Accounting Standards Update

Anthony Heffernan — Director of Accounting Standards
Gali Slyuzberg and Jamie Cattell — Project Managers

External Reporting Board
AFAANZ, July 2021
Presentation Overview

• Introduction

• Current significant Accounting Standards projects
  o For-profit
  o Public sector
  o NFP

• Questions
Introduction

Anthony Heffernan – Director of Accounting Standards

Gali Slyuzberg – Project Manager

Jamie Cattell – Project Manager
Introduction

We are the Independent Crown Entity responsible for developing and issuing for New Zealand:

(a) Accounting standards - NZASB;
(b) Audit, assurance and ethics standards standards - NZAuASB; and …

Subject to legislation passing — Climate Related Disclosures & integrated reporting

We exist to enable the high quality decision making for resource allocation for the benefit of Aotearoa New Zealand
Current significant Accounting Standards projects – For-profit
# IASB’s consultations open for comment

<table>
<thead>
<tr>
<th>Documents currently open for comment</th>
<th>Comment period closes</th>
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</thead>
<tbody>
<tr>
<td>ED: Regulatory Assets and Regulatory Liabilities</td>
<td>30 July 2021</td>
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<td>DP: Business Combinations Under Common Control</td>
<td>1 September 2021</td>
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<td>RFI: IASB Agenda Consultation</td>
<td>27 September 2021</td>
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<td>ED: Disclosure in IFRS Standards – A Pilot Approach</td>
<td>21 October 2021</td>
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RFI: IASB’s Thirds Agenda Consultation

• Seeks views on what financial reporting issues should the IASB prioritise in the next five years
• Also seeking feedback on the IASB’s strategic direction and balance of activities

Comments due to the NZASB by 7 July 2021, IASB by 27 September 2021
## IASB’s Third Agenda Consultation

Possible projects that could be added to IASB Work Plan

<table>
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<th>Described projects</th>
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<tr>
<td><strong>Borrowing costs</strong></td>
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<td>Climate-related risks</td>
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<td>Cryptocurrencies and related transactions</td>
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<td>Discontinued operations and disposal groups</td>
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<td><strong>Discount rates</strong></td>
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<td>Employee benefits</td>
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<td>Expenses (Inventory and cost of sales)</td>
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<td>Foreign currencies</td>
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<td><strong>Going concern</strong></td>
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<td><strong>Government grants</strong></td>
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<td>Income taxes</td>
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<td>Inflation</td>
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<td><strong>Intangible assets</strong></td>
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<td>Interim financial reporting</td>
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<td><strong>Negative interest rates</strong></td>
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<td>Operating segments</td>
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<td><strong>Other comprehensive income</strong></td>
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<td>Pollutant pricing mechanisms</td>
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<td>Separate financial statements</td>
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<td><strong>Statement of cash flows and related matters</strong></td>
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<td>Variable and contingent consideration</td>
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IASB’s Third Agenda Consultation

XRB survey results
IASB’s balance of activities

- Stakeholder engagement
- Educational resources
- Minor amendments
- New Standards/Major amendments

Increase  No change  Decrease
# IASB’s Third Agenda Consultation

### XRB Survey results: Respondents high priority projects

- Borrowing Costs
- Climate-related risks
- Commodity Transactions
- Cryptocurrencies
- Discontinued operations/disposal groups
- Discount rates
- Employee Benefits
- Expenses – inventory and cost of sales
- Foreign Currencies
- Going Concern
- Government Grants
- Income Taxes
- Inflation
- Intangible Assets
- Interim financial reporting
- Negative interest rates
- Operating Segments
- Other comprehensive income
- Pollutant pricing mechanisms
- Separate financial statements
- Statement of cash flows
- Variable and contingent consideration
Current significant Accounting Standards projects – Public Sector
IPSAB’s consultations open for comment

Four Measurement related EDs issued

- **ED 76**: Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements
- **ED 77**: Measurement
- **ED 78**: Property, Plant and Equipment (amendments to IPSAS 17)
- **ED 79**: Non-current Assets Held for Sale and Discontinued Operations

Comments due to the NZASB by *2 September 2021*, IPSASB by *25 October 2021*
ED 76 Conceptual Framework Update
Would change the measurement bases described in the Conceptual Framework

ED 77 Measurement
New standard on how to apply:
- Historical Cost
- Fair Value (based on IFRS 13)
- Current Operational Value (new approach)
- Cost of Fulfilment

ED 78 Property, Plant and Equipment
Would revise IPSAS 17 PPE, revalued assets measured using **fair value** or **COV**

ED 79 Non-current Assets Held for Sale and Discontinued Operations
New standard based on IFRS 5
IPSASB Project on Measurement

The Measurement hierarchy
(proposed by ED 76)

**Models**
- Historical cost models
  - Historical cost basis

**Bases**

**Techniques**

**Current value models**
- Current operational value
- Cost of fulfilment (Liabilities)

**Fair value**
- Market
- Cost
- Income
IPSASB Project on Measurement – Current Operational Value

**Definition in ED 76**

Current operational value is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date.

**ED 78 proposes**

- COV – use to revalue PPE held for its operational capacity
- Fair value – use to revalue PPE held for its financial capacity

**Alternative views on ED 76 and ED 77**

- COV definition is not clear – should be based on cost of replacing service potential
- The income approach is not an appropriate technique to estimate COV
IPSASB Project on Measurement – Current Operational Value

**Definition in ED 76**

*Current operational value is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date.*

**Alternative definition of COV**

*Current Operational Value is the cost to replace the service potential embodied in an asset at the measurement date.*

Value could be a measure of the service potential provided by the asset. It could be a measure of the asset’s current contribution to meeting the entity’s objectives.

The definition should focus on the cost of replacing an asset used for its service potential.
Current significant Accounting Standards projects – NFP Sector
Tier 3 and 4 PBE Standards – Post Implementation Review

- Beginning in September 2020 we undertook a Post Implementation Review of the Tier 3 and 4 PBE Standards.

<table>
<thead>
<tr>
<th>Tier</th>
<th>Criteria</th>
<th>Standards</th>
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| 1    | • “Public Accountability” or  
      • Total expenses > $30m | Full PBE Standards |
| 2    | • Total expenses ≤ $30m | PBE Standards with disclosure concessions |
| 3    | • Total expenses ≤ $2m | PBE Simple Format Reporting – Accrual |
| 4    | • Total expenses ≤ $125k | PBE Simple Format Reporting - Cash |
Tier 3 and 4 PBE Standards – Post Implementation Review

Development approach

• Single standard
• Less technical language
• Simple requirements
• Common transactions

Accompanying Resources

• Template performance reports
• Guidance notes
Tier 3 and 4 PBE Standards – Post Implementation Review

Objectives of the Post Implementation Review

1. Are the standards working as intended and achieving their objectives?
2. Have any new issues emerged since the standards were issued?
3. Do the benefits of applying the standards exceed the costs?

Received feedback from over 100 stakeholders

- 10 formal written submissions
- 20 face-to-face interviews
- 6 feedback forms
- 65 survey responses
Tier 3 and 4 PBE Standards – Post Implementation Review

In general, our stakeholders told us:

• The Standards are working well overall;

• There is a need to shorten and simplify the Tier 4 standard, guidance, and optional reporting templates;

• Some consider the XRB should take on a more educative role in relation to these Standards; and

• There is some concern about how well the Standards are currently working for Māori entities.
Tier 3 and 4 PBE Standards – Post Implementation Review

Key areas identified for further consideration include:

• Service performance reporting
• Asset valuation in the Tier 3 standard
• The minimum categories for presenting income and expenditure
• Revenue recognition in the Tier 3 Standard
• Accumulated funds and reserve reporting in the Tier 3 standard
• Understandability of the requirements for the statement of cash flows in the Tier 3 standard
Tier 3 and 4 PBE Standards – Post Implementation Review

Next steps:

• Developing feedback statement

• Considering standard setting options
  o To address general feedback
  o In response to specific issues

• Developing and refining guidance material
  o FAQs
  o Illustrative examples

• Improving the optional reporting templates
  o We have already issued a simplified Tier 4 reporting template
Questions?
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