Grant Thornton
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Navigating the changes to Public Benefit Entity International Public Sector Accounting Standards for Not for Profits

April 2019

Contents

This publication includes PBE FRS 48 - the new Standard on service performance reporting.

Overview

This publication is designed to give a high-level awareness of recent changes to public benefit entity international public sector accounting standards (PBE IPSAS) for Not for Profit reporting entities. It covers both new standards and interpretations that have been issued and amendments made to existing ones.

What is new in 2019?

This publication covers 31 March 2019 financial year ends and details the PBE IPSASs that have been approved and published by the New Zealand Accounting Standards Board (NZASB) that come into effect for periods beginning on or after 1 January 2018.

Effective dates of the new standards

Pages 4 and 5 identify the changes that will affect you. It lists all the changes covered in this publication, and indicates whether early application is permitted or not.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early, dependent upon any special directive that might be provided by the External Reporting Board (XRB).

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.

Disclosures required include the fact that the new or amended Standard or Interpretation has been issued, but it has not yet been applied, and known or reasonably estimable information relevant to assessing its possible impact of the financial statements in the period of initial application has been made, or has still to be made.

Identifying the operational significance of the changes

For each change covered in this chapter, we have included a box on its operational implications. These sections focus on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

Grant Thornton New Zealand Limited
April 2019

Effective dates of new standards, interpretations and amendments (issued by XRB as at 28 February 2019)

Standard(s)	Title of standard or interpretation	Effective for accounting periods beginning on or after	Page	For 31 March year ends
PBE IPSAS 1	Approved Budget (amendments to PBE IPSAS 1)	1 January 2018	7	Effective for the first time for accounting periods ending on or after 31 March 2019
Various	2016 Omnibus Amendments to PBE Standards	1 January 2018	8	Effective for the first time for accounting periods ending on or after 31 March 2019
PBE IPSAS 34	Separate Financial Statements	1 January 2019	11	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 35	Consolidated Financial statements	1 January 2019	12	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 36	Investments in Associates and Joint Ventures	1 January 2019	16	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 37	Joint Arrangements	1 January 2019	17	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 38	Disclosures of Interests in Other Entities	1 January 2019	19	Not yet effective ((Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 39	Employee Benefits	1 January 2019	21	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE IPSAS 21 **PBE IPSAS 26**	Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)	1 January 2019	22	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
Various	2018 Omnibus Amendments to PBE Standards	1 January 2019	23	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)

Standard(s)	Title of standard or interpretation	Effective for accounting periods beginning on or after	Page	For 31 March year ends
PBE SFR - A (NFP) PBE SFR - C (NFP) PBE SFR - A (PS) PBE SFR - C (PS)	2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	1 January 2019	26	Not yet effective (Effective for accounting periods ending on or after 31 March 2020)
PBE FRS 48	Service Performance Reporting	1 January 2021	28	Not yet effective (Effective for accounting periods ending on or after 31 March 2022)
PBE IFRS 9	Financial Instruments	1 January 2021 (but 1 January 2019 for Crown entities)	31	Not yet effective (Effective for accounting periods ending on or after 31 March 2022)
PBE IPSAS 2	2018 Omnibus Amendments to PBE Standards	1 January 2021	39	Not yet effective (Effective for accounting periods ending on or after 31 March 2022)

Effective from 1 January 2018

The following pronouncements are effective for periods beginning on or after 1 January 2018:

- Approved Budget (Amendments to PBE IPSAS 1)
- 2016 Omnibus Amendments to PBE Standards

Approved Budget (Amendments to PBE IPSAS 1)

PBE IPSAS 1 Presentation of Financial Statements previously included a requirement that when an entity makes publicly available its approved budget, it is to disclose a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements. There was a similar requirement in respect of interim financial statements in PBE IAS 34 Interim Financial Reporting.

This amendment replaced the reference to an approved budget with a reference to general purpose prospective financial statements, in both PBE IPSAS 1 for annual reporting and PBE IAS 34 for interim reporting.

In addition the comparison is to be presented for both public sector and Not for Profit entities on the face of the financial statements or as a separate statement.

Operational significance

Many

Number of entities affected

Many Not for Profit entities have an approved budget, so careful consideration of this should take place.

Low

Impact on affected entities

This amendment is narrow in scope and uncontroversial in nature.

2016 Omnibus Amendments to PBE Standards

Amending PBE IPSAS 17 Property, Plant and Equipment and PBE IPSAS 27 Agriculture was done to permit the recognition of bearer plants under PBE IPSAS 17 and agricultural produce under PBE IPSAS 27, and in making this change permitting the change to be made on a retrospective basis. Alternatively, reporting entities may choose to measure a bearer asset at its fair value at the beginning of the earliest period presented with any difference between the fair value used as deemed cost at that date and the previous carrying amount having to be recognised in accumulated comprehensive revenue and expense.

As a result of the amendments, consequential changes have been made to the scope of PBE IPSAS 17 Leases and PBE IPSAS 16 Investment Property.

Operational significance

Few

Number of entities affected

Unless the entity is involved in agricultural operations, this change will have no impact.

Low

Impact on affected entities

This amendment is narrow in scope and uncontroversial in nature.

Effective from 1 January 2019

The following pronouncements are effective for periods beginning on or after 1 January 2019:

- PBE IPSAS 34 Separate Financial Statements
- PBE IPSAS 35 Consolidated Financial Statements
- PBE IPSAS 36 Investments in Associates and Joint Ventures
- PBE IPSAS 37 Joint Arrangements
- PBE IPSAS 38 Disclosure of Interests in Other Entities
- PBE IPSAS 39 Employee Benefits
- PBE IPSAS 21 and PBE IPSAS 26 Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)
- 2018 Omnibus Amendments to PBE Standards
- 2018 Omnibus Amendments to Tier 3 and Tier 4 Accounting Requirements

The requirements of PBE IPSAS 34-38 at a glance, are outlined below.

Standard	Significance
PBE IPSAS 34 Separate Financial Statements	• consequential changes arising from the publication of the new consolidation standards; • PBE IPSAS 34 now solely address separate financial statements, the requirements for which are substantially unchanged.
PBE IPSAS 35 Consolidated Financial Statements	• supersedes PBE IPSAS 6 Consolidated and Separate Financial Statements; • changes the definition of control and applies it to all investees to determine the scope of consolidation; • has the potential to affect the outcome of many borderline and judgmental control assessments; • expected to lead to few changes for conventional group structures based on majority share ownership; • where such a change does arise, however, the impact could be very significant.
PBE IPSAS 36 Investments in Associates and Joint Ventures	• changes in scope arising from the publication of PBE IPSAS 37; • continues to prescribe the mechanics of equity accounting.
PBE IPSAS 37 Joint Arrangements	• supersedes PBE IPSAS 7 Interests in Joint Ventures; • eliminates the option of using proportionate consolidation for joint ventures; • eliminates PBE IPSAS 7's 'jointly controlled operations' and 'jointly controlled assets' categories; • most of the arrangements that would have been classified under those categories will fall into the newly defined category 'joint operation'.
PBE IPSAS 38 Disclosure of Interests in Other Entities	• combines the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard; • provides more transparency on 'borderline' consolidation decisions; • enhances disclosures about unconsolidated structured entities in which an investor or sponsor has involvement; • will help investors to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which it is exposed as a result.

PBE IPSAS 34 Separate Financial Statements

This new Standard, when applied with PBE IPSAS 35, supersedes PBE IPSAS 6. The requirements of PBE IPSAS 34 Separate Financial Statements are substantially the same as the previous requirements for separate financial statements contained in PBE IPSAS 6. It prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. It should be noted that this Standard does not mandate which entities should produce separate financial statements.

This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.

Operational significance

Some Number of entities affected

When group financial statements are not prepared, the requirements of this Standard should be carefully considered.

Medium Impact on affected entities

Entities that prepare stand-alone financial statements are required to make some additional disclosures not required when producing consolidated financial statements.

PBE IPSAS 35 Consolidated Financial Statements

This new Standard, when applied with PBE IPSAS 34, supersedes PBE IPSAS 6.

The objective of PBE IPSAS 35 Consolidated Financial Statements is to have a single basis for consolidation for all entities, regardless of the nature of the entity, and that basis is control. An entity controls another entity when all these three elements are present:

- power over the other entity;
- exposure or rights to variable benefits from involvement with the other entity; and
- the ability to use power over the other entity to affect the nature or the amount of the benefits from involvement with the other entity.

The three elements needed to achieve control in PBE IPSAS 35 are:

Power	Variable returns	Ability to use power to affect returns
• arises from existing rights that give the current ability to direct the relevant activities; • in straightforward, cases this will be where an investor has > 50% of an investee's voting rights; • rights must be substantive; • protective rights are ignored; • relevant activities are activities of the investee that significantly affect the investee's returns.	• retains concept that control conveys the rights to returns from an investee; • uses term 'returns' rather than 'benefits' because 'benefits' are often interpreted to imply only positive returns encompasses synergistic returns as well as more direct returns such as dividends; • changes in the value of an investment it is the potential to receive returns that is important.	• an investor with decision-making rights needs to determine whether it is a principal or an agent; • an investor that is an agent does not control an investee when it exercises decision-making rights delegated to it.

Examples of consolidation decisions that may change

Decision	Change
Special purpose vehicles	• exposure to risks and rewards is only an indicator of control under PBE IPSAS 35. It does not on its own lead to consolidation; • PBE IPSAS 35 now requires a more specific identification of the decisions that have the greatest effect on returns, and who takes them.
Large minority holdings	• control may exist where other shareholdings are widely dispersed, and an investor holds significantly more voting rights than any other shareholder or group of stakeholders.
Potential voting rights	• under PBE IPSAS 35, potential voting rights may, in some circumstances, result in control even where they are not currently exercisable; • PBE IPSAS 35 considers a broader range of indicators on whether such rights are substantive.
Delegated power	• the new guidance in PBE IPSAS 35 on principals and agents may impact on consolidation decisions; • investment and asset managers in particular may be affected.

The new Standard also provides guidance around:

- Substantive rights, which give rise to power and may lead to control
- Protective rights, which do not constitute power or lead to control
- Network and partner agreements, and whether the rights conferred by such agreements are merely protective rights that do not lead to control, or substantive rights that lead to control; and
- Pre-determination of another entity's relevant activities upon establishment, which may give the establishing entity power over the entity it established and lead to control

In PBE IPSAS 35, there are different ways in which a reporting entity can have power over another entity and they include:

Example	Explanation
• A contractual arrangement between the investor and other vote holders	• a contractual agreement may for example enable an investor to direct enough other vote holders on how to vote to enable the investor to have control.
• Rights arising from other contractual agreements	• other decision-making rights, in combination with voting rights, can give an investor the current ability to direct relevant activities of an entity.
• The investor's voting rights	• the investor's voting rights might be sufficient to enable it to direct the relevant activities of the investee even though it has less than 50% of the votes; • an example could be where the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed; • if it is still unclear whether control exists or not, additional facts and circumstances are considered.
• Potential voting rights	• potential voting rights are considered only if they are substantive; • for a right to be substantive, it must give the holder the current ability to direct the relevant activities when decisions about those activities need to be made, and the holder must have the practical ability to exercise the right; • PBE IPSAS 35 envisages judgement being applied in determining whether this is the case or not.

The Standard provides detailed guidance on how to apply the control principle in a number of situations, including discussion around predetermined activities and network and partner agreements. The mixed group guidance contained in PBE IPSAS 6 has also been incorporated into PBE IPSAS 35, with minimal adjustment.

The Standard introduces a new concept of an "investment entity". Investment entities do not consolidate their subsidiaries but rather account for their interests at fair value.

The definition and typical charateristics of an investment entity are noted below:

Definition

An investment entity is an entity that:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services (investment services condition);
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition);
- measures and evaluates the performance of substantially all of its investments on a fair value basis (fair value condition).

Typical characteristics of an investment entity

In assessing whether it meets the definition an entity shall consider whether it has the following typical characteristics of an investment entity:

- It has more than one investment;
- It has more than one investor;
- It has investors that are not related parties of the entity;
- It has ownership interests in the form of equity or similar interests.

The new Standard also includes an exemption from consolidating controlled investment entities. Instead, it requires the controlling entity to present consolidated financial statements which:

- measure the investments of the controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 Financial Instruments: Recognition and Measurement; and
- consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with PBE IPSAS 35.

This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.

Operational significance

Some

Number of entities affected

If consolidation is required, there is a consolidation amount as work is required to assess all the implications of this Standard.

Medium

Impact on affected entities

The economic substance of the relationship, rather than its legal form will determine what an entity needs to consolidate, when and how.

PBE IPSAS 36 Investments in Associates and Joint Ventures

This new Standard, when applied, supersedes PBE IPSAS 7 Investments in Associates. The new Standard combines the accounting for both associates and joint ventures as a result of requiring the use of the equity method to account for investments in joint ventures as well as for investments in associates.

Some of the significant differences between PBE IPSAS 7 and the new Standard are as follows:

- the scope of the Standard has been expanded to include all 'quantifiable ownership interests' – PBE IPSAS 7 previously required an ownership interest in an associate to be 'in the form of a shareholding or other formal equity structure';
- in instances where an entity is precluded by PBE IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, the carrying amount may be used as cost on initial recognition of the financial asset. PBE IPSAS 7 did not allow this option; and
- the new Standard contemplates the accounting for interests in investment entities and requires the investor to retain the fair value measurement applied by the investment entity associate or joint venture.

This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 37 and PBE IPSAS 38 are also applied early.

Operational significance

Some

Number of entities affected

If these types of investments have been made, then a considerable amount of work might be required to assess all the implications of this Standard.

Medium

Impact on affected entities

Joint ventures can no longer be accounted for on a proportionate consolidation basis – they must be accounted for on the equity basis, and generally speaking, more disclosure will be needed for those entities that are included within the scope of this Standard.

PBE IPSAS 37 Joint Arrangements

PBE IPSAS 37 Joint Arrangements classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (which will include some of the entities currently classified as jointly controlled entities).

A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Old PBE IPSAS 7 categories

Jointly controlled assets

Venturer recognised:

- its share of the jointly controlled assets
- liabilities incurred, and its share of any liabilities incurred jointly with the other venturers
- its share of income and its share of expense
- expenses it incurs.

Jointly controlled operations

Venturer recognised:

- assets it controls and liabilities it incurs
- expenses it incurs and its share of income.

Jointly controlled entities

Venturer had choice between:

- proportionate consolidation and
- equity accounting.

assess substance

New PBE IPSAS 37

Joint operations

Joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output of the joint operation
- its share of the revenue from sale of output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Joint ventures

- joint venturer must use equity accounting.

Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation. However, this Standard requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method.

The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor.

This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 38 are also applied early.

Operational significance

Some

Number of entities affected

If joint arrangements are in place, then a considerable amount of work might be required to assess all the implications of this Standard.

Medium

Impact on affected entities

Joint ventures can no longer be accounted for on a proportionate consolidation basis – they must be accounted for on the equity basis, and generally speaking, more disclosure will be needed for those entities that are included within the scope of this Standard.

PBE IPSAS 38 Disclosures of Interests in Other Entities

PBE IPSAS 38 Disclosure of Interests in Other Entities applies to entities that have an interest in controlled entities, joint arrangements, associates or unconsolidated structured entities. It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. An entity should disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The disclosure requirements are extensive and significant effort may be required to accumulate the necessary information.

In particular a number of new disclosures are required by investment entities, entities which control investment entities and which are not themselves investment entities, and in relation to unconsolidated structured entities.

This Standard has an effective date for annual periods beginning on or after 1 January 2019, with early application permitted so long as PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37 are also applied early.

Selected disclosures

Objective	Examples of specific disclosure requirements
A reporting entity should disclose information that helps users of financial statements understand:	
• **significant judgements and assumptions (and changes) made by the reporting entity in determining whether it controls another entity or not**	For example, significant judgements and assumptions made in determining that: • it does not control another entity even though it holds more than 50% of the voting rights; • it controls another entity even though it holds less than 50% of the voting rights; and • it is an agent or a principal.
• **the interest that the non-controlling interests have in the group's activities**	• the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held; • summarised financial information about subsidiaries that have non-controlling interests.
• **the effect of restrictions on the reporting entity's ability to access and use assets or settle liabilities of consolidated entities**	• restrictions that affect the ability of a parent or its subsidiaries to transfer cash to (or from) other entities within the group; • guarantees or other requirements that may restrict dividends being paid, or loans and advances being made, to other entities within the group.

• **the nature of, and changes in, the risk associated with the reporting interests in consolidated entities, joint associates and unconsolidated structured entities**	For example: • the terms of any contractual arrangements that could require an entity's interests in the consolidated parent or its subsidiaries to provide financial support to structured entities, joint consolidated structured entity, including events or arrangements, associates and circumstances that could expose the reporting entity to a loss, unconsolidated structured entities; • the type and amount of support provided to a consolidated structured entity, and the reasons for providing it; • the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure is determined; • details of whether the entity is required to absorb losses of an unconsolidated structured entity before other parties; and • unrecognised commitments to contribute resources to a joint venture, such as assets or services.

In particular, a number of new disclosures are required by investment entities, entities which control investment activities and which are not investment entities, and in relation to unconsolidated structured entities.

Operational significance

Many

Number of entities affected

The disclosure requirements of this Standard are much greater than before, so all entities should consider the disclosure requirements in the Standard before approving their financial statements.

Medium

Impact on affected entities

There are a significant number of new disclosures required by this Standard.

PBE IPSAS 39 Employee Benefits

In issuing PBE IPSAS 39 Employee Benefits, the NZASB made New Zealand specific changes to its existing standard, PBE IPSAS 25 Employee Benefits.

The main changes from PBE IPSAS 25 now reflected in PBE IPSAS 39 are:

- removing the option to defer the recognition of some actuarial gains and losses arising from the re-measurement of post-employment benefit obligations (the 'corridor approach')
- eliminating different presentation options for actuarial gains and losses (which enhances comparability)
- introducing the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans
- structuring the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans.

In addition to the above changes PBE IPSAS 39:

- includes amendments made by the IASB to IAS 19 to clarify the effect of employee and third party contributions on service cost, and re-measurements of the net defined benefit liability (asset), if they are not linked to service, but
- it does not include the IASB's recent amendments to IAS 19 regarding discount rates.

NZ IAS 19 Employee Benefits requires an entity to use the market rate on high quality corporate bonds as the discount rate for measuring post-employment benefit obligations. However, for currencies where there is no deep market for these bonds, the market rate on government bonds can be used.

PBE IPSAS 39 requires the use of a discount rate that reflects the time value of money, which ensures that the discount rate aligns with the currency and term of the post-employment benefit obligation. This requirement is also in PBE IPSAS 25 (see paragraph 91).

PBE IPSAS 39 is now substantially aligned with NZ IAS 19.

Operational significance

Few

Number of entities affected

Generally speaking, the focus of this Standard should be an accounting and disclosure of short term employee benefits rather than long term employee benefits.

Medium

Impact on affected entities

The removal of 'corridor approach' does result in an important change for any entity that operates a defined benefits plan.

PBE IPSAS 21 and PBE IPSAS 26 Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)

The scope of PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets has been amended to include assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 Property, Plant and Equipment and PBE IPSAS 31 Intangible Assets ('revalued assets').

Following the amendments, revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model.

Where an impairment loss is recognised for an asset (or group of assets) that is revalued however, an entity is not necessarily required to revalue the entire class of assets to which that impaired asset (or group of assets) belongs.

In addition the amendment clarifies that for revalued assets, impairment losses and reversals thereof are accounted for in the same way as revaluation decreases and increases.

Consequential amendments have also been made to PBE IPSAS 17 and PBE IPSAS 31.

Operational significance

Some

Number of entities affected

The amendments will have an effect on entities with revalued assets.

Medium

Impact on affected entities

Although the amendments are narrow in scope, the impairment assessment requirements may be significant for affected entities.

2018 Omnibus Amendments to PBE Standards

The following standards includes amendments arising from:

- Improvements to IPSAS 2018;
- IASB amendments;
- Other New Zealand amendments; and
- Editorial corrections.

PBE IPSAS 2 Cash Flow Statements

Following Disclosure Initiative (Amendments to IAS 7), issued by the IASB in January 2016, IAS 7 Statement of Cash Flows was amended to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial assets. The IPSASB subsequently amended IPSAS 2 Cash Flow Statements in Improvements to IPSAS, 2018 and the NZASB has amended the Basis for Conclusions in PBE IPSAS 2 in response.

The amendments add illustrative examples to accompany PBE IPSAS 2 that are applicable for periods beginning on or after 1 January 2021.

PBE IPSAS 4 The Effects of Changes in Foreign Exchange Rates

This amendment incorporates IFRIC 22 Foreign Currency Transactions and Advance Considerations into Appendix A of PBE IPSAS 4.

IFRIC 22 addresses how to determine the exchange rate to use on the initial recognition of an asset, revenue or expense when an entity has paid or received advance consideration in foreign currency prior to recognising the asset, revenue or expense.

In addition, the interpretation clarifies that, for the purpose of determining the exchange rate to use on initial recognition of the asset, expense or income (or part of it), the date of the transaction is the date on which the entity initially recognised the related non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Illustrative examples have also been added to the Basis for Conclusions accompanying PBE IPSAS 4.

Earlier application is permitted provided the entity discloses this fact.

PBE FRS 47 First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS

Paragraph C1 of PBE FRS 47 has been amended and C32 added in respect to foreign currency transactions and advance consideration. The changes exempt first-time adopters from applying Appendix A of PBE IPSAS 4 to assets, expenses and revenue in the scope of Appendix A initially recognised before the date of transition to PBE standards.

The amendments are to be applied at the same time that the entity applies Appendix A of PBE IPSAS 4.

PBE IPSAS 5 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity shall apply the amendments to PBE IPSAS 5 to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Earlier application is permitted provided the entity discloses this fact.

PBE IPSAS 16 Investment Property

The amendments clarify that an entity should only transfer property into or out of investment property, when there has been a change in use. Specifically, the amendments clarify that:

- a change in use of a property occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use; and
- a change in management's intentions for the use of a property does not, by itself, provide evidence of a change in use.

"Development with a view to occupation" has also been added to the list of examples of evidence of a change in use.

Specific transition options are outlined in the amendment through the addition of paragraphs 100A to 100C.

Earlier application is permitted provided that fact is disclosed.

PBE IPSAS 34 Separate Financial Statements

The amendments to paragraph 22 aligns the requirements in PBE IPSAS 34 with the corrected requirements in IPSAS 34 in relation to a controlling entity with controlled investment entities which is not itself an investment entity.

Earlier application is permitted provided this fact is disclosed.

PBE IPSAS 36 Investments in Associates and Joint Ventures

The amendments clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, on initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

Earlier application is permitted provided that fact is disclosed.

PBE IPSAS 37 Joint Arrangements

The amendment adds paragraph AG33.3A on the accounting for acquisitions of interests in joint arrangements, to the Appendix of PBE IPSAS 37. This paragraph states that a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes an operation as defined in PBE IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

Early application is permitted provided that fact is dislosed.

PBE IPSAS 39 Employee Benefits

The amendments clarify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated actuarial assumptions to determine current service cost and net interest for the period following such an event when the entity remeasures its net defined benefit liability (asset) in accordance with PBE IPSAS 39.

Earlier application is permitted provided that fact is disclosed.

PBE IFRS 3 Business Combinations

Additional guidance has been added on applying the acquisition method to business combinations achieved in stages. Specifically paragraph 42A states that where a party to a joint arrangement obtains control of an operation that is a joint operation, the acquirer shall apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in PBE IFRS 3 paragraph 42. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

Earlier application is permitted provided that fact is disclosed.

PBE IAS 12 Income Taxes

The amendment which deletes paragraph 52B and adds paragraph 57A, clarifies that the requirements in the former paragraph 52B (that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners), apply to all income tax consequences of dividends. The amendments moved the requirements away from paragraph 52A (as that paragraph deals only with situations where there are different tax rates for distributed and undistributed profits). An entity shall recognise the income tax consequences of dividends in surplus or deficit, other comprehensive revenue and expense or net assets/equity according to where the entity originally recognised those past transactions or events.

Early application is permitted provided that fact is disclosed. When an entity first applies the amendments, it shall apply them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

PBE IPSAS 38 Disclosure of Interests in Other Entities

The amendments clarify the scope of PBE IPSAS 38 by specifying which disclosure requirements in the standard apply to an entity's interests in other entities that are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments shall be applied retrospectively in accordance with PBE IPSAS 3.

Other

The 2018 Omnibus Amendments to PBE Standards also made minor editorial amendments to PBE IFRS 5, PBE FRS 46, PBE IPSAS 10 and PBE IPSAS 22.

Operational significance

Some

Number of entities affected

The amdendments combined are broad in scope and therefore will affect some entities.

Low

Impact on affected entities

The amendments are narrow in scope, and minor in nature.

2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements

The standard includes:

- amendments to align terminology and concepts with terminology and concepts in the Public Benefit Entities' Conceptual Framework (PBE Conceptual Framework). These amendments are to the Tier 3 standards only;
- clarification of existing requirements;
- the addition of a requirement to sign and date the performance report;
- the inclusion of guidance on the reversal of impairment charges (regarding the recording of specific types of impairment charges) (PBE SFR-A (NFP)), (PBE SFR–A (PS);
- amendments arising from the 2017 Amendments to XRB A1 Application of the Accounting Standards Framework (2017 Amendments to XRB A1). (These amendments are to the Tier 4 standards only);
- minor editorial amendments; and
- corrections to the glossaries (Tier 3 standards).

Operational significance

Some Number of entities affected

Tier 3 and Tier 4 PBEs only.

Low Impact on affected entities

Due to the minor nature of the amendments, the impact on affected entities is low.

Effective from 1 January 2021

The Standard discussed below is effective for accounting periods beginning on or after 1 January 2021:

- PBE FRS 48 Service Performance Reporting
- PBE IFRS 9 Financial Instruments

PBE FRS 48 Service Performance Reporting

Background
PBE FRS 48 Service Performance Reporting was issued in November 2017 and it applies to all Tier 1 and Tier 2 not-for-profit Public Benefit Entities (PBEs) and also to public sector PBEs required by law to report service performance information in accordance with Generally Accepted Accounting Practice in New Zealand. Note that Tier 3 and Tier 4 PBEs already have to provide service performance information under the Tier 3 and Tier 4 accounting standards issued by the NZASB.

This standard does not apply to service performance information that is condensed, prospective or summarised.

The objective of PBE FRS 48 is to establish principles and requirements for presenting service performance information that is useful for accountability and decision-making purposes. The standard establishes high-level requirements which provides flexibility for entities to determine how best to 'tell their story'.

Entities are required to apply the qualitative characteristics to service performance information (namely relevance, faithful representation, understandability, timeliness, comparability and verifiability). These qualitative characteristics need to be balanced against the pervasive constraints on information identified in the PBE Conceptual Framework (which are materiality, cost-benefit and striking a balance between the qualitative characteristics noted above) in order to report service performance information that is appropriate and meaningful to the users of general purpose financial reports.

PBE FRS 48 requires that an entity shall present service performance information for the same reporting entity and reporting period as the financial statements. This, if the reporting entity is an economic entity comprising a controlling entity and controlled entities, reported in respect of that entire economic entity. However if the entity is required to report for another reporting period, due to statutory requirements, it should follow the requirements set out in the relevant piece of legislation or regulation.

The Standard requires reporting entities to provide:

- contextual information sufficient for users to understand why the entity exists, what it intends to achieve and how it intends to achieve its aims and objectives;
- information about what the entity has done during the reporting period as it works towards achieving its aims and objectives;
- This means that an entity shall explain the main ways in which it carries out its service performance activities such as:
  - How does it deliver goods and services to individuals, entities or groups?
  - How does the reporting entity work together with other entities that share common objectives?
  - Does the entity contract with other entities to deliver goods and services of its behalf?
  - How does the entity make grants to other individuals or entities?

The nature of the information reported by each entity will depend upon a number of factors. You will need to consider all of the following factors in determining the information to report:

- What is the entity accountable or responsible for?
- What the entity intended to achieve during the reporting period?
- How the entities go about achieving its service performance objectives?

Other factors relevant to an understanding of the entity's service performance during the period (such as financial, legal, economic or social factors).

Paragraph 20 of PBE FRS 48 sets out the following requirement:

In reporting on what an entity has done during the reporting period an entity shall provide users with an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period. The performance measures and/or descriptions used by an entity to communicate its service performance may be:

- **Quantitative measures:** Examples of quantitative measures are the quantity of goods and services, the cost of goods and services, the time taken to provide goods and services, levels of satisfaction using a rating scale on a questionnaire or survey, and numerical measures for service performance objectives or goals;
- **Qualitative measures:** Examples of qualitative measures are descriptors such as compliance or non-compliance with a quality standard, ratings such as high, medium or low, or ratings assigned by experts; or
- **Qualitative descriptions:** Examples of qualitative descriptions are those based on participant observations, open-ended questions on interviews and surveys and case studies. For example, how did an entity's service performance activities change the well-being and circumstances of a client group?"

Consequently, judgement needs to be applied and a careful balance needs to be struck between:

- Providing enough information for the readers to provide an overall picture of its service performance, and
- Not so much information that it could obscure the overall picture.

Ultimately the preparer of the statement of service performance has to disclose the judgments that have been made in the selection, measurement, aggregation and presentation of service performance information reported in applying the standard.

Presentation

In a final analysis, what PBE FRS 48 requires is that those preparing a statement of service performance provide sufficient information to answer the following key questions:

- Who are we?
- Why do we exist?
- What did we do? and
- How did we perform?

In turn this requires the reporting entity to develop a presentation format that best meets the information needs of their users, so this could be in the form of graphs, tables, narratives, infographics and explanatory comments in 'pop-up' boxes or similar.

Cross referencing to the financial statements is encouraged, as it is cross referencing to information that may be outside the general purpose financial reports. The operating principle should be not to duplicate information unnecessarily, but when cross referencing is used PBE FRS 48 requires:

- Disclosing, together with the statement of compliance in accordance with paragraph 28 of PBE IPSAS 1 'Presentation of Financial Reports', a list of cross-referenced information that forms part of a complete set of service performance information in accordance with this Standard;
- Depicting any cross-referenced information as being information prepared in accordance with this Standard (and audited if applicable);
- Making the cross-referencing direct and precise as to what it relates to; and
- Ensuring that the cross-referenced information remains unchanged and available over time at the cross-referenced location.

PBE FRS 48 also requires that service performance information be presented for the same reporting entity and same reporting period as covered in financial statements (unless permitted otherwise by legislation). You should also present service performance information alongside the entity's other financial statements.

PBE FRS 48 has an effective date of 1 January 2021 but may be applied earlier. All Tier 1 and Tier 2 entities that are NFPs are required to apply this standard from this date.

Operational significance

Many

Number of entities affected

The Standard will impact all Tier 1 and Tier 2 Not for Profit entities because they seek to achieve these aims and objectives by using funds received from resource providers (for example, taxpayers, ratepayers, donors and grantors) to undertake activities for community or social benefit. Therefore, service performance information is considered by the NZASB to be an important component of reporting to stakeholders by NFPs.

High

Impact on affected entities

All Tier 1 and Tier 2 entities that are NFPs are required to apply this standard from this date. Tier 3 and Tier 4 entities have already been providing this information under requirements that came into place for any accounting period beginning on or after 1 April 2015.

PBE IFRS 9 Financial Instruments

The NZASB decided that it should update PBE IPSAS 29 Financial Instruments: Recognition and Measurement because it was based on NZ IAS 39 Financial Instruments: Recognition and Measurement. The NZASB has replaced NZ IAS 39 with NZ IFRS 9 Financial Instruments and some of the key changes that were introduced into PBE IFRS 9 were:

- creating new classification and measurement requirements for financial assets;
- introducing new hedging requirements; and
- placing new impairment requirements of financial assets.

The new requirements in PBE IFRS 9 are expected to lead to higher quality financial reporting, and in some instances to improve the cost benefit aspects of accounting for financial instruments, particularly in the area of hedging.

Following the publication of NZ IFRS 9 (2014) the Standard as a whole for for-profit entities was complete. The NZASB then chose to modify this standard for Public Benefit Entities, because in many instances there are PBE's that have to consolidate into their group financial statements, for profit entities. Although the IPSASB has a plan in place to replace IPSAS 29, until that happens, New Zealand PBEs will have to follow the requirements of this replacement standard when it becomes effective.

The different parts of PBE IFRS 9 are discussed in greater detail below.

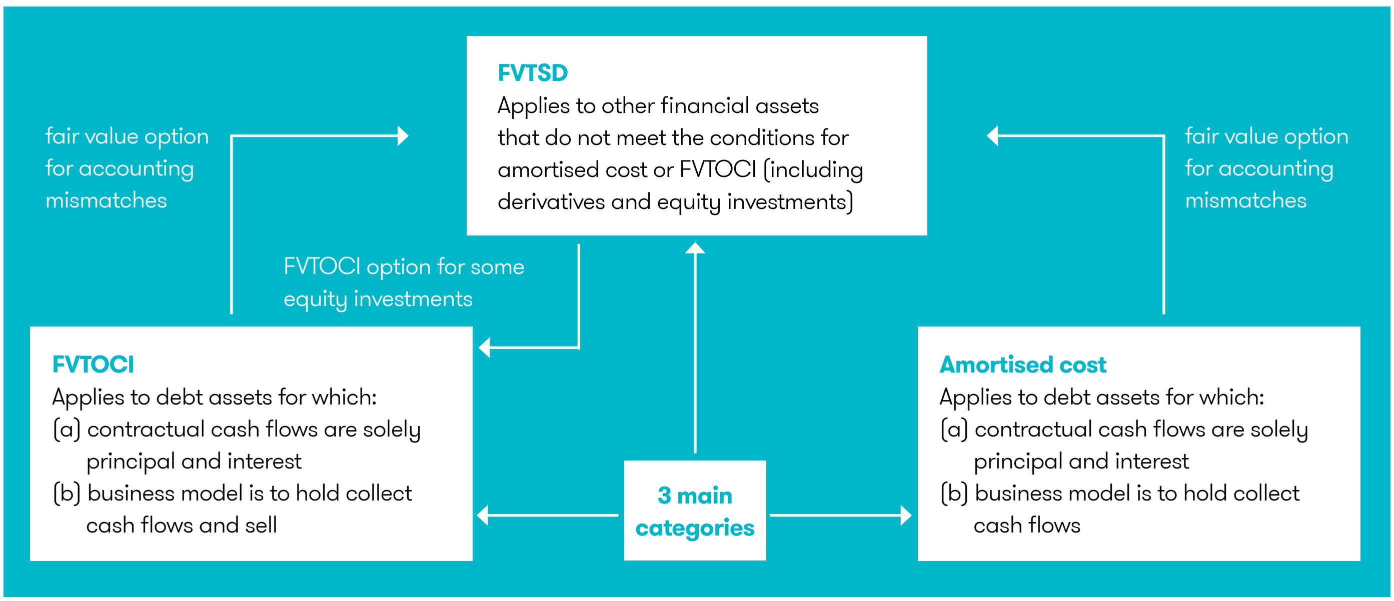
Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 that received the most criticism during the financial crisis. In publishing the original version of IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets by just having two categories (fair value and amortised cost). However following comments that having just two categories created too sharp a dividing line and failed to reflect the way many businesses manage their financial assets, an additional category was added in July 2014 when IFRS 9 (2014) was published. The NZASB then took up all these challenges and reflected them in PBE IFRS 9.

Classification

Under PBE IFRS 9 each financial asset is classified into one of three main classification categories as shown below namely:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); or
- fair value through surplus or deficit (FVTSD).



The classification is determined by both:

- the entity's business model for managing the financial asset ('business model test'); and
- the contractual cash flow characteristics of the financial asset ('cash flow characteristics test').

The diagram on the previous page summarises the three main categories and how the business model and cash flow characteristics determine the applicable category.

In addition, PBE IFRS 9 contains an option which allows an entity to designate a financial asset at fair value through surplus or deficit and an additional option to classify investments in equity instruments in a special 'equity – FVTOCI' category.

The business model test

PBE IFRS 9 uses the term 'business model' in terms of how financial assets are managed and the extent to which cash flows will result from collecting contractual cash flows, selling financial assets or both. The Standard positively defines two such 'business models':

- a business model whose objective is to hold the financial asset in order to collect contractual cash flows ('hold to collect'); or
- a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets ('hold to collect and sell').

Business models other than the two above result in classification of financial assets at fair value through surplus or deficit.

The cash flow characteristics test

The second condition for classification in the amortised cost classification or FVTOCI category can be labelled the 'solely payments of principal and interest' (SPPI) test. The requirement is that the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

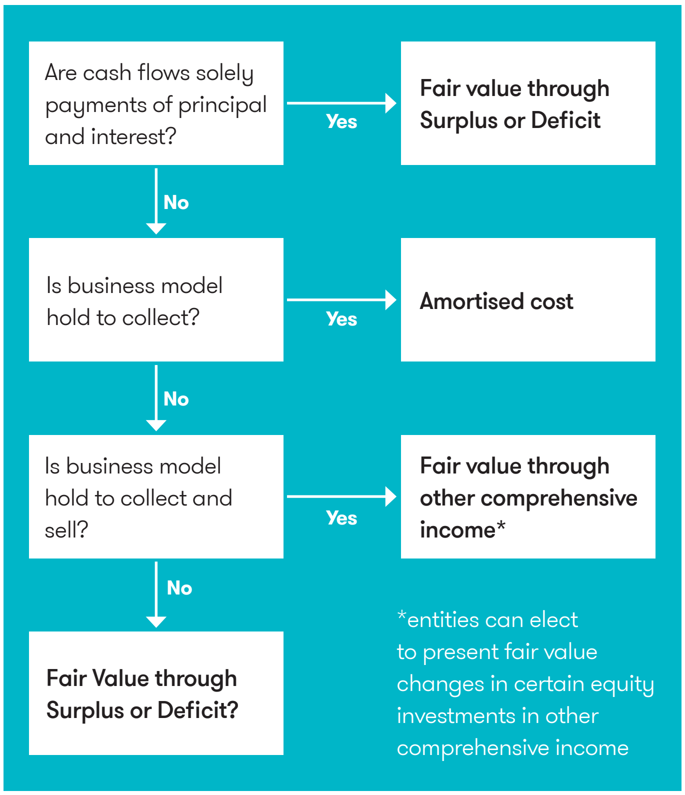
For the purpose of applying this test, 'principal' is the fair value of the financial asset at initial recognition. 'Interest' consists of consideration for:

- the time value of money;
- the credit risk associated with the principal amount outstanding during a particular period of time;
- other basic lending risks and costs; and
- a profit margin.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposures to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement however, such as exposure to changes in equity prices or exchange rates, fail the SPPI test. Similarly contracts that increase leverage fail the test as they increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.

The diagram on the next page shows the PBE IFRS 9 business model and how the cash flow characteristics test interact in determining the classification of financial assets.

Summary of PBE IFRS 9's classification model for financial assets



Classification and measurement of financial liabilities

Most of PBE IPSAS 29's requirements have been carried forward unchanged to PBE IFRS 9. Changes were however made to address issues related to own credit risk where an entity takes the option to measure financial liabilities at fair value.

Majority of requirements retained

Under PBE IPSAS 29 most liabilities are measured at amortised cost or bifurcated into a host instrument measured at amortised cost, and an embedded derivative, measured at fair value.

Liabilities that are held for trading (including all derivative liabilities) are measured at fair value. These requirements have been retained.

Own credit risk

The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, PBE IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This change addresses the counter-intuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

The only exception to the new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in surplus or deficit, in which case all gains or losses on that liability are to be presented in surplus or deficit.

Elimination of the exception from fair value measurement for certain derivative liabilities

PBE IFRS 9 now eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

Under PBE IPSAS 29, if those derivatives were not reliably measurable, they were required to be measured at cost. PBE IFRS 9 requires them to be measured at fair value.

Derecognition of financial assets and financial liabilities

The requirements in PBE IPSAS 29 related to the derecognition of financial assets and financial liabilities were incorporated unchanged into PBE IFRS 9.

A comparison to PBE IPSAS 29

Features	Key points
Objective of the Standard	• to better align hedging from an accounting point of view with entities' underlying risk management activities.
Similarities with PBE IPSAS 29	• hedge accounting remains an optional choice; • the three types of hedge accounting (fair value hedges, cash flow hedges and hedges of a net investment) remain; • formal designation and documentation of hedge accounting relationships is required; • ineffectiveness needs to be measured and included in surplus or deficit; • hedge accounting cannot be applied retrospectively.
The major changes	• financial guarantee contracts that under NZ IFRS 9 and NZ IAS 39 are required to be accounted for as insurance contracts, but PBE IFRS 9 allows the entity to continue their existing treatment of financial guarantee contracts, particularly those entered into at no or nominal value; • the scope of PBE IFRS 9 has been aligned to PBE IPSAS 29 dealing with non-exchange revenue transactions and so financial assets arising from non-exchange revenue transactions must be measured at fair value in accordance with the principles of PBE IPSAS 23 and taking account of transaction costs, where appropriate; • unlike NZ IFRS 9, PBE IFRS 9 continues to bring forward the application guidance in PBE IPSAS 29 on concessionary loans, including how to account for the difference between fair value of the loan and the transaction price; • increased eligibility of hedged items; • increased eligibility of hedging instruments and reduced volatility; • revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness; • a new concept of rebalancing hedging relationships; and • new requirements restricting the discontinuance of hedge accounting.

Disclosure requirements for concessionary loans

Concessionary loans are granted to or received by an entity on below market terms. Examples of concessionary loans granted by entities include loans to small farms, student loans granted to qualifying students for university or college education, and housing loans granted to low income families. Such loans are a feature of the NFP sector. They are often made to implement a government's or NFP's social policies. The intention of a concessionary loan at the outset is to provide or receive resources on below market terms. For this reason, the IPSASB and the NZASB concluded that more comprehensive disclosures are required by public sector entities for concessionary loans and has included additional disclosure requirements for such loans.

For concessionary loans granted an entity the following disclosures are required:

- A reconciliation between the opening and closing carrying amounts of the loans, including:
  - Nominal value of new loans granted during the period;
  - The fair value adjustment on initial recognition;
  - Loans repaid during the period;
  - Impairment losses recognised;
  - Any increase during the period in the discounted amount arising from the passage of time; and
  - Other changes.
- Nominal value of the loans at the end of the period;
- The purpose and terms of the various types of loans; and
- Valuation assumptions.

Hedge accounting

PBE IPSAS 29's hedge accounting requirements had been heavily criticised for containing complex rules either with made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so. As an example, hedge effectiveness was judged on both a prospective and retrospective basis, with a "bright-line" quantitative range of 80% to 125% being used to assess retrospective effectives on a quantitative basis. Anything outside this range resulted in the discontinuance of hedge accounting, leading to a sharp increase in volatility in the statements of profit or loss.

In part this complexity was a reflection of the fact that the hedge accounting requirements were an exception to PBE IPSAS 29's normal requirements. There was however also a perception that hedge accounting did not properly reflect entities' actual risk management activities, thereby reducing the usefulness of their financial statements. PBE IFRS 9's new requirements look to rectify some of these problems, aligning hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments; and
- introducing a more principles-based approach to assessing hedge effectiveness.

As a result, the new requirements should serve to reduce profit or loss volatility. The increased flexibility of the new requirements are however partly offset by entities being prohibited from voluntarily discontinuing hedge accounting and also by enhanced disclosure requirements. The simplifications table noted on the previous page gives a highly summarised view of the new hedging requirements.

Impairment

PBE IFRS 9 contains the Standard's requirements on impairment, including the recognition of expected credit losses. PBE IPSAS 29's impairment requirements had been criticised for being overly complicated and resulting in impairment being recognised at too late a stage. PBE IFRS 9 addresses these criticisms head on by applying the same impairment model to all financial instruments that are subject to impairment accounting and by using more forward-looking information. In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk; and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. There is also a third step to the model in the sense that for assets which actually become credit-impaired after initial recognition, interest is calculated on the asset's amortised cost (i.e. the amount net of the loss allowance) as opposed to its gross carrying amount.

Expected credit losses

Deterioration in credit quality

Stage 1 - Performing

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date
- 12-month expected credit losses are recognised
- interest revenue is calculated on the assessee's gross carrying amount

Stage 2 - Underperforming

- financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event
- lifetime expected credit losses are recognised
- interest revenue is still calculated on the asset's gross carrying amount

Stage 3 - Non-performing

- financial assets that have objective evidence of impairment at the reporting date
- lifetime expected credit losses are reognised
- interest revenue is calculated on the net carrying amount (ie reduced for expected credit losses)

Credit risk = low

Credit risk > low

Effective date and transition disclosures

PBE IFRS 9 introduces a new mandatory effective date for the Standard of accounting periods beginning on or after 1 January 2021. However, early adoption is permitted and there will be a requirement for all Crown entities and other public sector PBEs who form part of the New Zealand Government to apply PBE IFRS 9 in the year beginning 1 January 2019 if they are a Tier 1 or Tier 2 reporting entity under the NZASB's Accounting Standards Framework.

Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.

Advantages and disadvantages of early adoption of PBE IFRS 9

Advantages

- improved ability to align accounting with the reporting entity's business model for managing financial assets;
- gives a (one-off) opportunity to reclassify financial assets on initial adoption (assuming all the criteria are met);
- only one set of impairment rules needs to be considered, with no separate impairment assessment (or losses) for investment in equity instruments;
- simplified accounting for and valuation of financial instruments containing embedded derivatives in asset host contracts;
- enables hedge accounting to be aligned more closely with entities' risk management activities; and
- it avoids counter-intuitive results arising from changes in own credit risks where the option to measure financial liabilities at fair value has been taken.

Disadvantages

- need to re-evaluate the classification of all instruments within the scope of PBE IPSAS 29, with consequent implications for system changes;
- restricted ability to reclassify financial instruments on an ongoing basis;
- system changes will need to be made in order to generate the information necessary to implement the Standard's three-stage impairment model;
- inability to voluntarily discontinue hedge accounting; and
- there is a complicated transition provisions as a result of the phased completion of the project.

Operational significance

Most

Number of entities affected

Because the definition of a financial instrument is so wide, most Not for Profits can expect to be affected. Even entities with relatively simple debtors and creditors should consider the changes. In addition, the greater alignment of an entity's hedge accounting requirements with its risk management practices may encourage entities who engage in economic hedging to also apply hedge accounting.

High

Impact on affected entities

The new Standard, with its reduced number of measurement categories, should help to reduce the complexity in accounting for financial instruments. In the short-term however, it may lead to far reaching changes, with organisations needing to re-evaluate the classification of all instruments within the scope of PBE IPSAS 29.

In addition to the impact on an entity's financial position and reported results, many organisations will need to collect and analyse additional data and implement changes to systems in order to implement the new requirements on impairment.

2018 Omnibus Amendments to PBE Standards

PBE IPSAS 2 Cash Flow Statements

Paragraphs 55A to 55E have been added to PBE IPSAS 2 requiring entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments apply only to Tier 1 PBEs.

Upon transition, there is no requirement to provide comparative information for preceding periods.

Operational significance

Some

Number of entities affected

Under PBE IPSAS 1, a complete set of financial statements includes a cash flow statement. However, as the new paragraphs are a disclosure concession, they will only apply to Tier 1 PBEs.

Low

Impact on affected entities

The amendments relate only to disclosures.

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