

Guidance for financial reporting by licensing trusts in 2022

This guidance is for preparers of licensing trusts' financial statements with a 31 March 2022 balance date, prepared under the for-profit accounting standards. This guidance covers:

- Impairment assessments and testing.
- Disclosure expectations for the effects of Covid-19.
- Property valuation issues.
- New and amended standards applied for the first time in 2022.
- Standards issued and not yet effective and not adopted early.

If you wish to discuss any of these matters further, please contact your audit team.

The illustrative disclosures in this guidance are for a fictitious licensing trust, Te Motu Licensing Trust (the Trust).

Impairment assessments and testing

Some licensing trusts may still be experiencing lower revenue due to the ongoing effects of the Covid-19 pandemic.

Licensing trusts will need to assess whether there continue to be indicators of impairment at 31 March 2022 for property, plant, and equipment, and investment property at cost. This assessment will need to be performed for each cash-generating unit (CGU), which would usually be at the outlet level. For example, an indicator of impairment would include where a hotel or restaurant is still experiencing reduced patronage.

Licensing trusts will also need to assess whether there is any indication that an impairment loss recognised in prior periods for an asset (other than goodwill) may no longer exist or may have decreased.

If there is an indicator of impairment or impairment reversal, an impairment test will need to be performed. This involves estimating the recoverable value of the CGU. [NZ IAS 36 Impairment of Assets](#) sets out the accounting requirements. It is the responsibility of the licensing trusts to assess for indicators of impairment or impairment reversal, and perform the impairment test when it is required.

Sometimes, significant estimates and assumptions will need to be made in performing impairment testing, such as forecasting future cash inflows in an uncertain environment and estimating an appropriate market-based discount rate. The discount rate should reflect the return investors would

require if they were to choose an investment equivalent to the licensing trust's asset. Guidance on estimating a discount rate is included in paragraphs 55 to 57 of NZ IAS 36.

When an impairment loss or reversal arises, the disclosure requirements of paragraphs 126 to 132 of NZ IAS 36 will also need to be considered. These include disclosing information on the methods and key assumptions used in estimating the value of the assets.

Disclosure expectations for the effects of Covid-19

Although the risks and uncertainties associated with Covid-19 have reduced since the 2020 and 2021 financial statements were prepared, we expect licensing trusts to continue to disclose information about the impact that Covid-19 has had on their operations and financial statements during the year, where this is significant, in their 2022 financial statements. The Covid-19 disclosures made in the 2021 financial statements will need updating to be relevant for 2022.

This disclosure might cover significant impacts on:

- revenue, such as rental income, hospitality, and gaming;
- expenses, such as employee costs;
- balance sheet valuation uncertainties, such as the extent to which any significant valuation uncertainties disclosed in last year's financial statements are still present; and
- any continuing impairment indicators because of Covid-19.

Property valuation issues

Economic factors – for example, inflation, escalation of costs, and increases in interest rates – could affect fair value assessments and valuations where discounted cash flow approaches are used.

Recent statistics have also indicated some significant increases to the values of land and commercial buildings.

Licensing trusts and their valuers will need to consider these economic factors and the impact of market movements on land and building valuations.

In some instances, this may mean licensing trusts are required to complete an out-of-cycle full valuation rather than a non-revaluation-year fair value assessment for revalued property, plant, and equipment.

New and amended standards applied for the first time in 2022

In preparing the 2022 financial statements, licensing trusts will need to consider whether any new or amended standards applied for the first time have had an effect on the financial statements. The disclosures required by paragraph 28 of [NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors](#) will need to be considered when a new or amended standard has had an effect on the financial statements.

Table 1 below provides summary information on new and amended standards that came into effect for 31 March 2022 year-ends that may affect some licensing trusts.

Note that Table 1 does not list all new and amended standards. A complete list of new standards and amendments, including those not yet effective, can be viewed [on the XRB's website](#).

Table 1

Amendment	Brief outline
<i>Covid-19-Related Rent Concessions</i>	<p>The amendment to NZ IFRS 16 Leases permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment did not affect lessors.</p> <p>This amendment may be relevant for those licensing trusts with Covid-19 rent concessions that did not early adopt it in the prior year.</p>
<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>	<p>The above practical expedient has been extended by one year to include Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022.</p> <p>This amendment may be relevant for those licensing trusts with Covid-19 rent concessions that did not early adopt it in the prior year.</p>

Standards issued and not yet effective and not adopted early

When a licensing trusts has not yet applied a new or amended standard, paragraph 30 of NZ IAS 8 requires information to be disclosed about that new or amended standard. Our view is that this disclosure applies only to those new standards or amendments that will or may affect a licensing trust's future financial statements.

Table 2 provides summary information on new and amended standards that have been issued and are not yet effective that might affect some licensing trusts in future reporting periods. Note that Table 2 does not list all standards issued and not yet effective. We have only included those that are most relevant to the sector.

Table 2

Standard	Brief outline
<p><i>Amendments to NZ IAS 1 – Classification of Liabilities as Current or Non-current</i></p>	<p>The amendments apply for annual reporting periods beginning on or after 1 January 2023.</p> <p>The amendments clarify a criterion in NZ IAS 1 Presentation of Financial Statements for classifying a liability, such as loans, as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.</p> <p>An example disclosure is provided below.</p>
<p><i>Amendments to NZ IAS 1 – Disclosure of Accounting Policies</i></p>	<p>The amendments apply for annual reporting periods beginning on or after 1 January 2023.</p> <p>The amendments to NZ IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies.</p> <p>The amendments aim to improve the relevance of the information in the financial statements by helping an entity to:</p> <ul style="list-style-type: none"> • identify and disclose accounting policy information that is material to users of financial statements; and • remove immaterial accounting policy information that might obscure material accounting policy information.

Where a new or amended standard will or may affect a licensing trusts’s financial statements on adoption, the licensing trust is required to provide the disclosures set out in paragraphs 30 and 31 of NZ IAS 8. The following is an example disclosure for the *Classification of liabilities as Current or Non-current* amendment.

Standards issued and not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2022 financial year and have not been early adopted. Those new standards and amendments that are relevant to the Trust are:

Amendments to NZ IAS 1 – Classification of Liabilities as Current or Non-current

The amendments clarify a criterion in NZ IAS 1 for classifying a liability, such as loans, as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments:

- *specify that an entity’s right to defer settlement must exist at the end of the reporting period;*
- *clarify that classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement;*

- *clarify how lending conditions, such as loan covenants, affect classification; and*
- *clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.*

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Trust will not early adopt these amendments and will first apply the amendments in the 31 March 2024 financial statements. The Trust has noted that the IASB is reconsidering these amendments. An exposure draft was released with proposed changes to the amendments, including a deferred date of application.

The Group has not yet assessed the effect of these amendments on its loan agreements as it waiting to see what further changes are made to the original amendments to NZ IAS 1.

Where none of the changes have relevance to the licensing trust, we recommend that this be disclosed. The following is an example of such a disclosure:

Standards issued and not yet effective and not early adopted

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2022 financial year and have not been early adopted by the Trust. The Trust has assessed that these are not likely to have an effect on its financial statements.

June 2022

Audit New Zealand National Office
100 Molesworth Street
Thorndon
PO Box 99
Wellington 6140
Ph 04 496 3099
www.auditnz.parliament.nz

© Audit New Zealand 2022

New Zealand public sector organisations can reproduce or use our material without further permission. Other parties can reproduce or use our material only for non-commercial purposes and only if the source is acknowledged.