



PROCESS FOR MODIFYING IFRSs FOR PBE/NFP

Introduction

1. Public benefit entities (PBE) are defined as “reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders” (NZ IAS 1 *Presentation of Financial Statements*, paragraph NZ 8.2).
2. A not-for-profit entity (NFP) is “an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls” (various AASB standards, including AASB 102 *Inventories*, paragraph Aus6.1).
3. **The purpose of modifying IFRSs¹ for PBE/NFP is to reflect differences between the PBE/NFP and for-profit sectors, including differences in user information needs, that warrant a different accounting treatment or guidance for public benefit and not-for-profit entities².** Both the FRSB and AASB are concerned that modifications to IFRSs for PBE/NFP be consistent between Australia and New Zealand to the extent possible. This *Process for Modifying IFRSs for PBE/NFP* (Process) is designed to provide a consistent basis for considering whether to make modifications or amendments to IFRSs for application in New Zealand and Australia.
4. It should be noted that an objective of this Process is that different people applying it would generally come to similar conclusions about whether a PBE/NFP modification to an IFRS is warranted, although the FRSB and AASB acknowledge that this may not always be the case. Applying the Process will not necessarily result in a modification for PBE/NFP or that, where a modification is made, the FRSB and AASB will make an identical modification.
5. There is a range of views on the appropriate approach to modifying IFRSs for PBE/NFP. This Process is predicated on the following assumptions.
 - (a) IFRSs are developed by an expert standard setting board, the International Accounting Standards Board, and its views represent international consensus on best practice for publicly accountable for-profit entities.
 - (b) IFRSs are developed following a stringent due process which encourages parties interested in for-profit entities to express their views.
 - (c) Modifications to IFRSs for PBE/NFP may be required when the IASB’s focus on for-profit entities means that an IFRS does not appropriately address PBE/NFP issues.
6. It follows from the above that the mere fact that either or both of the FRSB and AASB prefer a different requirement from that reached by the IASB on an issue will rarely be a sound basis for modifying an IFRS for PBE/NFP. There are many technical issues on which individuals and Boards hold a range of views as to the appropriate treatment. Disagreement with the IASB’s treatment is unlikely to provide good reason, in and of itself, for changing the requirement in an IFRS – modifications should arise from differences between sectors, user needs and cost-benefit considerations.

Nature of modifications

7. In this Process, the terms ‘modifications’ and ‘modifying’ are used to encompass changes to IFRSs, the addition of requirements or guidance to IFRSs and the deletion of requirements or guidance from IFRSs as applied by PBE/NFP. As a general rule, the FRSB and AASB hold the view that the same principles should apply to all modifications: that is the same principles should apply when considering whether to

¹ The term IFRSs includes standards and interpretations issued by the IASB.

² This principle reflects the ASRB’s view expressed in paragraph 24 of ASRB Release 8 *The Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards*.

change an IFRS requirement, add a requirement or guidance over and above that in an IFRS or develop a stand-alone standard.

8. In preparing and approving IFRSs for application in New Zealand and Australia, this Process has been developed to identify factors to assist in determining whether to make modifications i.e. whether to:
 - (a) amend, add or delete a presentation, disclosure, recognition or measurement requirement of an IFRS for application by PBE/NFP; or
 - (b) scope PBE/NFP out of a specific IFRS as adopted in New Zealand or Australia and deal separately with the relevant presentation, disclosure, recognition or measurement issues; or
 - (c) add a PBE/NFP disclosure or additional guidance to an IFRS; or
 - (d) create requirements (including standards) applicable only to PBE/NFP, even though there is no corresponding IFRS.

Factors to be considered before modifying an IFRS

9. Two questions would generally be considered before modifying an IFRS for PBE/NFP:

- (a) Are there issues that might warrant modifying an IFRS for PBE/NFP?
- (b) Are the identified issues sufficiently significant to warrant a departure from an IFRS?

(a) Are there issues that might warrant modifying an IFRS for PBE/NFP?

10. As noted above, the basis for modifying IFRSs for PBE/NFP should generally be differences between the PBE/NFP and for-profit sectors, including user information needs. Information needs will generally differ between the sectors where matters such as the selection of options and transactions, events and circumstances differ between the sectors in prevalence and/or differences in the balance between costs and benefits.
11. A modification to an IFRS may be made in an International Public Sector Accounting Standard based on one of the factors below. This would provide supporting evidence that there is a PBE issue that might warrant modifying an IFRS for PBE/NFP, subject to understanding the original rationale of the IASB and the reason why the modification was made by the International Public Sector Accounting Standards Board (IPSASB).
12. In some cases, the context or increased or reduced prevalence of a transaction or event for PBE/NFP, as compared with for-profit entities, may require modifications to the relevant IFRS to ensure that user needs are met while considering the balance between costs and benefits. In such cases, requirements in an IFRS may be amended or a new standard may be developed to address the issue. The following factors would generally be reviewed when considering differences in user needs between the for-profit and PBE/NFP sectors:
 - (a) nature of transactions, events and circumstances and their impact on PBE/NFP;
 - (b) benefits to users of complying with the IFRS; and
 - (c) costs of complying with the IFRS.
13. These factors are considered on a case-by-case basis where the various factors will be weighed up in a specific case to determine whether a modification to an IFRS is warranted for PBE/NFP. In reaching a conclusion, individuals may give greater weight to some factors than to others. That is, in each case factors will be identified and then consideration will be given to the particular relevance of the factors to the issue. Consideration of these factors does not, in and of itself, automatically result in the development of a modification to an IFRS for PBE/NFP.
14. The FRSB and AASB are aware that they may not have identified all the factors that should be considered in determining whether or not there is an issue that might lead to a modification of an IFRS for PBE/NFP. This Process will be placed on the websites of the AASB and FRSB. It will be updated when the FRSB and AASB encounter factors which are not adequately addressed by the Process in determining whether modifications to IFRSs for PBE/NFP are warranted.

Nature of transactions, events and circumstances and their impact on PBE/NFP

15. Few transactions, events and circumstances would uniquely occur in relation to PBE/NFP. However, some transactions, events and circumstances are more common among PBE/NFP than for-profit entities and may warrant a separate standard or more specific guidance. Transactions and circumstances that would generally be considered on this basis include the following.
 - (a) *Non-exchange transactions*, where an entity receives value from another entity without directly giving approximately equal value in exchange. Typical non-exchange transactions for PBE/NFP are the receipt of grants and donations and the exercising of taxing powers.
 - (b) *Non-cash generating assets or units*, where the future economic benefits of an asset or unit are not primarily dependent on the activity's ability to generate net cash inflows. Although such activities can occur in the for-profit sector, they are usually minor and subsidiary to the main objectives of the entity.

Benefits of compliance to users

16. There are cases where user needs for information will differ between for-profit entities and PBE/NFP. In particular, users of the financial reports of PBE/NFP are likely to be especially interested in:
 - (a) service delivery, being the quality of the goods and services produced and whether this level of quality is appropriate;
 - (b) efficiency and productivity, being more likely to involve information that is based on costs and on information about outputs/outcomes that may be non-financial in nature; and
 - (c) sustainability, because the sustainability of a PBE/NFP is more likely to depend on it meeting its mission than on its profits and profitability, whereas the sustainability of a for-profit entity is primarily dependent on financial performance.
17. It follows that users of PBE/NFP financial reports may benefit from a modification that is not considered a significant benefit in respect of for-profit entities because of the relative frequency of certain transactions and other events. For example, in respect of an asset received for no cost, the determination of a deemed cost by reference to the asset's fair value at acquisition can be viewed as providing more relevant information (than would the IFRS cost-based treatment) for users in a PBE/NFP context in which non-exchange transactions are relatively more common. Such an amendment would result in a different measurement requirement for PBE/NFP from the measurement requirement applying to for-profit entities.
18. In evaluating the potential benefits for users arising from the application of a particular IFRS, the FRSB and AASB will generally consider any material in the IASB's Basis for Conclusions that identifies the benefits of the proposed treatment for for-profit entities. However, some of the bases for the IASB's conclusions may not be relevant to PBE/NFP or may be less relevant to PBE/NFP than they are to for-profit entities.
19. Where the IASB's reasons for a requirement in an IFRS are regarded as applying equally in respect of PBE/NFP and for-profit entities, this factor would not apply.

Costs of compliance

20. A particular IFRS requirement may have a disproportionately costly impact on PBE/NFP, perhaps because of the frequency of particular types of transactions and other events among PBE/NFP. As an example of this factor, the relief from providing disclosures of the cost of an asset when the fair value model is applied in NZ IAS 16 *Property, Plant and Equipment* and AASB 116 *Property, Plant and Equipment* was based, in part, on the view that the costs of compliance with this disclosure given the frequent use of the fair value model by PBE/NFP, particularly in the public sector, would be substantial with no corresponding benefit to users.

(b) Are the identified issues sufficiently significant to warrant a modification to an IFRS for PBE/NFP?

21. Paragraphs 10-20 provide factors to identify issues and differences between the for-profit sector and PBE/NFP. The second step is to determine whether these differences are sufficiently significant as to warrant a modification to IFRSs for PBE/NFP.
22. The FRSB and AASB will take the following into account when deciding whether or not the identified PBE/NFP issue is so significant that a modification to an IFRS is warranted:
 - (a) an estimate of the significance of any modification on the financial statements;
 - (b) an estimate of the significance of a transaction, event or circumstance on the financial statements taken as a whole;
 - (c) whether or not a modification will increase or decrease internal consistency within IFRSs as modified for PBE/NFP; and
 - (d) the costs of preparing the modification and the costs of requiring preparers, auditors and users to learn and apply two sets of requirements.

An estimate of the significance of any modification on the financial statements

23. A modification is unlikely to be warranted where the modification would have an insignificant impact on financial statements. That is, a modification will generally be made only if it gives rise to a significant resultant benefit in improved information from making the modification. There would be no reason to impose the costs of making the change on the parties involved in financial reporting if the anticipated benefit is marginal.

An estimate of the significance of a transaction, event or circumstance on the financial statements taken as a whole

24. A modification is likely to be warranted if the effect of a transaction, event or circumstance is such for PBE/NFP that the financial statements taken as a whole do not provide useful information or provide misleading information.

Whether or not a modification will increase or decrease internal consistency within IFRSs as modified for PBE/NFP

25. There is concern about the potential for modifications, or lack of modifications, to decrease internal consistency within IFRSs as modified for PBE/NFP. A modification will be looked on more favourably if it increases internal consistency within IFRSs as modified for PBE/NFP. Any approved modifications will amend all the standards affected by the issue.

The costs of the modification

26. Modifications are not necessarily costless: costs may be borne by preparers, auditors, users, regulators and standard setters in considering whether or not a modification to an IFRS should be made. Costs are also borne by groups containing both for-profit and PBE/NFP entities when preparing consolidated financial statements. If it is agreed that a modification should be made, then costs of developing and implementing that modification will also arise. The view of the FRSB and the AASB is that like transactions should be treated in the same way. As there is limited capacity to amend IFRSs for for-profit entities and retain compliance with IFRSs, modifications to IFRSs for PBE/NFP will impose additional costs on participants in the financial reporting process where such modifications result in different reporting requirements for like transactions. All of these additional costs should not exceed the anticipated benefits to users of the financial statements.

Determining a different treatment for PBE/NFP

27. When it has been determined that a different disclosure, presentation, recognition or measurement requirement or different guidance is likely to be appropriate for PBE/NFP, the FRSB and AASB will determine what that different treatment should be. The FRSB and AASB would firstly have regard to

their respective conceptual frameworks. The FRSB and AASB would also consider other authoritative material that is relevant to the issue under consideration such as:

- any modification to IFRSs or a public sector specific standard issued by the IPSASB;
- the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*³;
- in the case of the FRSB, whether or not the AASB had modified, or was considering modifying, IFRSs in relation to the issue, and in the case of the AASB, whether or not the FRSB had modified, or was considering modifying, IFRSs in relation to the issue;
- a pronouncement issued by any other national standard setter using a similar conceptual framework; and
- the Government Finance Statistics Manual.

3 The IPSASB Conceptual Framework is presently under development.