

Accounting Alert

Quarterly update – Public Benefit Entities

Connect to what's new in financial reporting for September 2023

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 September 2023. Information is also included for June 2023 year-ends for entities who are still finalising their financial statements. [➔](#)

Financial reporting standards update

Two new financial reporting standards or amendments are effective for financial years ending 30 September 2023, 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 the changes.

PBE IFRS 17 Insurance Contracts is a significant standard that is mandatory for not-for-profit PBEs with interim reporting periods ending 30 September 2023 and is available for early adoption by not-for-profit PBEs with June or September 2023 balance dates. **Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17)** was issued in June 2023 to include modifications for public sector entities and require the application of the amended insurance standard by public sector PBEs for periods beginning on or after 1 January 2026. Public sector PBEs may early adopt the amended PBE IFRS 17 for periods ending on or after 20 July 2023.

All Tier 1 entities need to consider the new requirements and appropriate disclosure of approved but not yet effective standards. Disclosure requirements relating to new standards are outlined at [Appendix A](#).

Important disclosures

Climate disclosures

Financial statement preparers must consider the accounting implications of climate change and the appropriate disclosures to include in the entity's financial statements. See [page 13](#) for information about reflecting climate risk in financial statements.

The XRB issued its first climate disclosure standards, applicable to certain entities referred to as Climate Reporting Entities. Refer to [page 14](#) of this publication for more information.

Service Performance Reporting

Service performance reporting is mandatory for periods beginning on or after 1 January 2022 for Tier 1 and 2 not-for-profit PBEs and certain public sector PBEs. Refer to [page 11](#) of this publication for resources and information.

Incorporated Societies Act

The Incorporated Societies Act 2022 requires all Societies except those that are 'small' to prepare their financial statements using the XRB standards.

Small societies will have a choice between applying XRB standards or applying the 'minimum requirements for financial statements of small societies', set out in section 104 of the Act.

'Small' is defined as:

- Operating payments of less than \$50,000 in each of the preceding 2 financial years; and
- Total current assets of less than \$50,000 at the end of the 2 preceding financial years; and
- Is not a 'donee organisation' for tax purposes

Refer to the [XRB guidance page](#) for more information.

Accounting implications of natural disasters

CAANZ has issued guidance on [accounting implications of natural disasters](#). The guidance addresses financial reporting areas including impairment of assets, provisions and post balance date events. This guidance will be useful for entities affected by recent weather events that impacted the country.

The New Zealand Accounting Standards Framework

The Accounting Standards Framework is a two sector (for-profit and public benefit entities (PBE)), multi-tiered Framework. 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](#).



The New Zealand Accounting Standards Board has recently issued **new accounting standards for Tier 3 & 4 Public Sector and Not-for-Profit PBEs**:

[Tier 3 \(NFP\) Standard](#)

[Tier 4 \(NFP\) Standard](#)

[Tier 3 \(PS\) Standard](#)

[Tier 4 \(PS\) Standard](#)

These are applicable for annual reporting periods beginning on or after 1 April 2024. They are available for early adoption for periods ending after 15 June 2023.

Frequently Asked Questions Tier 1 & 2 (NFP)

The XRB has provided FAQs for Tiers 1 and 2 not-for-profit entities. Topics include the accounting standards framework, accounting for donations, statement of service performance, deciding on materiality, low interest loans, and a guide for applying PBE IPSAS 41. Find out more [here](#).

What are the new and revised accounting pronouncements for September 2023?

Changes in accounting standards can have a significant impact on an entity's financial statements. New pronouncements should be 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 September 2023 annual or interim reporting period or may be early adopted¹. The footnotes distinguish between mandatory initial application, and pronouncements that were also mandatory in a previous period.

In the majority of cases, the disclosure requirements of the individual pronouncements listed in the table 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 5 September 2023 for developments to that date.

New pronouncements	Effective date*	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
PBE Standards (Tiers 1 and 2)							
PBE FRS 48 <i>Service Performance Reporting</i>	1 Jan 2022	M	M	M	M	M ²	M ²
PBE IPSAS 41 <i>Financial Instruments</i>	1 Jan 2022	M	M	M	M	M ²	M ²
PBE IFRS 17 <i>Insurance Contracts</i>	1 Jan 2023	**	O	O	O	O	M
<i>Amendments to PBE IFRS 17</i>	1 Jan 2023	**	O	O	O	O	M
<i>2022 Omnibus Amendments to PBE Standards</i>	1 Jan 2023	O	O	O	O	M	M
<i>Initial Application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information</i>	1 Jan 2023	**	O	O	O	O	M
<i>Public Sector Specific Financial Instruments (Non-Authoritative Amendments to PBE IPSAS 41)</i>	1 Jan 2023	O	O	O	O	M	M
<i>Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)</i>	1 Jan 2024	O	O	O	O	O	O
<i>Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17)**</i>	1 Jan 2026	**	N/A	O	N/A	O	N/A
<i>Editorial Corrections to PBE Standards</i>	Effective immediately						



Key

- O** Optional
- M** Mandatory – first time
- M²** Mandatory in a previous period

* Annual reporting periods beginning on or after this date. **Note regarding early adoption:** Standards and amendments issued by the XRB take legal effect 28 days after they are published under the Legislation Act 2019. Early adoption of certain standards and amendments is permitted, but not for accounting periods ending before the date those standards and amendments take legal effect. For recent amendments, the table below includes the dates these are available for early adoption.

**PBE IFRS 17 applies to not-for-profit PBEs for accounting periods beginning on or after 1 January 2023 and is available for early adoption by not-for-profit PBEs with June or September 2023 balance dates. In June 2023, the NZASB issued *Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17)*, which includes modifications for public sector entities and requires the application of the amended insurance standard by public sector PBEs for periods beginning on or after 1 January 2026. Public sector PBEs may early adopt PBE IFRS 17, including all amendments, for periods ending on or after 20 July 2023.

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	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p>PBE FRS 48 Service Performance Reporting</p> <p>This new standard introduces high-level requirements for Tier 1 and Tier 2 PBEs relating to service performance information.</p> <p>All NFP PBEs, and those PS PBEs which are legally required to provide service performance information, must provide the following information:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <p>The <i>2020 Amendments to PBE FRS 48</i> clarifies that explanations of major variances are only required if PBEs report comparisons of actual and previously published prospective service performance information.</p>	1 Jan 2022	M	M	M	M	M ²	M ²
<p>PBE IPSAS 41 Financial Instruments</p> <p>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 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>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:</p> <p>Financial assets</p> <ul style="list-style-type: none"> 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). 	1 Jan 2022	M	M	M	M	M ²	M ²

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p>Financial liabilities</p> <ul style="list-style-type: none"> 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. <p>Hedge accounting and credit risk on own liabilities</p> <ul style="list-style-type: none"> 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. <p>The expected credit loss impairment model</p> <p>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 <i>Financial Instruments: Disclosures</i>.</p> <p>PBE-specific issues addressed</p> <p>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.</p> <p>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 <i>Fair Value Measurement</i> or NZ IFRS 15 <i>Revenue from Contracts with Customers</i>.</p>							

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p>Differences between PBE IPSAS 41 and PBE IFRS 9</p> <p>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.</p> <p>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).</p> <p>Included in PBE IPSAS 41 are the transition provisions for those entities that have early adopted PBE IFRS 9.</p> <p>Consequential amendments</p> <p>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.</p>							
<p>PBE IFRS 17 Insurance Contracts</p> <p>The NZASB initially issued PBE IFRS 17 with a scope modification to limit its application to Tier 1 and Tier 2 not-for-profit PBEs. In June 2023, the NZASB issued Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17), which added public sector-specific amendments and expanded the scope of the standard to include public sector PBEs from 1 January 2026.</p> <p>The information about PBE IFRS 17 below describes the requirements of the standard and how it applies to <u>not-for-profit PBEs</u>. Information about the amendments to the standard for public sector entities is here.</p> <p>PBE IFRS 17 supersedes PBE IFRS 4 <i>Insurance Contracts</i>. PBE IFRS 17 is closely based on NZ IFRS 17 <i>Insurance Contracts</i>. The scope of PBE IFRS 17 differs from PBE IFRS 4 because it introduces:</p> <ul style="list-style-type: none"> 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 <i>Revenue from Exchange Transactions</i> to fixed-fee contracts with customers, provided certain criteria are met. <p>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:</p> <ul style="list-style-type: none"> 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. 	1 Jan 2023	**	○	○	○	○	M

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p>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.</p> <p>The standard measures insurance contracts either under the general model or a simplified version of this called the <i>Premium Allocation Approach</i>.</p> <p>The general model is defined such that at initial recognition an entity shall measure a group of contracts at the total of:</p> <ul style="list-style-type: none"> 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"). <p>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.</p> <p>An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the <i>premium allocation approach</i> 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.</p> <p>The new standard may also result in changes to presentation in the statement of financial performance.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The new standard may also result in changes to presentation in the statement of financial performance.</p>							

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p>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.</p> <p>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.</p> <p>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.</p>							
Amendments to PBE IFRS 17	1 Jan 2023	**	○	○	○	○	M
<p>The other amendments to PBE IFRS 17 include the following:</p> <ul style="list-style-type: none"> • 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. <p>Information about additional recent amendments to the standard for public sector entities is here.</p>							
Initial Application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information	1 Jan 2023	**	○	○	○	○	M
The amendments will help insurers avoid temporary accounting mismatches due to different transition requirements in PBE IFRS 17 and PBE IPSAS 41 <i>Financial Instruments</i> .							
Editorial Corrections to PBE Standards	Effective immediately						
The XRB issued editorial corrections in December 2022 to revise minor inaccuracies, including misspellings and numbering or grammatical mistakes.							

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
2022 Omnibus Amendments to PBE Standards	1 Jan 2023	O	O	O	O	M	M
<p>The amendments make changes to several PBE standards, including:</p> <ul style="list-style-type: none"> clarifying which fees an entity includes when it applies the '10 percent' test for derecognition of a financial liability. (PBE IPSAS 41) Clarifying that the cost of fulfilling a contract comprises the 'costs that relate directly to the contract' which are both: <ul style="list-style-type: none"> incremental costs of fulfilling the contract (e.g. direct materials and labour); and an allocation of other costs that relate directly to fulfilling contracts (e.g. overheads such as allocation of depreciation expense on an item of property, plant and equipment used in fulfilling the contract). (PBE IPSAS 19) prohibiting deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, the sales proceeds and related costs should be recognised in the profit or loss. (PBE IPSAS 17) Adding guidance and illustrative examples to illustrate the extent to which borrowing costs can be capitalised. (PBE IPSAS 5) Introducing an exception to the initial recognition exemption in PBE IAS 12. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. (PBE IAS 12) removing the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique because PBE IPSAS 27 does not require the use of a pre-tax discount rate. (PBE IPSAS 27) The Omnibus Amendments also make minor clarifications or amendments to other PBE standards. 							
Public Sector Specific Financial Instruments (Non-Authoritative Amendments to PBE IPSAS 41)	1 Jan 2023	O	O	O	O	M	M
The amendments clarify the accounting for public sector specific financial instruments, including some instruments with characteristics similar to financial instruments including monetary gold, currency in circulation, IMF special drawing rights, and IMF quota subscriptions.							
Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)	1 Jan 2024	O	O	O	O	O	O
<p>The amendments update the required disclosures for fees relating to services provided by the entity's audit or review firm. The fees must be disaggregated into specified categories, including audit and review services, other assurance services and agreed-upon procedures engagements, taxation services, and other services. There is guidance to assist entities in determining the types of services to include in each category. There are reduced disclosure requirements for Tier 2 entities.</p> <p>The amendments are available for early adoption for accounting periods ending on or after 15 June 2023.</p>							

New pronouncement	Effective date	Year ending				Interim ending	
		Jun 2023		Sep 2023		Sep 2023	
		PS	NFP	PS	NFP	PS	NFP
<p><i>Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17)</i></p> <p>The amendments modify PBE IFRS 17 to be suitable for public sector PBEs and require public sector PBEs to apply the standard from 1 January 2026. Public sector PBEs may early adopt the amended PBE IFRS 17 for periods ending on or after 20 July 2023.</p> <p>Key modifications to the standard for application by public sector PBEs include:</p> <ul style="list-style-type: none"> • Additional guidance for public sector PBEs on identifying whether an arrangement falls within the scope of PBE IFRS 17; • an exemption for public sector PBEs from dividing a portfolio of insurance contracts into groups based on the issue dates and whether the contracts are, or are likely to become, onerous (and a related amendment to the requirements determining the date at which insurance contracts are first recognised); • guidance for public sector PBEs on which cashflows are within the boundary of an insurance contract for the purpose of measuring insurance contracts; • a choice for public sector PBE's to apply the premium allocation approach to insurance contracts and reinsurance contracts; and • a modification to the transition requirements. 	1 Jan 2026	**	N/A	O	N/A	O	N/A

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 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 including links to annual reports that the OAG determined were good examples of reporting what is important, providing a coherent account of performance and reporting on impacts and the contribution to outcomes. Other entities may find the guidance useful in preparing their own performance reports.

Need some good examples?

The Fred Hollows Foundation, 2023 winner of the NZ Charity Reporting Award for Tiers 1 and 2, has been recognised as having quality service performance reporting. The section of the accounting policies on significant judgements includes an explanation of how the Foundation selected the performance measures to report. You can see their Annual Reports [here](#).

Karori Sanctuary Trust/Zealandia is another Tier 2 PBE whose audited [Performance Report](#), including the Statement of Service Performance, has been recognised as high quality by Charities Services and CAANZ and includes a range of measures.

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 climate-related disclosures issued by the XRB 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, 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.

Climate-related disclosures

The XRB issued its first climate disclosure standards in December 2022. The standards are effective for annual reporting periods beginning on or after 1 January 2023. These standards affect the following types of entities, known as Climate Reporting Entities (CREs):

- Large, listed companies with a market capitalisation of more than \$60 million
- Listed issuers of quoted debt securities with a combined face value of quoted debt exceeding \$60 million
- Large, licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than \$1 billion in assets
- Some crown financial institutions (via letters of expectation)

The [FMA guidance page](#) provides fact sheets and flow charts to help determine whether an organisation is a Climate Reporting Entity. The FMA has also released a brief [podcast](#) providing an overview of the new requirements.

Climate Reporting Entities will be required to prepare an annual climate statement that discloses information about the effects of climate change on their business or any fund they manage. They will need to obtain independent assurance about the part of the climate statement that relates to the disclosure of GHG (Greenhouse Gas) emissions, generally in the second year of reporting.

The new Climate Standards issued are:

- [Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures \(NZ CS 1\)](#)

This standard requires disclosures explaining how the entity manages its climate-related risks and opportunities. The disclosure requirements cover four key areas (Governance, Strategy, Risk Management and Metrics and Targets). Entities must obtain assurance over the greenhouse gas emissions disclosures.

- [Aotearoa New Zealand Climate Standard 2: Adoption of Aotearoa New Zealand Climate Standards \(NZ CS 2\)](#)

This standard provides optional disclosure exemptions that entities may apply during the first few periods of climate reporting.

- [Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures \(NZ CS 3\)](#)

This standard includes the principles for climate-related disclosures (such as relevance, accuracy, and verifiability), general requirements for how the information is disclosed, and guidance on topics such as materiality and estimation uncertainty.

The XRB has released additional supporting materials, including staff guidance and a preparation guide for directors. These and other resources can be found [here](#).

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:

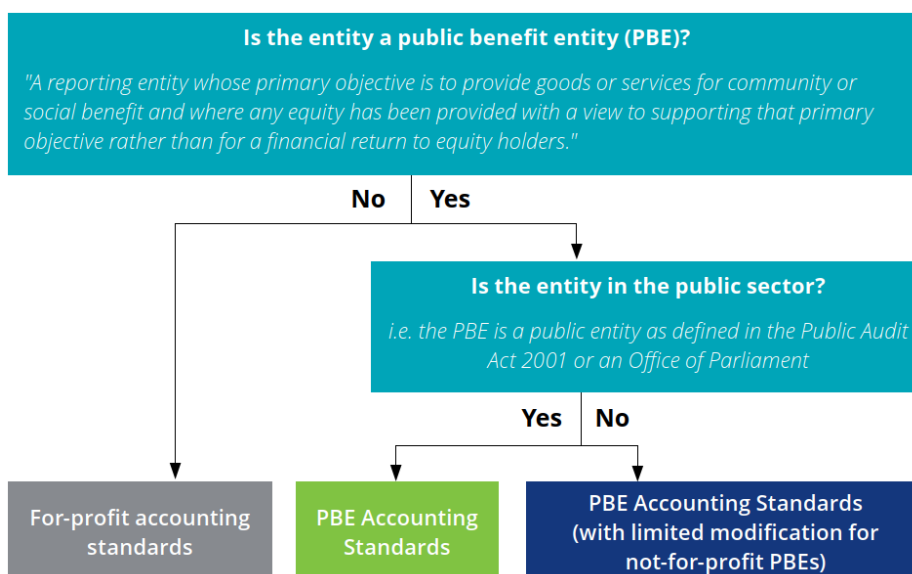
- for annual reporting periods – PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- for interim reporting periods – PBE IAS 34 *Interim Financial Reporting*.

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	<p>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.</p> <p><i>Tier 2 entities would not need to disclose details of transitional provisions.</i></p> <p>(PBE IPSAS 3.33)</p> <p>In addition, each standard may have specific transitional provisions with which the entity needs to comply.</p> <p>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:</p> <p><i>“All mandatory Standards, Amendments and Interpretations have been adopted in the current year. None had a material impact on these financial statements.”</i></p>	<p>The nature and effect of any change in accounting policy compared with the most recent annual financial report.</p> <p>(PBE IAS 34.16A(a))</p> <p>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.</p>
Pronouncement on issue but not adopted	<p>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).</p> <p>The tables within the body of this update could be reviewed to identify such pronouncements for periods ending 30 June 2023 or 30 September 2023 (updated to 5 September 2023).</p> <p>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:</p> <p><i>“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.”</i></p> <p>Tier 2 entities are exempt from these disclosures.</p> <p>(PBE IPSAS 3.35-36)</p>	<p>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.</p> <p><i>Tier 2 entities are exempt from these disclosures in an annual financial report, and accordingly would also be exempt at the interim period.</i></p>

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
	PBE Standards	PBE Standards
Tier 1	Public accountability ¹ , or Large (expenses ² > \$30m)	Public accountability ¹ , or Large (expenses ² > \$30m)
	PBE Standards RDR	PBE Standards RDR
Tier 2	Non-publicly accountable and non-large Elect to be in Tier 2	Non-publicly accountable and non-large Elect to be in Tier 2
	Simple Format (Accrual) (PS)	Simple Format (Accrual) (NFP)
Tier 3⁴	Non-publicly accountable & expenses ² ≤ \$2 million Elect to be in Tier 3	Non-publicly accountable and expenses ² ≤ \$2 million Elect to be in Tier 3
	Simple Format (Cash) (PS)³	Simple Format (Cash) (NFP)³
Tier 4⁴	Entities allowed by law to use cash accounting Elect to be in Tier 4 Non-GAAP standard	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.

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, not 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.

⁴ The New Zealand Accounting Standards Board issued new Tier 3 and 4 standards for reporting periods beginning on or after 1 April 2024. The new standards are available for early adoption for entities with reporting periods ending after 15 June 2023. See [page 2](#) for links to these new standards.

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](#).

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