Changing tack
A new financial reporting framework for public benefit entities
January 2016
Public benefit entities (PBEs) have experienced significant changes to their financial reporting requirements over the past few years. The introduction of a new financial reporting framework in New Zealand resulted in changes to the statutory reporting requirements of some PBEs, and the accounting standards applicable to PBEs that prepare general purpose financial statements.

The New Zealand financial reporting framework has two parts: the statutory financial reporting framework and the accounting standards framework. The statutory framework determines which entities have a legal obligation to prepare general purpose financial statements that comply with accounting standards. It also sets out the legal requirements around the audit and filing of financial statements. For some PBEs, these statutory requirements have changed under the new financial reporting framework, due to the enactment of the Financial Reporting Act 2013 (FRA 2013) and Financial Reporting (Amendments to Other Enactments) Acts 2013. In particular, under the new framework, registered charities must prepare and file financial statements that comply with accounting standards, whereas previously they were not required to do so.

As a result, many registered charities will need to comply with accounting standards for the first time in the year ended 31 March 2016, and their financial statements could be significantly different to those previously prepared. In contrast, public sector PBEs, such as local authorities, Government departments and Crown entities, already had a statutory obligation to prepare financial statements that comply with accounting standards before the introduction of the new framework. For such entities, their statutory financial reporting requirements did not change, but the accounting standards applicable to them have changed (see below).

The second part of the financial reporting framework, the accounting standards framework, establishes the accounting standards to be applied by entities that have a statutory requirement (or choose) to prepare general purpose financial statements. The External Reporting Board (XRB) is responsible for setting such accounting standards. In 2011, the XRB announced its decision to move away from a single set of accounting standards for all entities to a multi-standards framework, which requires PBEs to apply a different set of standards as compared to for-profit entities. As a result of this change, many PBEs that previously prepared their financial statements under NZ IFRS, another form of IFRS-based standards, or any other standards (such as old NZ GAAP standards) now need to report under PBE accounting standards. In many cases, this will require PBEs to change some of their accounting policies and adjust their financial statements.

At the time of writing, although most public sector PBEs have already prepared their first set of financial statements using the new PBE accounting standards, many not-for-profit PBEs, such as registered charities, will be considering and applying these requirements for the first time.

Other than as discussed above, this publication does not address the existence or otherwise of a statutory obligation to prepare general purpose financial statements that comply with accounting standards (please refer to your entity's governing legislation to ascertain this). Rather, this publication aims to assist PBEs that have such a statutory obligation, or are otherwise required or choose to, prepare general purpose financial statements, in understanding and applying the requirements of PBE Standards under the new financial reporting framework.

In this publication, we provide:

- A summary of the financial reporting requirements for PBEs (Section 1).
- The key differences between PBE Standards and previous requirements, and other matters relating to the first-time adoption of PBE Standards (Section 2), including:
  - A summary of matters relating to first-time adoption of PBE Standards (Section 2.1).
  - The key differences between PBE Standards and previous financial reporting requirements under the various suites of standards previously applied, covering both standards based on New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and Old NZ GAAP (Section 2.2 - 2.4).
  - Specific considerations for not-for-profit PBEs that are registered charities (Section 2.5).
  - A summary of disclosure concessions for Tier 2 PBEs (Section 2.6).
  - A list of PBE Standards that contain different requirements for not-for-profit PBEs as compared to public sector PBEs (Section 2.7).
  - A summary of next steps (Section 3).
- How EY can help your organisation (Section 4).
PBEs are defined as entities whose primary objective is to provide goods or services for community or social benefit, and where equity has been provided with a view to supporting that primary objective, rather than for a financial return to equity holders.

Examples of PBEs include many entities in the public sector (e.g. government departments, hospitals and schools), along with charities and some other not-for-profit entities in the private sector. However, public sector entities that are profit-oriented (e.g. state-owned enterprises) will continue to use the accounting standards applying to for-profit entities, i.e. NZ IFRS.

Although the definition of a PBE has not changed, it is now much more important under the new multi-standards framework — as the classification of an entity as a PBE or a for-profit entity will determine which suite of accounting standards applies. Therefore, the first step is to determine whether or not an entity meets the definition of a PBE. For some entities this may involve revisiting the definition of a PBE — for both the parent group and any subsidiaries in the group.

As noted in the introduction, the issuance of PBE-specific standards follows an XRB decision in 2011 to move away from a single set of accounting standards for all entities to a sector-specific standards approach. Under this approach, there are separate and, in some cases, different requirements for PBEs. In addition, there are four tiers of PBE reporting requirements, to reflect the wide range of sizes of PBEs.

The diagram below outlines the new accounting standards framework for PBEs:
2. Key differences between PBE Standards and previous requirements

The exact impact of PBEs moving from existing standards to PBE Standards will differ from entity to entity. The impact will also depend on the existing standards applied by the entity.

Before the introduction of PBE Standards, different PBEs will have reported under different financial reporting standards. Depending on the PBE's size, ownership structure and other criteria, PBEs that were required to prepare general purpose financial reports will have reported in accordance with one of the following sets of standards:

- NZ IFRS as applicable to PBEs (“NZ IFRS PBE”) in full.
- NZ IFRS PBE with differential reporting concessions (NZ IFRS PBE Diff Rep).
- Old NZ GAAP — either in full or with differential reporting concessions.

PBEs that did not have a requirement to prepare general purpose financial reports that comply with accounting standards may have reported under any of the abovementioned standards, or they may have not applied any standards at all (i.e. special purpose financial reporting).

As mentioned above, PBEs are likely to have to change their accounting policies upon transition to PBE Standards regardless of the standards that they applied before the transition (although the extent of the changes will depend on what standards were previously applied). The manner in which these changes are applied upon first-time adoption, including transitional provisions, is described in the following two PBE Standards:

- PBE FRS 46 First-time adoption of PBE Standards by Entities Previously Applying NZ IFRSs (PBE FRS 46) sets out the transitional provisions for PBEs that have previously applied standards based on IFRS – either full NZ IFRS (PBE) or NZ IFRS (PBE) with differential reporting concessions (it also applies to PBEs who previously used for-profit versions of NZ IFRS, i.e. full NZ IFRS, NZ IFRS RDR, or NZ IFRS Diff Rep – referred to in this document as NZ IFRS).

For PBEs that previously reported under full NZ IFRS PBE, the move to the new PBE Standards is the most significant change in accounting standards since the initial move to NZ IFRS. However, most PBEs that previously applied full NZ IFRS PBE should find that there is no need to make many major changes to their accounting policies – because the new PBE Standards are based on IPSAS, which are themselves based on IFRS. Nevertheless, there are some potentially significant differences and also a range of smaller differences between the PBE standards and NZ IFRS PBE.

In contrast, for PBEs that previously qualified for and applied differential reporting concessions available under NZ IFRS PBE, the changes in accounting policies required upon adoption of PBE Standards may be more wide-ranging and significant.

Furthermore, for PBEs that previously applied Old NZ GAAP (or any other standards or policies that are not based on NZ IFRS), the impact of transition to PBE Standards is likely to be greater still.

Changes in accounting policies necessitated by the transition to PBE Standards are likely to require adjustments to a PBE’s financial statements. Most public sector PBEs should have already made this transition, whereas not-for-profit PBEs are about to make the move. Every not-for-profit PBE that is required to (or chooses to) move to the new PBE Standards will need to go through a process of identifying relevant differences and assessing the impact on their financial reporting. That assessment will then help to determine what changes might be needed to accounting processes and information systems.

- PBE FRS 47 First-time adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs (PBE FRS 47) sets out the transitional provisions for PBEs that previously applied Old NZ GAAP (or any other non-IFRS standards – referred to in this document as Old NZ GAAP) or did not previously apply any accounting standards.

The main difference between the above two standards is that under PBE FRS 47, PBEs have a range of transitional provisions available to them upon adoption of PBE standards. PBE FRS 47 is essentially based on NZ IFRS 1 First-time adoption of NZ IFRS.

Under PBE FRS 46, PBEs that have previously applied any form of NZ IFRS must not change their accounting policies, unless a change is required by PBE Standards or is a voluntary change, or correction of an error, made in accordance with PBE IPSAS 3.
Comparative Information

On adoption of PBE Standards, an entity will be required to determine its "date of transition to PBE Standards". For all PBEs (except for Tier 2 not-for-profit PBEs who did not previously apply IFRS-based standards, as discussed below), the date of transition is "the start of the earliest period for which the entity presents full comparative information in its first set of financial statements prepared under PBE Standards".

An opening statement of financial position must be prepared as at this date of transition (i.e. prepared as part of the entity’s accounting records). Both PBE FRS 46 and PBE FRS 47 require the opening statement of financial position, as well as the comparative information presented in the first-time adopter’s financial statements, to comply with PBE Standards. Therefore, if a PBE presents financial statements under PBE Standards for the first time in the year ended 31 March 2016, the PBE’s date of transition will be 1 April 2014 (except for Tier 2 not-for-profit PBEs that did not previously apply IFRS-based standards). An opening statement of financial position will be required to be prepared at this date, and all transactions from this date must be in accordance with PBE Standards. Thus, comparative figures for the year ended 31 March 2015 must also comply with PBE Standards.

The opening statement of financial position prepared at the date of transition need only be presented (i.e. disclosed in the entity’s financial statements) by Tier 1 PBEs that previously applied Old NZ GAAP or another form of non-IFRS-based standards (but all PBEs must prepare this statement).

Tier 2 not-for-profit PBEs that previously did not apply IFRS-based standards have a choice of determining their date of transition as either the start of the earliest period presented, as outlined above, or the start of the year in which they first report under PBE Standards. This means that they have the option of not preparing and presenting comparative information in accordance with PBE Standards. If this option is taken, the entity’s opening statement of financial position must be prepared, and presented, as at the start of the current reporting period. Please refer to “Difference between public sector PBEs and not-for-profit PBEs” below.

Transitional Provisions

Unless there are exemptions from retrospective application, all changes in accounting policies that result from the transition to PBE Standards will need to be applied retrospectively, i.e. to all preceding accounting periods, as well as the current accounting periods.

Entities applying PBE FRS 46 have transitional provisions available to them if they are required to recognise an asset or liability that previously was not recognised. The entity will have a choice of: (a) applying the relevant PBE Standards retrospectively, (b) measuring the asset/liability at fair value on the date of transition to PBE Standards, or (c) using a fair value measure as the deemed cost of the asset/liability upon transition to PBE Standards.

This choice is available in all cases where first-time adoption of PBE Standards results in the recognition of previously unrecognised assets and liabilities, except for the following situations where PBE FRS 46 provides specific transitional provisions, namely:

• For assets or liabilities arising on the application of PBE IPSAS 23: PBE IPSAS 23 is required to be applied retrospectively to all previous accounting periods, including periods before the “date of transition to PBE Standards”.

• For assets or liabilities arising on the application of PBE IPSAS 32: If the PBE is a grantor in a service concession arrangement that began before the date of transition to PBE Standards, but has previously not recognised a service concession asset and related liability with respect to this arrangement, then the PBE may recognise the asset and liability at deemed cost as at the date of transition to PBE Standards. The deemed cost is the fair value of the asset as at the date of transition to PBE Standards. This means that the PBE does not need to determine the cost/fair value of the service concession asset/liability as at the date when it first entered into the service concession arrangement.

• For entities that previously applied NZ IFRS PBE with differential reporting concessions (see section 2.3 below).

For entities applying PBE FRS 47, there are a number of specific transitional provisions providing an entity with relief from retrospective application. These include concessions for:

• Business combinations an entity may have entered into prior to the date of transition.

• The use of fair value as deemed cost for property, plant and equipment, investment property and intangible assets at the date of transition.

• Assets and liabilities arising from PBE IPSAS 32 (in a similar manner to PBE FRS 46).

• Entities previously applying Old NZ GAAP differential reporting concessions (see section 2.4 below) in relation to foreign exchange and expensed development costs.

Please refer to Section 2.4 below.

The next sections discuss the differences between PBE Standards and previous standards applied by PBEs, and the effect of these differences. They also discuss transitional provisions, and whether changes can be applied prospectively or must be applied retrospectively.
### 2.2 PBEs previously applying full NZ IFRS PBE

The table below summarises some of the main differences and potential impacts for PBEs transitioning from full NZ IFRS PBE to PBE Standards:

Changes in accounting policies arising from these differences are to be applied using the transitional provisions set out in PBE FRS 46, as outlined in section 2.1 above.

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<thead>
<tr>
<th>Standard</th>
<th>Key changes</th>
<th>Potential impact</th>
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| PBE IPSAS 23  
Revenue from Non-Exchange Transactions | No equivalent standard under NZ IFRSs.  
Recognise an asset and revenue only to extent that liability for deferred revenue is not also recognised.  
Liability recognised only to extent that present obligations have not been satisfied, and in respect of a transferred asset, only when a transferred asset is subject to a condition (e.g. asset must be consumed as specified, or returned to grantor/donor).  
Does not permit the recognition of a liability in respect of a transferred asset that is solely subject to a restriction. | High – Impact will depend on whether an entity has significant non-exchange revenue and how its previous accounting policy on revenue from non-exchange transactions compares to PBE IPSAS 23.  
May lead to earlier recognition of some non-exchange revenue or recognition of fewer liabilities relating to transferred assets.  
Specifically, those entities with revenue from grants, donations, bequests and similar types of income – such as tertiary education institutions, registered charities and similar entities – will need to consider the financial reporting impact of this standard on their organisations. |
| PBE IPSAS 32  
Service Concession Arrangements: Grantor | No equivalent standard under NZ IFRSs.  
Prescribes the accounting for service concession arrangements by the grantor, a public benefit entity. | High for affected entities – Difficult to assess impact as there have been relatively few service concession arrangements to date in New Zealand. Unlikely to be relevant to not-for-profit entities, as the grantor in a service concession arrangement is usually a public sector entity.  
For affected entities, the introduction of a new standard could potentially have a significant impact for grantors depending on how closely an entity’s existing policies are to PBE IPSAS 32. |
| PBE IPSAS 20  
Related Party Disclosures | General requirements are less detailed than NZ IAS 24 to focus on principles underlying related party disclosures.  
For public sector PBEs, transactions between related parties that occur on arm’s length terms and conditions need not be disclosed.  
In contrast, not-for-profit PBEs are required to disclose related party transactions regardless of whether or not they are on an arm’s length basis.  
Definition of key management personnel is more detailed and may be interpreted as being wider than the definition in NZ IAS 24.  
Key management personnel remuneration needs to be disclosed by class of key management personnel, rather than by type of remuneration. Additional disclosures on key management personnel remuneration are required, such as the number of persons included in each class of key management personnel on a full-time equivalent basis. | Medium – The impact on some entities may be significant.  
Fewer related party disclosures may be required for some public sector PBEs - but this will not be the case for not-for-profit PBEs.  
Some entities may have to collect new information about their key management personnel and disclose additional information on key management personnel remuneration. |
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<tr>
<th>Standard</th>
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<tbody>
<tr>
<td>PBE IPSAS 6 &lt;br&gt; Consolidated and Separate Financial Statements</td>
<td>Contains less guidance on accounting for the loss of control/significant influence/joint control of a controlled entity/associate/joint venture. &lt;br&gt; Contains less guidance on changes in ownership interest without a loss of control. &lt;br&gt; Losses attributable to minority interest (MI) that exceed the MI in the controlled entity to be allocated against the majority interest except to extent MI has a binding obligation and is able to make additional investment to cover losses. &lt;br&gt; In separate financial statements, investments in controlled entities, jointly controlled entities and associates can be accounted for at cost, using the equity method, or as a financial instrument. &lt;br&gt; No guidance on accounting for a group reorganisation in separate financial statements of a new parent.</td>
<td>Medium to low – The impact will depend on the entity's circumstances. &lt;br&gt; P&amp;L impact on loss of control/significant influence/joint control of a controlled entity/associate/joint venture may be measured differently. &lt;br&gt; Could result in divergent treatments of changes in ownership interests without a loss of control. &lt;br&gt; Losses attributable to minority interest would not necessarily result in the minority interest having a deficit balance. &lt;br&gt; Investments in controlled entities, jointly controlled entities, and associates may be measured differently in separate financial statements of an investor. &lt;br&gt; A new parent arising from a group reorganisation will need to determine the accounting treatment in its separate financial statements. &lt;br&gt; Some investments in associates that are within the scope of NZ IAS 28 Investments in Associates may not be within the scope of PBE IPSAS 7 and, therefore, would not be equity accounted. &lt;br&gt; The broader definition of joint control under PBE IPSAS 8 may result in more arrangements being within the scope of PBE IPSAS 8 than were previously within the scope of NZ IAS 31 Interests in Joint Ventures.</td>
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<td>PBE IPSAS 7 &lt;br&gt; Investments in Associates</td>
<td>In the revised suite of PBE Standards (issued in September 2014), PBE IPSAS 6 has two version: one for public sector PBEs and one for not-for-profit PBEs. Each version contains additional guidance about the existence of control and other matters relating to consolidation for public sector PBEs and for not-for-profit PBEs respectively. Please refer to additional explanation below. &lt;br&gt; PBE IPSAS 7 has a narrower scope than NZ IAS 28, as it applies only when the investment in the associate is an ownership interest in the form of shares or other formal equity structure. &lt;br&gt; PBE IPSAS 8 has a different – and potentially wider – definition of joint control, compared with the equivalent NZ IFRS PBE standard.</td>
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<tr>
<td>PBE IPSAS 9 &lt;br&gt; Revenue from Exchange Transactions</td>
<td>A number of interpretations which form part of NZ IFRS have not been incorporated in the PBE Standards. &lt;br&gt; Definition of revenue encompasses gains.</td>
<td>Medium to low – Diversity may arise in practice where relevant NZ IFRS guidance has not been incorporated into PBE Standards. &lt;br&gt; Revenue amounts reported under PBE Standards may not be comparable to revenue amounts reported under NZ IFRS (e.g. arising from the inclusion/exclusion of gains within revenue).</td>
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<tr>
<td>PBE IPSAS 21 &lt;br&gt; Impairment of Non-Cash-Generating Assets</td>
<td>Indicators for impairment testing differ. &lt;br&gt; PBE IPSAS 21 has three approaches for measuring value in use for non-cash-generating assets – depreciated replacement cost (DRC), restoration cost and service units approach – whereas only DRC is used under NZ IFRS.</td>
<td>Medium to low – Some assets currently considered to be impaired may not be impaired under the PBE IPSAS 21. &lt;br&gt; In theory, impairment loss calculations could be different, but this is unlikely where DRC continues to be used.</td>
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<tr>
<td>PBE IPSAS 1 &lt;br&gt; Presentation of Financial Statements</td>
<td>PBE IPSAS 1 uses different terminology than the equivalent NZ IFRS standard and has a range of minor disclosure differences. It also does not prohibit the presentation of ‘extraordinary’ items of revenue or expense, unlike the equivalent NZ IFRS standard.</td>
<td>Low – although given that this standard has a range of disclosure requirements, each entity will need to consider the disclosure differences. For example, PBE IPSAS 1 requires receivables to be separated into those from exchange transactions and those from non-exchange transactions.</td>
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## 2.3 PBEs previously applying differential reporting concessions under NZ IFRS PBE

The above differences also apply to PBEs that previously qualified for and applied differential reporting concessions under NZ IFRS PBE Diff Rep. However, for such PBEs, additional differences may arise, as differential reporting concessions around measurement and recognition will be no longer available to them under PBE Standards. Although such entities are likely to be Tier 2 PBEs, and therefore will be eligible for the Tier 2 reduced disclosure regime (see below), the same measurement and recognition requirements that apply to Tier 1 PBEs also apply to Tier 2.

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<tr>
<th>NZ IFRS (PBE) standard with differential reporting concessions</th>
<th>Differential reporting concession that is not available under PBE Standards</th>
<th>Potential Impact</th>
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</thead>
<tbody>
<tr>
<td>NZ IAS 7 (PBE) Statement of Cash Flows</td>
<td>Qualifying entities were not required to present a statement of cash flows in the financial statements.</td>
<td>PBEs that applied this concession will need to prepare and present a statement of cash flows under PBE Standards. The PBE will need to prepare and present a statement of cash flows for the year when they first report under PBE Standards, and for the comparative period (i.e. the previous year).</td>
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<tr>
<td>NZ IAS 11 (PBE) Construction Contracts</td>
<td>Qualifying entities were able to recognise profit on all construction contracts on a “completed contract method”, whereby profit is recognised only when the contract is completed or substantially completed, and did not need to comply with any other requirements of NZ IAS 11 (PBE).</td>
<td>PBEs that applied this concession will need to change their accounting policy such that revenue and expenses on construction contracts are recognised with reference to the contract's stage of completion, if the outcome of the contract can be reliably estimated. If the outcome of the contract cannot be reliably measured, expenses are recognised as they are incurred and revenue is recognised to the extent that the relevant costs have been incurred. PBEs will also need to comply with all other relevant accounting and disclosure provisions of PBE IPSAS 11. There are no transitional provisions available under PBE FRS 46 for differences arising from this differential reporting concession. PBEs will have to apply this change retrospectively to all previous accounting periods. This may result in adjustments to the comparative accounting period and/or pervious accounting periods to recognise revenue and expense on incomplete projects, which would not have been previously recognised.</td>
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<tr>
<td>NZ IAS 12 (PBE) Income Taxes</td>
<td>Qualifying entities had a choice of accounting for income tax either in accordance with NZ IAS 12 (PBE), or using the taxes payable method.</td>
<td>PBEs that applied this concession will have to change their accounting policies such that tax is measured and recognised using the deferred tax method, as per the requirements of PBE IAS 12 (which is similar to NZ IAS 12). PBEs will need to apply this change retrospectively to all previous accounting periods. There are no transitional provisions available under PBE FRS 46 for differences arising from this differential reporting concession. This may result in adjustments to the comparative period and opening equity to recognise deferred tax asset/liability and deferred tax movements, which would not have been previously recognised. Please note that even if a public sector or not-for-profit PBE is exempt from paying income tax, such PBEs may have subsidiaries, joint ventures and/or associates that are not exempt, in which case income tax could be relevant for the PBE.</td>
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### NZ IFRS (PBE) Standard with Differential Reporting Concessions

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<tr>
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<th>Differential Reporting Concession that is not available under PBE Standards</th>
<th>Potential Impact</th>
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<tr>
<td>NZ IAS 16 (PBE) Property, Plant and Equipment (PP&amp;E)</td>
<td>Qualifying entities were permitted to adopt the same depreciation rates as issued by the Inland Revenue for income tax purposes (except for assets measured using the revaluation model). If this exemption was taken, the entity was also not required to review residual values, useful lives or depreciation methods on an annual basis.</td>
<td>PBEs that applied this concession will need to determine the appropriate depreciation rates in accordance with PBE IPSAS 17. Depreciation rates will need to be determined with reference to the useful lives of PP&amp;E items and the expected consumption of service potential or economic benefit embodied in the PP&amp;E items. PBE FRS 46 includes transitional provisions in relation to this difference. If depreciation rates change as a result of the above assessment, the PBE may either apply this change retrospectively to all previous accounting periods, or account for it as a change in accounting estimates as at the date of transition to PBE Standards. This may result in adjustments to the comparative and/or previous accounting periods to recognise the difference between income tax depreciation rates and the depreciation rate calculated under PBE Standards.</td>
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<tr>
<td>NZ IAS 18 (PBE) Revenue</td>
<td>Qualifying entities were not required to recognise revenue exclusive of GST – they had a choice of recognising revenue and expense items either with GST included (gross) or with GST excluded (net).</td>
<td>PBEs registered for GST that applied this concession will need to change their accounting policies such that they recognise revenue and expenses exclusive of GST, and recognise a liability/asset for GST payable/receivable. This change will need to be applied retrospectively to all previous accounting periods. This may result in an adjustment to the comparative period and/or previous accounting periods to decrease the amount of revenue and expenses previously recognised, and to recognise GST payable/receivable which would not have been previously recognised. There are no transitional provisions available under PBE FRS 46 for differences arising from this differential reporting concession.</td>
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<tr>
<td>NZ IAS 21 (PBE) The Effects of Changes in Foreign Exchange Rates</td>
<td>Qualifying entities were not required to translate transactions measured in a foreign currency using the spot exchange rate at the date of the transaction. If this concession was applied, then transactions settled in the accounting period had to be translated at the settlement rate, and transactions unsettled at the end of the reporting period were translated using the closing rate as at the end of the reporting period.</td>
<td>PBEs that previously applied this concession will need to change their foreign exchange accounting policy such that transactions denominated in foreign currency are measured at the spot exchange rate as at the date of transaction. PBE FRS 46 has transitional provisions in relation to this difference. This change can be either applied retrospectively to all previous accounting periods, or prospectively from the date of transition to PBE Standards.</td>
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<tr>
<td>NZ IAS 36 (PBE) Impairment of Assets</td>
<td>Qualifying entities were not required to undertake an annual assessment of impairment for intangible assets with an indefinite useful life, or intangible assets not yet available for use, or goodwill acquired in business combination. Qualifying entities had to test these assets for impairment only when there was an indication that these assets may be impaired at the end of the reporting period.</td>
<td>PBEs that applied this concession will need to change their accounting policies such that intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill are tested for impairment every year, regardless of whether there are indicators of impairment. This change will need to be applied retrospectively to all previous accounting periods in accordance with PBE FRS 46. This may result in an adjustment to the comparative period and/or previous accounting periods to recognise impairment on the abovementioned intangible assets if it is found that impairment had arisen during these periods.</td>
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### NZ IFRS (PBE) standard with differential reporting concessions

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<tr>
<th>NZ IAS 38 (PBE)</th>
<th>Intangible Assets</th>
<th>Differential reporting concession that is not available under PBE Standards</th>
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<tr>
<td>Qualifying entities were permitted to expense all research and development costs in the period they are incurred — they were not required to capitalise development costs.</td>
<td>PBEs that previously expensed all research and development costs will need to change their accounting policy such that development costs that meet the relevant recognition criteria under PBE IPSAS 31 are capitalised. In accordance with PBE FRS 46, PBEs may either apply this change retrospectively to development costs incurred in all previous accounting periods, or prospectively to development costs incurred from the date of transition to PBE accounting standards. This may result in adjustments to the comparative period and/or previous accounting periods to reverse expenses previously recognised in connection with development costs, and to recognise these costs as assets.</td>
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<td>Qualifying entities were also permitted to use the rates adopted for income tax purposes in allocating the depreciable amount of the software over its useful life.</td>
<td>PBEs that used tax depreciation rates for financial reporting purposes will need to change their accounting policy for amortisation of intangible assets and re-assess their amortisation rates. Amortisation rates will need to be determined with reference to the useful lives of intangible assets and the expected consumption of service potential or economic benefit embodied in the asset. If amortisation rates change as a result of this assessment, in accordance with PBE FRS 46, the PBE may either apply this change retrospectively to all previous accounting periods, or account for it as a change in accounting estimates as at the date of transition to PBE Standards. This may result in adjustments to the comparative and/or previous accounting periods to recognise the difference between income tax amortisation rates and the amortisation rate calculated under PBE Standards.</td>
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<th>NZ IAS 41 (PBE)</th>
<th>Agriculture</th>
<th>Differential reporting concession that is not available under PBE Standards</th>
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<tr>
<td>Qualifying entities were not required to measure biological assets or agricultural produce at fair value — they had a choice of measuring each class of biological assets and each class of agricultural produce either at fair value or at cost. This concession applied even when fair value was reliably measurable.</td>
<td>PBEs that previously measured biological assets and/or agricultural produce at cost will have to change their accounting policy so that these assets are measured at fair value on initial recognition. In accordance with PBE FRS 46, the PBE may either apply this change retrospectively to all biological assets and agricultural produce recognised in previous accounting periods, or prospectively from the date of transition to PBE Standards. If the PBE chooses prospective application, it may continue to carry any agricultural produce that was harvested prior to the date of transition to PBE Standards at the same amount that these items were carried before transition date (i.e. if agricultural produce harvested before the date of transition to PBE Standards was carried at cost, the PBE may continue to carry these items at cost after transition date). However, all agricultural produce harvested after the date of transition must be measured at fair value at the time of harvest in accordance with PBE IPSAS 27. PBEs that previously applied the specific livestock concession will have to change their accounting policy so that livestock is measured at fair value. The PBE will have to apply the change retrospectively to all previous accounting periods.</td>
<td></td>
</tr>
<tr>
<td>Qualifying entities with livestock were permitted to use national average market values issued by Inland Revenue Department (if the entity measured livestock at fair value), or the national standard costs issued by Inland Revenue Department (if the entity measured livestock at cost) as a proxy for the fair value or cost respectively of a class of livestock, provided that such values are applied consistently to a class of livestock. This concession applies even when the fair value of biological assets is reliably measurable.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Potential Impact

- PBEs that previously expensed all research and development costs will need to change their accounting policy such that development costs that meet the relevant recognition criteria under PBE IPSAS 31 are capitalised. In accordance with PBE FRS 46, PBEs may either apply this change retrospectively to development costs incurred in all previous accounting periods, or prospectively to development costs incurred from the date of transition to PBE accounting standards. This may result in adjustments to the comparative period and/or previous accounting periods to reverse expenses previously recognised in connection with development costs, and to recognise these costs as assets.

- PBEs that used tax depreciation rates for financial reporting purposes will need to change their accounting policy for amortisation of intangible assets and re-assess their amortisation rates. Amortisation rates will need to be determined with reference to the useful lives of intangible assets and the expected consumption of service potential or economic benefit embodied in the asset. If amortisation rates change as a result of this assessment, in accordance with PBE FRS 46, the PBE may either apply this change retrospectively to all previous accounting periods, or account for it as a change in accounting estimates as at the date of transition to PBE Standards. This may result in adjustments to the comparative and/or previous accounting periods to recognise the difference between income tax amortisation rates and the amortisation rate calculated under PBE Standards.

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### NZ IFRS (PBE) standard with differential reporting concessions
As mentioned above, PBE Standards are based on IPSAS, which are in turn based on IFRS.

However, Old NZ GAAP has not been updated since the introduction of NZ IFRS in New Zealand, therefore Old NZ GAAP is “further removed” from PBE Standards than standards based on IFRS. Thus, for PBEs that previously applied Old NZ GAAP, there may be many differences between the accounting policies that they previously applied under Old NZ GAAP and those that they must apply under PBE Standards.

Moreover, these differences will vary from entity to entity, to a greater extent than for those PBEs that previously applied a version of NZ IFRS. This is because Old NZ GAAP generally contains less guidance on specific areas of the financial statements than NZ IFRS does.

For example, Old NZ GAAP does not have a standard or any specific requirements on the recognition and measurement of financial instruments, or on employee benefits. Therefore, different entities would have applied different policies in these areas under Old NZ GAAP. For these reasons we do not provide a list of differences for PBEs transitioning from Old NZ GAAP to PBE Standards in this publication. However, if you have previously applied Old NZ GAAP we can help you assess the impact of the transition to PBE Standards on your financial statements — please refer to the section “How we can help you” below.

Similarly to PBEs that previously applied differential reporting concessions under NZ IFRS PBE, please note that even though PBEs that previously applied Old NZ GAAP are likely to be Tier 2 PBEs, and therefore be eligible for the Tier 2 reduced disclosure regime, the same measurement and recognition requirements that apply to Tier 1 PBEs also apply to Tier 2.

Unlike PBEs that previously applied NZ IFRS PBE or any IFRS-based standards suite, PBEs transitioning from Old NZ GAAP to PBE Standards are allowed, in accordance with PBE FRS 47, to change their accounting policy choices upon transition to PBE Standards, as at the date of transition. For example, a first-time adopter can elect to measure PP&E at fair value at the date of transition and use that fair value as deemed cost.

This fair value may be the asset’s revalued amount under previous GAAP, as long as that revalued amount is comparable to fair value, cost or depreciated cost in accordance with PBE Standards. Going forward the entity can then use this “deemed cost” as the starting point for the cost method under PBE Standards, even though it may have previously had a policy of revaluing PP&E. Such changes do not need to be applied retrospectively – only prospectively from the date of transition to PBE Standards and onwards.

Where differences arise between the requirements of Old NZ GAAP and PBE Standards, in many cases such differences may not need to be applied retrospectively. This is because PBE FRS 47 provides several exceptions and exemptions from retrospective application. However, if an exemption is not provided or not applied, changes in accounting policies that are necessitated by the transition to PBE Standards must be made retrospectively. Adjustments resulting from retrospective application are recognised in the opening balance sheet that first-time adopters of PBE Standards must prepare.

Please note that, like NZ IFRS, Old NZ GAAP also included differential reporting concessions. We note that PBE FRS 46 provides a range of exemption from retrospective application for entities previously applying differential reporting exemptions under NZ IFRS (see Section 2.3 above). However PBE FRS 47 only provides exemptions in relation to Old GAAP differential reporting differences for foreign exchange and expensed development costs (as discussed in the table below). PBE FRS 47 does not have similar exemptions as provided in PBE FRS 46 for depreciation, amortisation and agricultural assets.

The key exceptions and exemptions from retrospective application are outlined on the next page.
<table>
<thead>
<tr>
<th>Relevant PBE Standard</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>Change in estimates: a PBE must not change its estimates retrospectively, unless the estimate must be changed due to a change in accounting policies necessitated by the transition to PBE Standards.</td>
</tr>
<tr>
<td>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</td>
<td>De-recognition of financial instruments: Financial instruments that were de-recognised under Old NZ GAAP before the date of transition to PBE Standards must not be retrospectively recognised and then de-recognised under PBE IPSAS 29, unless the information required by PBE IPSAS 29 was obtained at the time of the de-recognition.</td>
</tr>
<tr>
<td>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</td>
<td>Hedge accounting: Transactions entered into before the date of transition to PBE Standards that had not been designated as hedges shall not be retrospectively designated as hedges upon transition to PBE Standards.</td>
</tr>
<tr>
<td>PBE IFRS 3 Business Combinations</td>
<td>Change in estimates: a PBE must not change its estimates retrospectively, unless the estimate must be changed due to a change in accounting policies necessitated by the transition to PBE Standards.</td>
</tr>
<tr>
<td>PBE IPSAS 4 The Effects of Changes in Foreign Exchange Rates</td>
<td>De-recognition of financial instruments: Financial instruments that were de-recognised under Old NZ GAAP before the date of transition to PBE Standards must not be retrospectively recognised and then de-recognised under PBE IPSAS 29, unless the information required by PBE IPSAS 29 was obtained at the time of the de-recognition.</td>
</tr>
<tr>
<td>PBE IPSAS 16 Investment Property</td>
<td>PBEs may measure their PP&amp;E at fair value as at the date of transition to PBE Standards, and use this fair value as the “deemed cost” of the asset as at that date. PBEs using this exemption are not required to go back to accounting periods before the date of transition and determine the cost/depreciated cost (or fair value) of the PP&amp;E in these periods. Note that this exception is available even to PBEs that had previously revalued their PP&amp;E under Old NZ GAAP, as PBE FRS 47 allows first-time adopters to change their PP&amp;E accounting policy.</td>
</tr>
<tr>
<td>PBE IPSAS 17 Property, Plant and Equipment</td>
<td>The above also applies to investment properties (if the PBE elects to use the cost model for the property) and to intangible assets (but only if there is an active market for the asset).</td>
</tr>
<tr>
<td>PBE IPSAS 31 Intangible Assets</td>
<td>An entity that previously expensed all development costs in the period in which they were incurred need not apply PBE IPSAS 31 to those expenses recognised in the periods prior to the date of transition to PBE Standards. The entity may apply PBE IPSAS 31 prospectively from the date of transition to PBE Standards.</td>
</tr>
</tbody>
</table>
2.5 Specific consideration for not-for-profit PBEs that are registered charities: consolidation and control

Before 1 April 2015, charities were not required to prepare financial statements that comply with accounting standards, i.e. generally accepted accounting practice (GAAP). While some charities will have voluntarily prepared financial statements under IFRS-based standards, many charities will have prepared financial statements under Old NZ GAAP. Both IFRS-based standards and Old NZ GAAP will have required a charity (as a reporting entity) to identify those entities that it controls and to prepare a set of consolidated financial statements that include those controlled entities. However, due to the lack of obligation to comply with GAAP, some charities may not have consolidated all of those entities over which they have control. This applies in particular to charities that previously prepared special purpose financial statements that did not comply with GAAP.

However, the Charities Act 2005 now requires all registered charities to prepare financial statements that comply with accounting standards. Registered charities with annual operating payments below $125,000 (i.e. Tier 4 PBEs) may prepare their financial statements in accordance with the non-GAAP standard “PBE Simple Format Reporting – Cash”, which does not require the consolidation of controlled entities. However, all other registered charities must prepare financial statements that comply with GAAP, and therefore must consolidate controlled entities when preparing financial statements in accordance with PBE Standards (if they are in Tier 1 or 2), or in accordance with the standard “PBE Simple Format Reporting – Accrual” (if they are in Tier 3). Such charities should consider the definition of control under PBE IPSAS 6 (NFP).

To comply with GAAP, if a charity controls another entity for the purpose of PBE IPSAS 6 (NFP), then the charity must prepare group financial statements and must consolidate this entity into its group financial statements, regardless of whether the entity forms part of the charity’s “single entity” group under the Charities Act. For example, if Charity A controls Charity B for the purpose of PBE IPSAS 6 (NFP), but Charity A and Charity B are not registered as a single entity group under the Charities Act, then Charity A must prepare consolidated financial statements and include Entity B in the consolidation. However, Charity B will also need to prepare its own separate financial statements, as the Charities Act requires every charity that is registered separately to prepare financial statements.

When a charity and another entity are registered as a single entity group, the charity must only consolidate the other entity in its GAAP-compliant financial statements if it controls this other entity as per PBE IPSAS 6 (NFP). However, charities should note that in the case of single entity groups, Charities Services will determine whether they require the single entity group to prepare:

- A single set of financial statements for the single entity group: if control exists between the two entities, this would be the GAAP-compliant consolidated financial statements prepared by the controlling entity. If control does not exist, this would be a “combined” set of financial statements that does not comply with GAAP; or

- Individual financial statements for each entity that makes up the single entity group.

We understand that Charities services are unlikely to require single entity groups to prepare combined sets of financial statements (where control does not exist) as these are not GAAP compliant financial statements, but would instead require individual financial statement for each entity. For example consider two charities (Charity C and Charity D) which are registered within the same “single entity” group for the purpose of the Charities Act:

- Control Exists: If Charity C controls Charity D, then Charity C must prepare consolidated financial statements that comply with GAAP.

Charities Services will then determine whether these consolidated financial statements is all that they require from the single entity group, or whether they also require individual financial statements (in which case Charity D will need to prepare its own financial statements).

- No control: If the two charities do not meet the definition of a group in accordance with PBE IPSAS 6 (NFP) (i.e. there is no control relationship between the two entities), then neither charity can consolidate the other in its GAAP-compliant financial statements. In this situation, it is expected that Charities Services will determine that individual financial statements are required, rather than combined financial statements (which would not comply with GAAP).

We suggest entities discuss their reporting requirements with Charities Services if they have registered as a single entity group or have a number of registered charities included within consolidated financial statements.
Overall, there are more disclosure concessions in PBE Standards compared with the existing differential reporting concessions.

2.6 Tier 2 disclosure concessions

PBE Standards for Tier 2 PBEs have been developed by identifying disclosure concessions within each PBE standard. The disclosure concessions are largely similar to the disclosure concessions for Tier 2 for-profit entities and do not contain any recognition and measurement concessions, unlike NZ IFRS differential reporting. Disclosure concessions are denoted within PBE Standards by an asterisk (*) next to the paragraph, and a Tier 2 entity would not be required to comply with these requirements.

Overall, there are more disclosure concessions in PBE Standards compared with the existing differential reporting concessions. However, the disclosure concessions may be different from existing differential reporting concessions. Specifically, some of the disclosure concessions that are available under the PBE framework for Tier 2 PBEs include:

- **PBE IPSAS 1 Presentation of Financial Statements** – a range of disclosure concessions including disclosures around income tax on items of other comprehensive income, reclassification adjustments, audit fees, capital management and dividends.
- **PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors** – disclosures around accounting standards issued but not yet effective.
- **PBE IPSAS 6 Consolidated and Separate Financial Statements** – disclosures in separate financial statements when an entity elects not to prepare consolidated financial statements and certain information about significant controlled entities, jointly controlled entities or associates.
- **PBE IPSAS 7 Investments in Associates** – a range of disclosure concessions including disclosures around summarised financial information of associates and judgements made on whether the investor has significant influence.
- **PBE IPSAS 8 Interests in Joint Ventures** – disclosure of aggregate financial information when an investor has an interest in a jointly controlled entity and certain information about interests in significant joint ventures.
- **PBE IPSAS 17 Property, Plant and Equipment** – for the comparative period, the reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the period (this reconciliation is still required for the current reporting period) and selected other concessions.
- **PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets** – disclosures around provisions and contingent liabilities, including the major assumptions around uncertainties about the amount and timing of outflows, additional provisions made in the period and the amount of any expected reimbursement.
- **PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash-Generating Assets** – disclosures around each impairment loss recognised or reversed during the period and key assumptions used to determine the recoverable service potential of assets.
- **PBE IPSAS 30 Financial Instruments: Disclosures** – a range of disclosure concessions including disclosures regarding classes of financial instruments, qualitative and quantitative risk exposures, sensitivity analyses, reconciliations, and fair value.

Some of the existing differential reporting concessions which have been removed under the PBE framework for Tier 2 PBEs include:

- Entities will be required to prepare a cash flow statement.
- Entities that are subject to income tax will be required to account for deferred income tax.
Although the PBE Standards apply to all PBEs across the public and private sector, some standards contain different sets of requirements for public sector PBEs and not-for-profit PBEs. In addition, there are two versions of PBE IPSAS 6 Consolidated and Separate Financial Statements – one that applies to public sector PBEs and one that applies to not-for-profit PBEs. The key differences between the requirements for not-for-profit PBEs as compared to public sector PBEs are shown below:

<table>
<thead>
<tr>
<th>PBE Standard</th>
<th>Requirements for public sector PBEs</th>
<th>Requirements for not-for-profit PBEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBE IPSAS 20 Related Party Disclosures</td>
<td>Related party transactions other than with KMP: Public sector PBEs are not required to disclose any related party transactions that occurred as part of a normal client/supplier relationship and under arm’s length terms and conditions. However, if the terms and conditions of a related party transaction are not arm’s length, or if the transaction did not occur within a normal client/supplier relationship, then the public sector PBE must disclose the nature, type and elements of the related party transaction. Related party transactions with KMP: In addition to remunerating KMP in return for their services as members of the governing body/employees of the entity, a PBE may also provide other remuneration or compensation to KMP and/or close family member of KMP. For example, a member of the entity’s governing body may also be a professional lawyer, and the entity may pay this person for legal services, as distinct from the remuneration provided to this person as a member of the governing body. Public sector PBEs are not required to disclose other remuneration/compensation to KMP or their close family members if the remuneration/compensation was provided as part of a normal client/supplier relationship, and if the terms and conditions of the transaction were on arm’s length basis. If this is not the case, then the amounts provided to KMP and close family members of KMP respectively need to be disclosed.</td>
<td>Related party transactions other than with KMP: Not-for-profit PBEs are required to disclose the nature, type and elements of all related party transactions, regardless of whether a transaction occurred within a normal client/supplier relationship or not, and regardless of whether or not the terms and conditions of a transaction are arm’s length. Related party transactions with KMP: Not-for-profit PBEs must disclose the total amount of other remuneration and compensation provided to KMP, and to close family members of KMP, regardless of whether these amounts were provided within a normal client/supplier relationship or whether the terms and conditions were on an arm’s length basis. (Please refer to public sector column for an explanation and example of the terms “other remuneration and compensation”).</td>
</tr>
</tbody>
</table>
### PBE IPSAS 6 (PS)

**Consolidated and Separate Financial Statements**

- PBE IPSAS 6 (PS) discusses and explains control in the context of, and with examples relevant to, the public sector. For example, PBE IPSAS 6 (PS):
  - Mentions economic entity structures and ownership structures involving the government/government departments.
  - Explains that separate legislative powers do not preclude an entity from being controlled by another entity.
  - States that appropriation revenue received from an entity within the same group should be eliminated on consolidation.
  - Includes an example that relates to a local Council.

These matters are specific to the public sector. PBE IPSAS 6 (PS) does not contain explanations and examples that are specific to not-for-profit entities in the private sector.

### PBE IPSAS 6 (NFP)

- PBE IPSAS 6 (NFP) explains control in the context of, and with examples relating to, not-for-profit entities in the private sector. For example, PBE IPSAS 6 (NFP):
  - Mentions economic entity structures involving regional offices and branches.
  - Explains that affiliation with another not-for-profit entity does not necessarily imply the existence of control, and provides examples of affiliation arrangements, with comments as to whether it is likely that control exists.
  - Discusses the relationship between not-for-profit entities and related trusts, and the circumstances in which such relationships may constitute control.
  - Explains that a lender’s or donor’s ability to compel the borrower or recipient of donation to take certain action is not control for financial reporting purposes.
  - Explains that power, which is one of the elements of control, exists when the reporting entity has the ability or right to direct the other entity to act in a particular manner so as to support the objectives of the reporting entity, even if the reporting entity is not the direct recipient of the benefits achieved by these objectives.

These are matters that are specific to the private not-for-profit sector. PBE IPSAS 6 (NFP) does not contain explanations and examples that are specific to the public sector.

### PBE FRS 47

**First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs**

- In its first set of financial statements prepared under PBE Standards, a Tier 2 public sector PBE transitioning from Old NZ GAAP (or any other standards that are not based on IFRS) to PBE Standards must present comparative information (i.e. for the previous accounting period) that complies with PBE Standards. However, the public sector PBE does not need to present an opening statement of financial position as at the start of the comparative period presented in its first financial statements prepared under PBE Standards. This is a Tier 2 RDR concession.

  For example, if a Tier 2 public sector PBE prepares its first set of financial statements under PBE Standards in the year ended 31 December 2015, then it needs to present comparative information for the year ended 31 December 2014, and this information must comply with PBE Standards. However, it is not required to present an opening statement of financial position as at 1 January 2014 (although it must prepare such a statement).

- In its first set of financial statements prepared under PBE Standards, a Tier 2 not-for-profit PBE transitioning from Old NZ GAAP (or any other standards that are not based on IFRS) to PBE Standards has a choice to either present comparative information that complies with PBE Standards, or to attach its previous set of financial statements issued under Old NZ GAAP. This is a Tier 2 RDR concession that is available only to not-for-profit PBEs.

  However, a not-for-profit PBE that applies this concession must present an opening statement of financial position as at the start of the accounting period covered by the financial statements.

  For example, if the not-for-profit entity is preparing its first set of financial statements under PBE Standards in the year ended 31 March 2016, and it chooses not to present comparative information in these financial statements, then it must present an opening statement of financial position as at 1 April 2015. In addition, a not-for-profit PBE that applies this concession must also attach a copy of the previous year’s financial statements (which would be under Old NZ GAAP/other non-IFRS-based standards) and explain the key differences in accounting policies between the previous year and the current year.

  If a Tier 2 not-for-profit PBE does not apply the above concession, then it may apply the same RDR concession described in the public sector column, i.e. it needs to present comparative information but it does not need to present an opening statement of financial position as at the start of the comparative period presented.
Public sector PBEs with June year ends will have already transitioned to PBE Standards. We recommend all PBEs that have not yet transitioned to PBE Standards to perform an impact assessment and develop a transition plan.

Organisations first need to determine whether they are a PBE or for-profit entity. For some entities this may involve revisiting the definition of a PBE. Once an entity has determined it is a PBE (and the status of any subsidiaries), the process of planning for conversion can begin.

For PBEs that previously applied NZ IFRS or any of the NZ IFRS-based standards, although the conversion to PBE Standards from NZ IFRS will not be as significant as the move from old NZ GAAP to NZ IFRS, there are still some differences that entities will need to consider.

These differences may potentially have a significant impact on an entity's financial reporting processes, including its accounting policies, information systems, internal controls, and other operational aspects. For PBEs that previously applied Old NZ GAAP, the conversion to PBE Standards may result in significant changes in terms of both accounting and disclosure. In addition, groups headed by a PBE parent that has for-profit subsidiaries will need to consider the implications for group reporting purposes. Where some entities in the group continue to report under NZ IFRS while the parent reports under the new PBE Standards, it will be necessary to identify and track differences in accounting policies that could result in consolidation adjustments. This issue arises both on transition to PBE Standards and on an on-going basis, especially as for-profit subsidiaries move to new NZ IFRSs ahead of equivalent PBE Standards being developed and adopted.

3. Where to from here?
4. How we can help you

EY’s Financial Accounting Advisory Services and Assurance professionals bring together a wealth of accounting knowledge from diverse experiences advising a range of clients across the public, corporate and not-for-profit sectors.

We can help your organisation assess how the revised framework will impact your reporting obligations and assist with the interpretation and implementation of new accounting standards applicable to your organisation.

To help you prepare and plan for the transition to the new PBE Standards, we can assist with the following steps:

- Entity classification assessment – a review of the entity’s assessment of its classification as a PBE or for-profit entity for financial reporting purposes.
- Initial diagnostic phase – this would include a review of current accounting policies and an initial assessment of the impact of the move to the PBE Standards.
- Identification and assessment of specific issues – identify specific areas of focus for the transition, consideration of the impacts on the financial statements and the processes and systems currently in place.
- Implementation – assist to create new accounting policies, update financial information and systems and implement the transitional provisions, to help create an opening balance sheet.
- Post implementation – monitor and assess the progress of adoption of new standards and ensure financial information produced is in line with the new requirements.

In the table below, we outline in more detail the common issues that PBEs in New Zealand are likely to face when moving to new PBE Standards, and indicate how we can help.

<table>
<thead>
<tr>
<th>Issue</th>
<th>How we can help</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain a general understanding of the PBE Standards.</td>
<td>Design and deliver training sessions for personnel on the accounting implications of new or accounting standards.</td>
</tr>
<tr>
<td>Perform a preliminary assessment of the impact of the proposals on the entity’s financial statements.</td>
<td>Perform pre-implementation impact assessments, including: Assessing the expected impact on surplus or deficit of implementing accounting standards. Assessing the expected impact on key financial ratios and performance measures. Identifying new or changed financial statement disclosure requirements.</td>
</tr>
<tr>
<td>Interpreting and implementing the new PBE Standards.</td>
<td>Assist with the interpretation of the new accounting standards. Assist management in developing an implementation plan. Advise on project management, including timeline, tasks and resource allocation.</td>
</tr>
<tr>
<td>Selecting suitable accounting policies.</td>
<td>Ensure management is aware of the accounting policy options available to them under the new standards. Analyse the impact of different accounting policy options on the organisation. Assist management in selecting suitable accounting policies.</td>
</tr>
<tr>
<td>Benchmarking accounting policy decisions and financial statement disclosures against peers and others in the sector.</td>
<td>Provide observations of how others are approaching the new standards, problems they are identifying and solutions developed. Assist in the comparison of peers and similar entities’ accounting policy decisions, disclosures and expected impact on the financial statements.</td>
</tr>
<tr>
<td>Advise management during implementation.</td>
<td>Prepare progress reports and advise on the impact of the new standards. Review and provide input into accounting manuals that management will approve.</td>
</tr>
<tr>
<td>Ensuring financial statements are prepared in accordance with the new PBE Standards.</td>
<td>Perform financial statement GAAP compliance reviews.</td>
</tr>
<tr>
<td>Communicating the effect of changes in accounting policy decisions or reporting requirements to the public.</td>
<td>Advise on developing a communication plan. Advise on drafting communications.</td>
</tr>
</tbody>
</table>
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