial impact of these commitments should be reflected in any related accounting estimates and disclosures.

Increased Disclosure

Regulators, and other stakeholders are also increasingly demanding better disclosures on climate change matters and challenging entities who are not factoring the effects of climate change into their critical accounting judgements.

Accounting standards note *that "omissions or misstatements of items are material if they could, individually or collectively influence the decisions or assessments of users made on the basis of the financial statements or service performance information"* (PBE IPSAS 1).

If stakeholders could reasonably expect that climate-related risks (or other emerging risks) will have a significant impact on the entity and this would qualitatively influence stakeholders' decisions, then information on the climate or other assumptions made should be disclosed (if not disclosed elsewhere), including information about the sensitivity of those assumptions. Such disclosure may be necessary, even if the effects of climate change on the entity are not expected in the short term.

Climate disclosures in the financial statements should be consistent with information provided elsewhere, for example in management discussions in the annual report and information on the organisation's website.

Reflecting climate risk in financial statements (continued)

Observations

Some entities may consider that climate change is a long-term issue and not relevant to current decision making. However, stakeholders globally are making it clear that climate risk information, along with other ESG risks, are important to their decision making and allocation of capital resources. Government actions to incentivise market action on climate change or penalise high carbon activities also bring forward the financial impacts of climate change for many entities.

In the private sector, Directors are also being increasingly held accountable for the entity's climate impacts and actions as noted in the May 2019 *Climate Change and the Law* report issued by Hon Chief Justice Helen Winkelmann, Hon Justice Susan Glazebrook and Hon Justice Ellen France of the Supreme Court of New Zealand to the Asia Pacific Judicial Colloquium where they stated that "Climate change is no longer an ethical issue. As a material financial risk, directors are accountable under care and diligence duties to take account of the financial consequences of climate change..."

Entities that are not well advanced in considering climate risks will need time to debate and pinpoint the risks that have a material impact on the financial statements, but action needs to be taken now.

Entities should consider both quantitative and qualitative impacts that could influence stakeholder decisions and start discussing where they are in their journey with those parties.

Consider:

- What would your future cash flow projections look like? (service demand, increasing costs, changes to cost of capital etc.)
- How and when will your existing assets be replaced?
- Do you need to provide now for the cost of future action arising from climate-related risks?
- Can your debtors pay? Make a forward-looking assessment.

Climate scenario analysis, ESG risk evaluations, stress testing, sensitivity analysis or credit risk assessments may be needed to assess the operational implications of climate risks and opportunities. How this is disclosed in a way that highlights the important information for investors without overwhelming them with too much data will be important.

Standard setting in New Zealand

In New Zealand, the XRB is developing standards that will apply to entities that have to prepare climate-related disclosures under legislation (large listed companies with a market capitalisation of more than $60 million, large licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than $1 billion in assets, and potentially some Crown financial institutions).

The first climate standard is expected to be issued in December 2022. Disclosures are likely to be required as early as financial reporting periods beginning on or after 1 January 2023. You can find out more information about the project and timeline on the XRB's website here.

"Climate change is no longer an ethical issue. As a material financial risk, directors are accountable under care and diligence duties to take account of the financial consequences of climate change..."

- Chief Justice Winkelmann, Justice Glazebrook, Justice France of the Supreme Court of New Zealand (2019)

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 statements	**Interim financial statements**
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, and a line-by-line analysis of the effect of the change in policy on the financial statements. *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 with 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.
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 31 March 2022 or 30 June 2022 (updated to 8 June 2022). 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 [entity] expects to adopt these when they become mandatory. None are expected to result in a material impact on the [entity'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.*

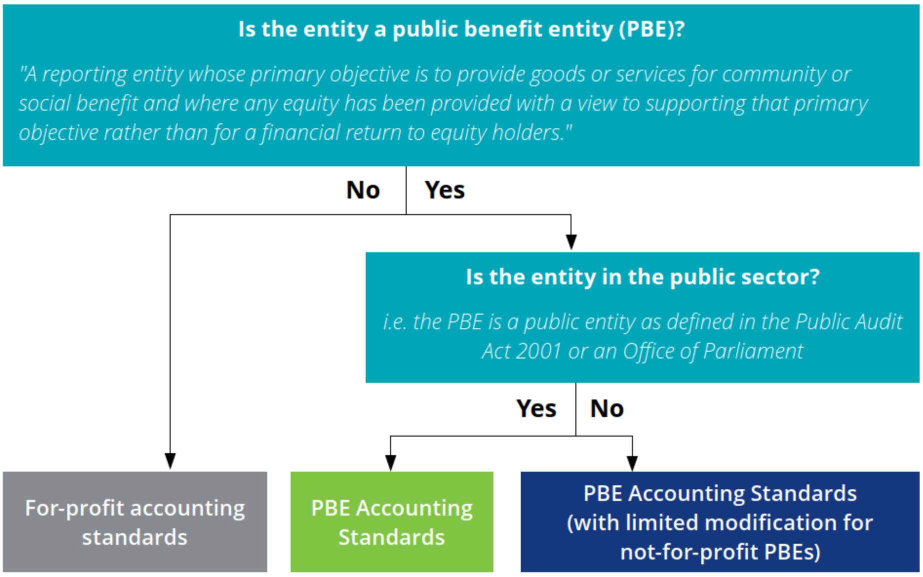
Deciding on the early adoption of Interpretations

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 – The Accounting Standards Framework for PBEs



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". When applying the legislative size threshold entities must consider combined total operating payments of the entity **and all its controlled entities**. The size threshold increased from $125,000 to $140,000 effective 1 January 2022.

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 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

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The Editor,
Accounting Alert

Private Bag 115033,
Shortland Street,
Auckland, 1140

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