Section 34
Specialised Activities

Scope of this section

34.1 This section sets out the financial reporting requirements for entities applying this FRS involved in the following types of specialised activities:

(a) Agriculture (see paragraphs 34.2 to 34.10A);

(b) Extractive Activities (see paragraphs 34.11 to 34.11C);

(c) Service Concession Arrangements (see paragraphs 34.12 to 34.16A);

(d) Financial Institutions (see paragraphs 34.17 to 34.33);

(e) Retirement Benefit Plans: Financial Statements (see paragraphs 34.34 to 34.48);

(f) Heritage Assets (see paragraphs 34.49 to 34.56);

(g) Funding Commitments (see paragraphs 34.57 to 34.63);

(h) Incoming Resources from Non-Exchange Transactions (see paragraphs 34.64 to 34.74);

(i) Public Benefit Entity Combinations (see paragraphs 34.75 to 34.86); and

(j) Public Benefit Entity Concessionary Loans (see paragraphs 34.87 to 34.97).

Agriculture

34.2 An entity using this FRS that is engaged in **agricultural activity** shall determine an **accounting policy** for each class of **biological asset** and its related **agricultural produce.**

Recognition

34.3 An entity shall recognise a biological asset or an item of agricultural produce when, and only when:

(a) the entity controls the **asset** as a result of past events;

(b) it is **probable** that future economic benefits associated with the asset will flow to the entity; and

(c) the **fair value** or cost of the asset can be measured reliably.

Measurement

34.3A For each class of biological asset and its related agricultural produce an entity shall choose as its accounting policy either:

(a) the fair value model set out in paragraphs 34.4 to 34.7A; or

(b) the cost model set out in paragraphs 34.8 to 34.10A.

34.3B If an entity has chosen the fair value model for a class of biological asset and its related agricultural produce, it shall not subsequently change its accounting policy to the cost model.

Sometimes, a single arrangement may contain both types: to the extent that the grantor has given an unconditional guarantee of payment for the construction (or upgrade) of the infrastructure assets, the operator has a financial asset; to the extent that the operator receives a right to charge the public for using the service the operator has an intangible asset.

Accounting – financial asset model

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction (or upgrade) services. The operator shall initially recognise the financial asset at fair value for the consideration received or receivable, based on the fair value of the construction (or upgrade) services provided. Thereafter, it shall account for the financial asset in accordance with Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*.

Accounting – intangible asset model

34.15 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially recognise the intangible asset at fair value for the consideration received or receivable, based on the fair value of the construction (or upgrade) services provided. Thereafter, it shall account for the intangible asset in accordance with Section 18.

Operating services

34.16 The operator shall account for **revenue** in accordance with Section 23 for the operating services it performs.

Borrowing costs

34.16A **Borrowing costs** attributable to the arrangement shall be recognised as an **expense**, in accordance with Section 25 *Borrowing Costs*, in the period in which they are incurred unless the operator has an intangible asset. In this case borrowing costs attributable to the arrangement may be capitalised in accordance with Section 25 where a policy of capitalisation has been adopted in accordance with that section.

Financial Institutions

34.17 A **financial institution** (other than a **retirement benefit plan**) applying this FRS shall, in addition to the disclosure requirements in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*, provide the disclosures in paragraphs 34.19 to 34.33. The disclosures in paragraphs 34.19 to 34.33 are required to be provided in:

(a) the **individual financial statements** of a financial institution (other than a retirement benefit plan); and

(b) the **consolidated financial statements** of a **group** containing a financial institution (other than a retirement benefit plan) when the **financial instruments** held by the financial institution are **material** to the group. Where this is the case, the disclosures apply regardless of whether the principal activity of the group is being a financial institution or not. The disclosures in paragraphs 34.19 to 34.33 only need to be given in respect of financial instruments held by entities within the group that are financial institutions (other than retirement benefit plans).

34.18 A retirement benefit plan shall provide the disclosures in paragraphs 34.35 to 34.48 of this FRS.

Disclosures

Significance of financial instruments for financial position and performance

34.19 A financial institution shall disclose information that enables users of its **financial statements** to evaluate the significance of financial instruments for its **financial position** and **performance**.

34.20 A financial institution shall disclose a disaggregation of the **statement of financial position** line item by class of financial instrument. A class is a grouping of financial instruments that is appropriate to the nature of the information disclosed and that takes into account the characteristics of those financial instruments.

Impairment

34.21 Where a financial institution uses a separate allowance account to record impairments, it shall disclose a reconciliation of changes in that account during the period for each class of **financial asset**.

Fair value

34.22 For financial instruments held at **fair value** in the statement of financial position, a financial institution shall disclose for each class of financial instrument, an analysis of the level in the fair value hierarchy (as set out in paragraph 11.27) into which the fair value measurements are categorised.

Nature and extent of risks arising from financial instruments

34.23 A financial institution shall disclose information that enables users of its financial statements to evaluate the nature and extent of **credit risk**, **liquidity risk** and **market risk** arising from financial instruments to which the financial institution is exposed at the end of the **reporting period**.

34.24 For each type of risk arising from financial instruments, a financial institution shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

Credit risk

34.25 A financial institution shall disclose by class of financial instrument:

(a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period. This disclosure is not required for financial instruments whose **carrying amount** best represents the maximum exposure to credit risk.

(b) A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk.

(c) The amount by which any related credit **derivatives** or similar instruments mitigate that maximum exposure to credit risk.

(d) Information about the credit quality of **financial assets** that are neither past due nor impaired.

34.26 A financial institution shall provide, by class of financial asset, an analysis of:

(a) the age of financial assets that are past due as at the end of the reporting period but not impaired; and

(b) the financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the financial institution considered in determining that they are impaired.

34.27 When a financial institution obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such **assets** meet the **recognition** criteria in other sections, a financial institution shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into **cash**, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

34.28 A financial institution shall provide a maturity analysis for **financial liabilities** that shows the remaining contractual maturities at undiscounted amounts separated between derivative and non-derivative financial liabilities.

Market risk

34.29 A financial institution shall provide a sensitivity analysis for each type of market risk (eg interest rate risk, currency risk, other price risk) it is exposed to, showing the impact on **profit or loss** and **equity**. Details of the methods and assumptions used should be provided.

34.30 If a financial institution prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage **financial risks**, it may use that sensitivity analysis instead.

Capital

34.31 A financial institution shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. A financial institution shall disclose the following:

(a) Qualitative information about its objectives, policies and processes for managing capital, including:

   (i) a description of what it manages as capital;

   (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

   (iii) how it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

A financial institution bases these disclosures on the information provided internally to **key management personnel**.

34.32 A financial institution may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the financial institution's capital resources, the financial institution shall disclose separate information for each capital requirement to which the entity is subject.

Reporting cash flows on a net basis

34.33 A financial institution that presents a statement of cash flow in accordance with Section 7 *Statement of Cash Flows* may report cash flows arising from each of the following activities on a net basis:

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(c) cash advances and loans made to customers and the repayment of those advances and loans.

This paragraph does not impose a requirement to produce a cash flow statement.

Retirement Benefit Plans: Financial Statements

34.34 An entity applying this FRS that is a **retirement benefit plan** shall also apply the requirements of paragraphs 34.35 to 34.48. A retirement benefit plan may be a **defined benefit plan**, a **defined contribution plan**, or have both defined benefit and defined contribution elements. The **financial statements** shall distinguish between defined benefit and defined contribution elements, where **material**.

Requirements applicable to both defined benefit plans and defined contribution plans

34.35 A retirement benefit plan need not comply with the requirements of paragraph 3.17. The financial statements of a retirement benefit plan shall contain as part of the financial statements:

(a) a statement of changes in **net assets available for benefits** (which can also be called a Fund Account) (see paragraph 34.37);

(b) a statement of net assets available for benefits (see paragraph 34.38); and

(c) **notes**, comprising a summary of significant **accounting policies** and other explanatory information.

34.36 At each **reporting date**, the net assets available for benefits shall be measured in accordance with paragraph 28.15(b). Changes in fair value shall be recognised in the statements of changes in net assets available for benefits.