



Financial Reporting Update: Public Benefit Entities

12 June 2020

AUDIT NEW ZEALAND

Mana Arotake Aotearoa



Agenda

- PBE IPSAS 35 to PBE IPSAS 38 group standards
- PBE IFRS 9 and PBE IPSAS 41 effective dates
- IPSASB Exposure Drafts: ED70-72
- For-profit changes: NZ IFRS 16 *Leases*





PBE IPSAS 35-38

PBE IPSAS 35 *Consolidated Financial Statements:*

Key changes

- New control definition and greater guidance
 - “An entity controls another when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of these benefits through its power over the entity”
- Benefits test is broader:
 - Based on exposure or rights to benefits, including non-financial benefits
 - Benefits can arise when activities are congruent (in agreement) or complimentary
- Power:
 - Introduces the concept of a special relationship with another entity, with indicators that may suggest that the entity has more than a passive interest



PBE IPSAS 35: Pre-determination/autopilot

For entities established that you do not control the majority of governance appointments, need to carefully consider whether controlled via pre-determination.

The predetermination of activities may have resulted in the right to direct the relevant activities being exercised at the time that the entity was established, with any remaining rights to direct the relevant activities being insignificant in relation to the predetermined rights. ...

An entity may not need to have the day-to-day ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity if it has already, by virtue of its involvement in the entity's purpose and design, exercised its power to determine the nature or amount of those benefits and ensured that those benefits flow to it, and not to others

PBE IPSAS 35: Transition risk

- New control definition and guidance could result in entities being assessed as controlled that were not previously assessed as controlled
 - We expect entities currently controlled to still be controlled under PBE IPSAS 35
 - Transition risk is with entities that may be assessed as controlled under the new standard that are not currently consolidated



PBE IPSAS 37 *Joint Arrangements*: Key changes

PBE IPSAS 8	PBE IPSAS 37
Jointly controlled entities	Joint ventures
Jointly controlled operations	Jointly controlled operations
Jointly controlled assets	



- Joint venture: when venturer has rights to the net assets of the entity
- Joint operation: when venturer has rights to the assets and liabilities of the arrangement (can include those of an entity)
- Joint ventures must be equity accounted under PBE IPSAS 36; proportional consolidation is no longer an option

PBE IPSAS 38: *Disclosure of interests in other entities*: Key changes

- New standard that includes disclosures in relation to interests in other entities, such as:
 - Subsidiaries
 - Associates
 - Joint arrangements
- Expands previous disclosures, for example
 - Significant judgements about control or type of interest
 - Financial information on non-controlling interests
 - More financial information of associates and joint ventures

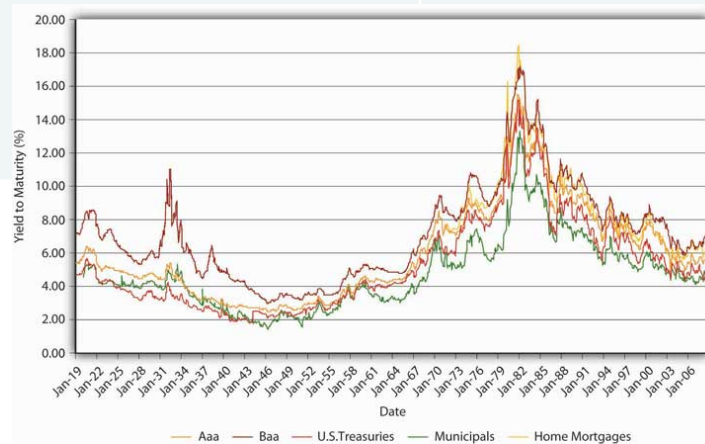




PBE IFRS 9/PBE IPSAS 41 *Financial Instruments* **timing**

PBE IFRS 9 and PBE IPSAS 41 *Financial Instruments*

Amended/New	Effective	Description of change
PBE IFRS 9 - <i>Financial Instruments</i>	Can only adopt if done prior to 1 January 2020. Still available for 20M and 20J but not 20D	Supersedes PBE IPSAS 29 Changes to classification, measurement, impairment, and hedge accounting requirements.
PBE IPSAS 41 - <i>Financial Instruments</i>	1 January 2022 (31 March and 30 June 2023 onwards)	PBE IPSAS 41 supersedes PBE IFRS 9 and PBE IPSAS 29





International Public Sector Accounting Standards Board Exposure Drafts

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

ED 70-71

- ED 70 *Revenue with performance obligations*
 - Based on IFRS 15
 - Applies where there are performance obligations
- ED 71 *Revenue without performance obligations*
 - Is an update of, and replaces IPSAS 23.
 - Rather than rely on whether there is a non-exchange transaction or not ED 70 and 71 rely on the performance obligation/no performance obligation distinction
 - Includes a deferral framework when there are present obligations attached to funding
 - Provides guidance on capital grants
 - Deals with subsequent measurement of receivables e.g taxes and fines

ED 72 *Transfer Expenses*

- ED 72 sets out proposals for a standard on transfer expenses, such as grants made to other parties
- The proposed requirements for transfer expenses depend on whether the transaction gives rise to performance obligations or not
- If a transfer expense transaction gives rise to performance obligation(s) and meets certain criteria, the transfer provider recognises an expense when (or as) the transfer recipient satisfies the performance obligations
- If no performance obligation, the transfer provider recognises an expense at the earlier of:
 1. a present obligation to transfer resources; or
 2. as the resources are transferred
- Initial comment period has been extended to:
 - NZASB: 23 September 2020
 - IPSASB: 1 November 2020



For-profit changes

Consolidation – For-profit lease accounting

- For-profits must adopt NZ IFRS 16 *Leases* this year
- Lessee accounting will result in most leases being recognised on the balance sheet
 - Present valued lease liability
 - Right of use asset
 - Similar to finance lease accounting model
- Lessor accounting continues to be based on a finance/operating lease model
- For-profits will need to make lease related adjustments when providing consolidation information to their PBE parents
- Could be an extensive number of line items affected



AUDIT NEW ZEALAND
Mana Arotake Aotearoa