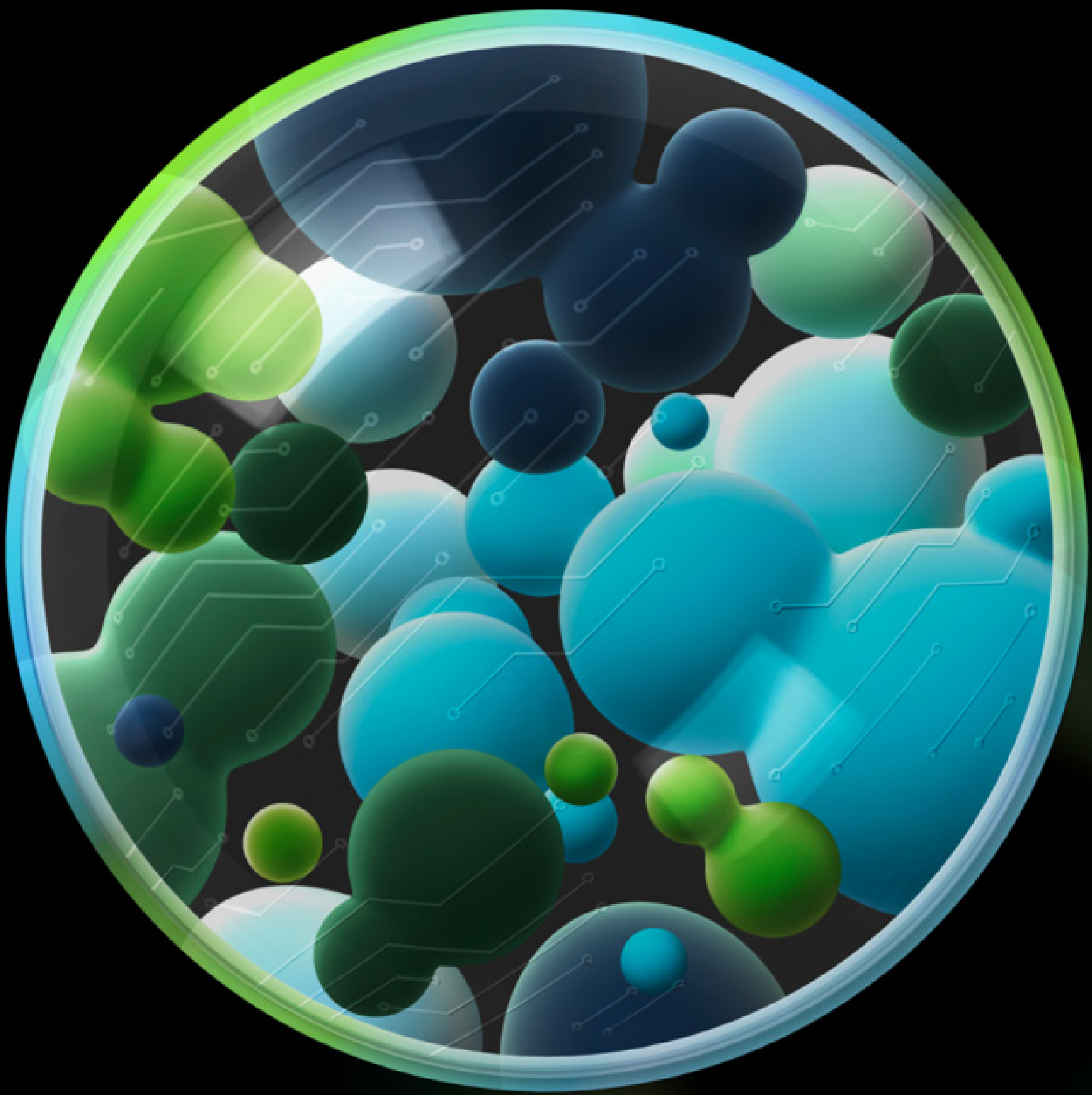


Accounting Alert

Quarterly update – Public Benefit Entities

Connect to what's new in financial reporting for March 2025

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 31 March 2025. Information is also included for December 2024 year-ends for entities who are still finalising their financial statements.

Financial Reporting Standards Update

Key changes for 31 March 2025

Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1 *Presentation of Financial Reports*) became effective for periods ending 31 December 2024 and is mandatory for 31 March 2025 balance dates. In addition, a number of amended paragraphs in **PBE IAS 12 *Income Taxes*** also became mandatory as of 31 December 2024. A reminder also that **the new Tier 3 and 4 PBE standards are now mandatory for this period**. Entities will need to assess the impact of the new standards and amendments and ensure that relevant policies and processes are in place to implement the changes.

Tier 1 entities also 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.

Importance of disclosures

Judgement will be required to determine the extent of additional disclosure, which appropriately explains the impact of the new standards and amendments on the financial statements.

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. Each reporting period, entities should consider whether there have been any changes to the business that would result in a change in reporting or audit requirements under XRB A1 or other legislative requirements. These could include:

- Changes in public accountability;
- Increases in expenses through growth; and
- For companies, increases in revenue or assets through growth, PBE combinations and additional funding.

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.

Appendix C has a summary of the accounting standards framework for PBEs including new accounting standards and thresholds for Tier 3 and 4 entities.

Climate change

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 Appendix B.

The OAG recently issued guidance on Accounting for Climate Change that sets out how climate change could impact various financial statement areas.

We also recommend referring to the XRB issued *Climate-related Matters in Financial Statements staff guidance* as well as *Practice Statement 2: Making Materiality Judgements* issued by the International Accounting Standards Board (IASB).

PBE FRS 48 *Service Performance Reporting*

Service Performance Reporting requires Tier 1 and Tier 2 PBEs to provide information to their stakeholders in a statement of service performance ('SSP') 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. Some 'good examples' have been identified by the Office of the Auditor General (OAG) and by Chartered Accountants ANZ (CAANZ) that may be useful to consider. Refer to the XRB SSP page for more resources on PBE FRS 48.

Current economic environment

Deloitte's iGAAP in Focus publication outlines areas of focus for reporting including uncertainty and financial reporting, climate-related risks in financial statements, currency and hyperinflation, and other accounting and reporting considerations under IFRS. This guidance may also be useful to consider for public benefit entities.

Frequently Asked Questions Tier 1 & 2 (NFP)

The XRB has provided a FAQs page for Tiers 1 and 2 Not-For-Profit entities. Topics include the accounting standards framework, accounting for donations, statement of service performance, templates, materiality, low interest loans, and a guide for applying PBE IPSAS 41 *Financial Instruments*.

Incorporated Societies Act

The Incorporated Societies Act 2022 came into force in October 2023 and requires all Societies except those that are 'small' to prepare their financial statements using the XRB standards. Refer to the XRB guidance page for more informatio

PBE entities: New and revised accounting pronouncements for March 2025

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 tables below and overleaf outline the new and revised pronouncements that are either required to be applied for the first time for a 31 March 2025 annual or interim reporting period or may be early adopted[1]. The footnotes distinguish between mandatory initial application, and pronouncements that were also mandatory in a previous period, as well as provide guidance on early adoption.

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 a few considerations in respect of these in Appendix A.

The information below was updated on 28 February 2025 for developments to that date. Further information on each pronouncement can be found in the next section.

New pronouncements	Effective date*	Year ending				Interim ending	
		Dec 2024		Mar 2025		Mar 2025	
		PS	NFP	PS	NFP	PS	NFP
Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1*)*	1 Jan 2024	M	M	M	M	M	M
2024 Omnibus Amendments to PBE Standards (Amendments PBE IAS 12*)***	1 Jan 2024	M	M	M	M	M	M
2024 Omnibus Amendments to PBE Standards (Amendments to PBE IPSAS 1*)*	1 Jan 2026	O	O	O	O	O	O
Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17*)****	1 Jan 2026	O	N/A	O	N/A	O	N/A
PBE Conceptual Framework Update	1 Jan 2028	O	O	O	O	O	O

Key

O	Optional
M	Mandatory for the first time
*	Annual reporting periods beginning on or after this date. Note regarding early adoption: Standards and amendments issued by the XRB takes 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 not yet effective, the table below includes early adoption information.
**	Paragraphs 4A and 88A of PBE IAS 12 *Income Taxes* are mandatory for periods ending on or after 21 November 2024. The remainder of the amendments to PBE IAS 12 (paragraphs 88B-88D) is mandatory for periods beginning on or after 1 January 2024 but is available for early application for periods ended after 21 November 2024.
***	PBE IFRS 17 *Insurance Contracts* applies to not-for-profit PBEs for accounting periods beginning on or after 1 January 2023. 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 ended 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 2)

New pronouncements	Effective date	Year ending				Interim ending	
		Dec 2024		Mar 2025		Mar 2025	
		PS	NFP	PS	NFP	PS	NFP
Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)	1 Jan 2024	M	M	M	M	M	M
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, 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. The amendments are available for early adoption for accounting periods ended on or after 15 June 2023.							
2024 Omnibus Amendments to PBE Standards (Amendments to PBE IPSAS 1 and PBE IAS 12)	*1 Jan 2024	M	M	M	M	M	M
	*1 Jan 2026	O	O	O	O	O	O
2024 Omnibus Amendments to PBE Standards amend PBE IPSAS 1 *Presentation of Financial Reports* to clarify the current/non-current distinction of liabilities as well as PBE IAS 12 *Income Taxes* to provide temporary relief from accounting for deferred tax relating to *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*. *Please note that this amendment contains different effective dates for the two standards impacted as explained below. • PBE IPSAS 1: PBE IPSAS 1 is mandatory for periods beginning on or after 1 January 2026. Early adoption is permitted for periods ended after 21 November 2024. • PBE IAS 12: Paragraphs 4A and 88A of PBE IAS 12 is mandatory for periods ending on or after 21 November 2024. The remainder of the amendments to PBE IAS 12 (paragraphs 88B-88D) are mandatory for periods beginning on or after 1 January 2024 but are available for early application for periods ended after 21 November 2024.							
Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17)*	1 Jan 2026	O	N/A	O	N/A	O	N/A
The amendments modify PBE IFRS 17 *Insurance Contracts* to be suitable for public sector PBEs and require public sector PBEs to apply the standard from 1 January 2026. Key modifications to the standard for application by public sector PBEs include: • 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							

New pronouncements	Effective date	Year ending				Interim ending	
		Dec 2024		Mar 2025		Mar 2025	
		PS	NFP	PS	NFP	PS	NFP
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. *Public sector PBEs may early adopt the amended PBE IFRS 17 for periods ended on or after 20 July 2023							
PBE Conceptual Framework Update	1 Jan 2028	O	O	O	O	O	O
The amendments to the PBE Conceptual framework include the following: • Updates to the guidance on materiality; • Clarification of the concept of 'prudence' in the context of faithful representation; • Updates the definition of an asset and a liability and related guidance; and • New guidance on: o the unit of account; and o binding arrangements that are equally unperformed. *Early application is permitted for periods ending on or after 19 September 2024.							

Appendix A – Shedding light on the new 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.

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

Disclosures Required

Applicability of new or revised pronouncements	Summary of disclosure 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, line-by-line analysis of the effect of the change in policy on the financial statements and the impacts on earnings per share. In addition, each standard may have specific transitional provisions with which the entity needs to comply (PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 33). *Tier 2 entities would not need to disclose details of transitional provisions.* 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 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 *Interim Financial Reporting* paragraph 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. An IFRS in Focus Newsletter with more details can be found here.
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 December 2024 or 31 March 2025 (updated to 28 February 2025). 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.*

Appendix B – Reflecting climate risk in financial statements

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, for example, the management commentary and information on the organisation's website as well as in the climate-related disclosures.

Impact on recognition and measurement

The risks and uncertainties arising from climate change are likely to have an 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 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 certain cases. The likelihood and extent of impact will require judgement because there is significant uncertainty as to the extent by which the global temperature will increase, what the impact of different climate change scenarios on an entity's business 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 business model disclosure;
- commitments made by the company to investors and other stakeholders (including climate transition plans);
- commitments made by governments of jurisdictions in which the company 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 the 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 information is "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 *Presentation of Financial Reports*).

If regulars and other 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.

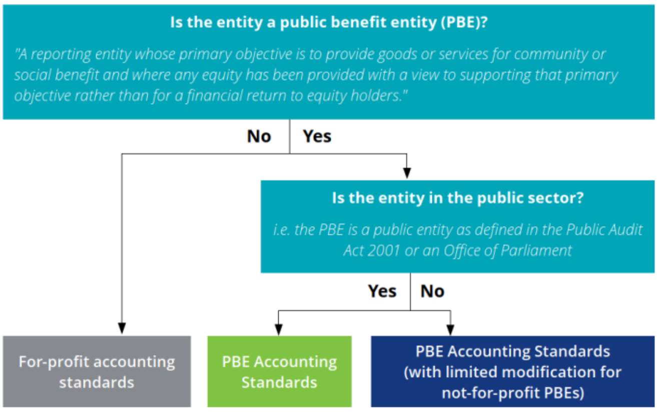
Other resources

IFRS Practice Statement 2: *Making Materiality Judgements*

Climate-related and Other Uncertainties in the Financial Statements exposure draft issued by the IASB and iGAAP in Focus publication

Climate matters in the Financial Statements issued by the XRB

Appendix C – The Accounting Standards Framework for PBEs



The Accounting Standards Framework for PBEs consists of the following suite 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]>$33m[3])	PBE Standards Public Accountability[1], or Large (expenses[2]>$33m[3])
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[4]	Tier 3 (PS) Standard Non-publicly accountable and expenses[2] ≤ $5m[3] Elect to be in Tier 3	Tier 3 (NFP) Standard Non-publicly accountable and expenses[2] ≤ $5m[3] Elect to be in Tier 3
Tier 4[4]	Tier 4 (PS) Standard Entities allowed by law to use cash accounting Elect to be in Tier 4 Non-GAAP Standard	Tier 4 (NFP) Standard Entities allowed by law to use cash accounting Elect to be in Tier 4 Non-GAAP Standard

[1] Definition of 'public accountability':

- Entities 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 more information on which entities the FMA has designated as having 'higher or lower public accountability' refer here

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

[3] The size threshold increased from **$30m to $33m (expenses) effective for periods ended on or after 28 March 2024**. For Tier 3 the size threshold increased from **$2m to $5m (expenses)**. **More information can be found here**: Updated PBE Tier Sizes » XRB

[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. **More information can be found here**: FAQs Tier 1 & 2 » XRB

[5] In order for an entity to be able to report under Tier 4 PBE Accounting Standards, the entity must be permitted by an Act to report in accordance with non-GAAP standards (i.e., the cash basis of accounting) because it does not meet the legislative size threshold to be a "specified not-for-profit entity" and does not have public accountability. When applying the legislative size threshold entities must consider combined total operating payments of the entity and all its controlled entities. The size threshold is $140,000.

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 correct version. You can find the PS PBE standards and the NFP PBE standards here.

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