

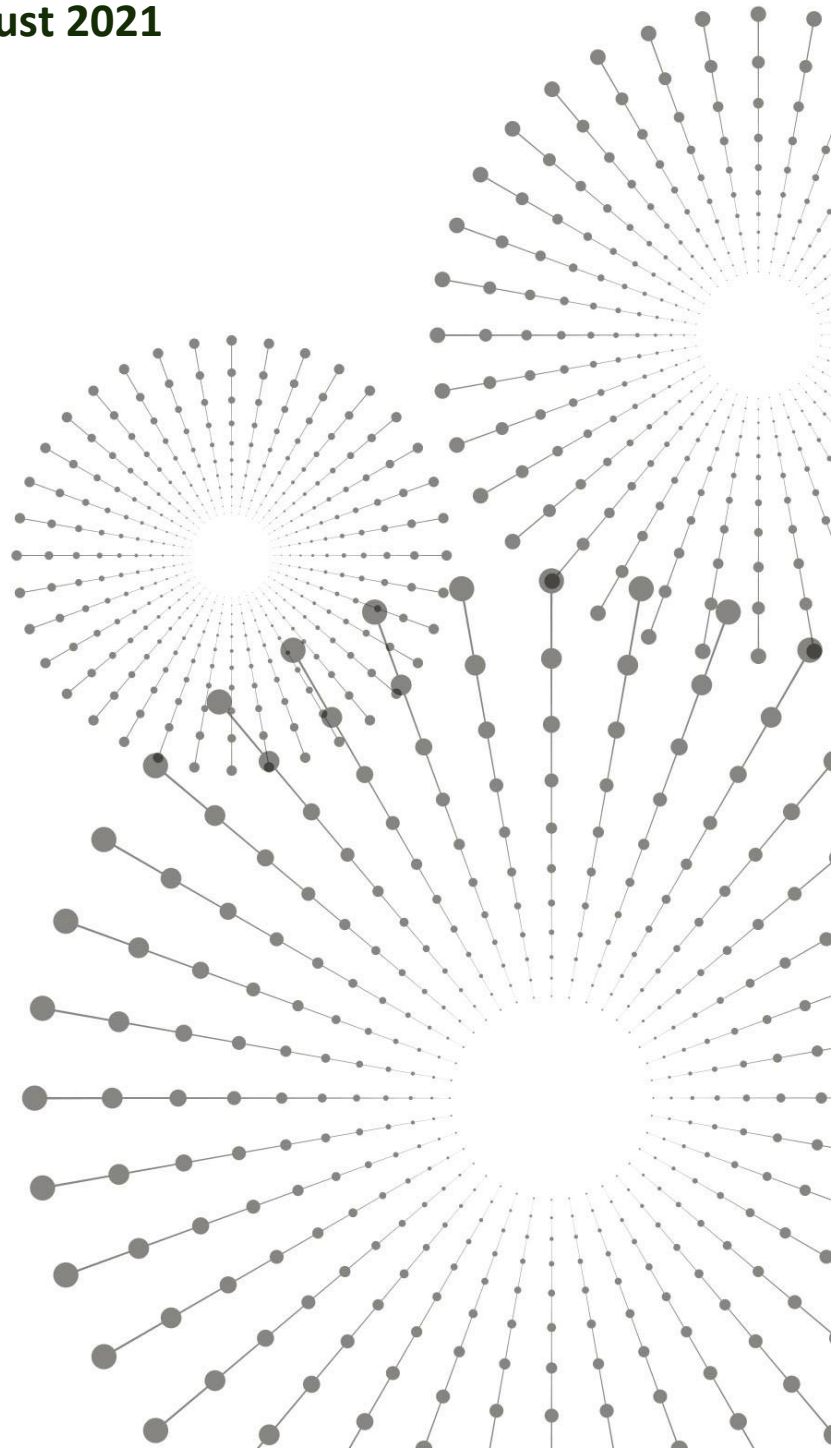


*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

# **Post-implementation Review of Simple Format Reporting Standards**

## **FEEDBACK STATEMENT**

**August 2021**



## Introduction

In September 2020, the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) released a discussion document titled: [Request for Information Simple: Format Reporting Standards – Post Implementation Review](#) (the RFI).

The purpose of the post-implementation review was to assess whether the Simple Format Reporting Standards (the Tier 3 and Tier 4 Standards) are working as intended and are achieving their objectives. These reporting standards are applied by Tier 3 and Tier 4 public benefit entities (PBEs), including registered charities, and other not-for-profit (NFP) entities in both the public and NFP sectors.

The XRB received over 100 written submissions which will be considered as the basis for developing proposed improvements to the standards, reporting templates and associated guidance material. This Feedback Statement provides a summary of respondents' comments and our response in terms of next steps.

## The Tier 3 and Tier 4 Standards

The scope of the review included the Tier 3 and Tier 4 Standards and the accompanying reporting templates and guidance material issued with each standard.

There is a single Simple Format Reporting Standard for each tier, with each standard accompanied by an optional performance report templates and associated guidance material. There is a public sector and NFP version of each standard which are almost identical.

Tier 3	<a href="#">PBE SFR-A (PS) – Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)</a> <a href="#">PBE SFR-A (NFP) – Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)</a>
Tier 4	<a href="#">PBE SFR-C (PS) – Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</a> <a href="#">PBE SFR-C (NFP) – Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)</a>

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## Key messages and next steps

- Thank you for your feedback. The NZASB greatly appreciates the time and effort constituents have put in to responding to the request for information. All comments received will be considered to ensure the standards are simple to apply and the information reported continues to meet user needs.
- While we are heartened by the overall positive impact of the Tier 3 and Tier 4 Standards on the PBE sector, we also acknowledge the feedback highlights several important areas where improvements and refinements may be needed. We are committed to addressing the issues raised to ensure the Tier 3 and Tier 4 Standards continue having a positive impact in the future.
- We welcome the increased use of Te Reo Māori in performance reports and we are committed to ensuring our standards are appropriate for all entities, including those with a kaupapa Māori focus.
- We are already taking actions based on your feedback.
  - o We have created a simpler/shorter 2-page template for Tier 4 entities.
  - o We are working on proposed changes to the Tier 3 and Tier 4 Standards (and accompanying templates/guidance material). These proposals will be exposed for comment before any changes are made to the existing Tier 3 and Tier 4 reporting requirements.
  - o We plan to develop more guidance materials (such as FAQs) to help Tier 3 and Tier 4 entities comply with the requirements.

## Summary of feedback received

General feedback received highlighted:

- Overall, the Tier 3 and Tier 4 Standards are working well and are achieving their desired objectives.
- There was strong support for reducing the length and complexity of the Tier 4 Standard.
- The XRB as the standard setter has an important role in promoting the use and consistent application of the Tier 3 and Tier 4 Standards.
- Improvements may be required to help the Tier 3 and Tier 4 Standards work better for Māori entities.

In response to specific feedback received, the following key areas have been identified where there is a need to consider improvements in the standards, templates and/or guidance.

- Service performance reporting requirements (Tier 3 and Tier 4).
- Minimum categories for presenting income and expenditure (Tier 3 and Tier 4).
- Opting up to the Tier 2 PBE Standards for specific transactions or balances (Tier 3).
- Revaluation of assets (Tier 3)
- Revenue recognition (Tier 3).
- Requirement to report on resources and commitments (Tier 4).

## Purpose and scope of the post-implementation review

The **purpose** of the post-implementation review was to assess whether the Tier 3 and Tier 4 Standards are working as intended and achieving their objectives.

### Objectives of the Tier 3 and Tier 4 Standards

- Set out the reporting requirements for Tier 3 and Tier 4 PBEs when preparing reports to meet the accountability and decision-making needs of a wide range of users.
- Improve the quality and consistency of the information reported.
- Facilitate comparability between entities, and between years for the reporting entity. Non-financial information was seen as an important component of these reports.

The NZASB considered it timely and important to seek feedback from stakeholders on how well the Tier 3 and Tier 4 Standards are working and to consider whether any changes are required. These Standards were effective for public sector PBEs from 1 July 2014 and NFP PBEs from 1 April 2015.

The **scope** of the review included the Tier 3 and Tier 4 Standards, the additional guidance and the optional reporting templates issued by the XRB.

In the RFI respondents were asked the following questions.

1. What is your overall view on how the standards are working? To help you answer this question you might want to consider whether:
  - (a) performance reports prepared using the standards provide the right kind of information;
  - (b) any new issues have emerged since the standards were issued;
  - (c) there is anything we did not think about or anything we did not get right; and
  - (d) the costs of applying the standards are higher than you expected.
2. What parts of standards, guidance or templates have been working well? Are there any that have been particularly useful?
3. Are there any specific issues that you have encountered in applying the standards, guidance, or templates? If you can, please outline:
  - (a) the specific part of the standard, guidance, or templates that you are commenting on (where relevant);
  - (b) the types of entities affected, how many entities are affected (if you know) and the impact the issue has on them; and
  - (c) how the issue should be addressed.

## **The consultation process**

The RFI was issued in September 2020. Respondents had the option of providing a written submission, completing an online survey, an online feedback form or participating in a face-to-face interview.

The RFI was open for comment for seven months. During that time, we conducted various outreach activities including: [webinars](#) and in-person presentations, discussions with the XRB's consultative advisory groups, roundtable meetings with key stakeholder groups, publishing articles and posting on social media.

The RFI comment period closed on 31 March 2021. In total 101 submissions were received (10 written, 20 face-to-face interviews, 6 via an online feedback form and 65 via an online survey).

Non-confidential submissions can be accessed on the [XRB website](#).

## Summary of feedback received and our response

This section summarises feedback on the questions in the RFI and the NZASB's response. We have classified the feedback into two categories.

- (a) **General feedback** – Most of this feedback came from responses to question 1 in the RFI.
- (b) **Feedback on specific parts of the standards** – This feedback was drawn primarily from responses to questions 2 and 3 in the RFI and relates to particular requirements in the Tier 3 and Tier 4 Standards or particular parts of the additional guidance and reporting templates. For each issue an indication of which tier it relates to has been included.

In response to feedback received, the NZASB has considered which of the following responses is most appropriate for each key matter identified.

- (a) **Further consideration by the NZASB** – these matters would be best addressed by considering possible amendments to the Tier 3 and/or Tier 4 Standard(s). Any proposed changes will be issued for public consultation.
- (b) **Additional education and awareness raising activities** – developing additional guidance and/or conducting other activities to promote consistent and improved application of the Tier 3 and Tier 4 Standards. These actions will include the development of guidance material (such as FAQs and illustrative examples) and other engagement activities.
- (c) **No further action** – a response is not required to these matters at this time. However, the NZASB will monitor the issue for evidence that action may be required in the future.

### *General feedback on the Tier 3 and Tier 4 Standards*

This section summarises the feedback received from respondents on RFI question 1, and the NZASB's response to this feedback.

#### **What we heard**

Most respondents considered that, in general, the Tier 3 and Tier 4 Standards are working well. These respondents generally noted that the standards:

- (a) have improved the quality, consistency and comparability of information reported by smaller PBEs;
- (b) the standards provide a clear structure for how small PBEs should report; and
- (c) the standards provide a helpful framework for reporting non-financial information which makes performance reports more relevant for non-accountants (and provides useful information to funders and donors and for smaller entities in the tier range).

These respondents also considered that performance reports produced using the standards provide sufficient information for smaller PBEs to meet their accountabilities and user needs. However, respondents raised three key issues relating to improving the appropriateness and accessibility of the requirements in the standards. These are discussed further below.

What we heard	Our response
<p><b>There is a need to shorten and simplify the Tier 4 Standard, guidance, and templates</b></p> <p>Respondents said that many Tier 4 entities were finding it difficult to comply with the Tier 4 Standard. Reasons included the following.</p> <ul style="list-style-type: none"> <li>(a) The Tier 4 Standard and guidance is too long and complex for many Tier 4 NFP entities.</li> <li>(b) The language used in the Tier 4 Standard is too technical for non-accountants and the smallest Tier 4 entities.</li> <li>(c) Small NFP entities are often under-resourced and find it difficult to attract and retain volunteers or staff who understand the reporting requirements.</li> </ul> <p>These respondents emphasised the need to reduce the length and complexity of the Tier 4 Standard and to simplify the language used to improve the application of the standard by smaller PBEs.</p> <p>However, a few respondents considered that the current Tier 4 Standard is appropriate given the accountabilities these entities owe to the public. These respondents also commented they could not see much scope for further simplifying the requirements.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We agree there is scope for reducing the length and complexity of the Tier 4 Standard.</p> <p>We will complete a review of Tier 4 Standard with the objective of improving ease of use – especially when applied by non-accountants.</p> <p>This will largely involve a re-expression of existing reporting requirements, rather than the development of a whole new model.</p> <p>Simplifications of existing requirements will be considered based on specific concerns raised by respondents.</p> <p>Board considerations will be based on our commitment to ensuring the Tier 4 Standard is simple to apply and this will also need to be balanced against meeting the user needs of the resulting annual performance reports.</p> <p>This work will include reviewing the Tier 3 and 4 guidance material and reporting templates. It will also include development of other plain language guidance material to further clarify the requirements.</p> <p>We have already created a simple, two-page reporting template for Tier 4 entities. This short template is available on the <a href="#">XRB website</a>.</p>
<p><b>The XRB should take on a more educative role</b></p> <p>Respondents considered that there is an ongoing issue around the lack of awareness of the standards within parts of the NFP sector.</p> <p>Some respondents considered that the XRB should take a more active role in promoting consistent use of the Tier 3 and Tier 4 Standards.</p> <p>These respondents specifically identified the work done in conjunction with Charities Services and Hui E when the Simple Format Reporting Standards were first introduced. They indicated that while they would not necessarily expect any ongoing activity to be as significant, they consider that an ongoing focus on promoting awareness and understanding was required.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We agree that it is appropriate for us to take a more active role in promoting the consistent use and application of the Tier 3 and Tier 4 Standards.</p> <p>In addition to developing more plain language guidance material, we intend to conduct additional education and awareness raising activities</p> <p>These activities will be conducted on an ongoing basis in collaboration with other stakeholders such as Charities Services, CA ANZ, CPA Australia and sector umbrella groups as appropriate.</p>

What we heard	Our response
<p><b>Applicability of the standards for Māori entities</b></p> <p>Respondents considered that the Tier 3 and Tier 4 Standards are not currently working well for Māori entities.</p> <p>These respondents noted that the standards and guidance material:</p> <ul style="list-style-type: none"> <li>(a) do not currently include any Te Reo Māori or encourage its use in performance reports;</li> <li>(b) do not provide examples relevant to Māori entities; and</li> <li>(c) sometimes use terminology and concepts that are not appropriate for entities with a kaupapa Māori focus.</li> </ul> <p>Respondents who raised concerns about terminology and concepts cited the specific examples of taonga and koha, which may conflict with the concepts of significance and donations in the standards. Difficulties with applying the concept of related parties in a marae context and determining the appropriate accounting treatment of Māori land were also raised.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We agree that the Tier 3 and Tier 4 Standards should be amended to better reflect the Te Ao Māori perspective.</p> <p>This work will include:</p> <ul style="list-style-type: none"> <li>(a) exploring the extent to which Te Reo can be incorporated into our Standards, guidance and templates;</li> <li>(b) developing additional guidance material (including examples) on how to reflect Te Ao Māori concepts within performance reports; and</li> <li>(c) promoting other appropriate initiatives to support the use of Te Reo Māori in performance reports.</li> </ul>



**Feedback on specific parts of the Tier 3 and Tier 4 Standards**

This section summarises the feedback received from respondents on RFI question 3 and our response to this feedback. To aid in understanding, icons have been included above the description of each piece of feedback indicating the standard(s) to which it relates.

What we heard	Our response		
<p><b>Service performance reporting</b></p>	<p>Relates to Tier:</p>	<p>3</p>	<p>4</p>
<p><b>Difficulty understanding the objectives and requirements related to the statement of service performance</b></p> <p>Many respondents commented that they find the objectives and requirements of the statement of service performance (SSP) difficult to understand. In particular it was noted that the requirement to report on “outcomes” and “outputs” was causing confusion among PBEs, as the terms were difficult to understand and apply.</p> <p>Some consider that the service performance reporting requirements in the Tier 3 and 4 Standards are too prescriptive.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options to amend the Standards to address these concerns.</p> <p>These options may include simplifying the requirements and terminology used (in particular “outputs” and “outcomes”) and aligning more with the principles-based requirements of PBE FRS 48 <i>Service Performance Reporting</i> for Tier 1 and 2 PBEs.</p>		
<p><b>Additional guidance on selecting appropriate performance measures</b></p> <p>Respondents also advised that NFP entities have difficulty selecting appropriate performance measures.</p> <p>These respondents considered that more specific guidance would be useful in determining which performance measures are most meaningful and appropriate.</p> <p>Many respondents also suggested providing example performance measures for different types of PBEs, illustrative examples of SSPs, and outlining the type of information that may need to be collected to report against different performance measures.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We will develop additional guidance material to assist entities in selecting and measuring performance measures.</p>		

What we heard	Our response		
<p><b>Assets</b></p>	<p>Relates to Tier:</p>	<p>3</p>	
<p><b>Asset valuation</b></p> <p>In most cases the Tier 3 Standard requires assets to be measured based on cost. If an entity wants to measure its assets at market value it is required to opt up to the relevant Tier 2 PBE Standard.</p> <p>Many respondents requested that we include an option to revalue certain assets in the Tier 3 Standard rather than requiring entities to opt up. In particular, these respondents considered that this would be appropriate for financial investments and investment property. Some of these respondents also considered that the current requirements for opting up to the Tier 2 PBE Standards for certain transactions are unclear and that it would be clearer to include a revaluation option within the Tier 3 Standard itself.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options for addressing these concerns in the Tier 3 Standard. These options may include the following.</p> <ul style="list-style-type: none"> <li>(a) Introducing a new market value option (and associated simplified reporting requirements) for measuring certain types of assets into the Tier 3 Standard.</li> <li>(b) Including additional guidance on how to apply the opt-up option (i.e. clarify the measurement, disclosure and presentation requirements when applying Tier 2 reporting requirements).</li> </ul>		
<p><b>The definition of “cash” in the Tier 3 Standard is inconsistent with the definition of “cash and cash equivalents” in the Tier 1 and 2 PBE Standards</b></p> <p>The definition of cash in the Tier 3 Standard does not include short-term deposits, which are included in the definition of cash and cash equivalents in PBE IPSAS 2 <i>Cash Flow Statements</i>.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options for clarifying the definition of cash and the classification of short-term deposits in the Tier 3 Standard.</p>		
<p><b>Biological assets</b></p> <p>One respondent noted that no guidance is provided in the Tier 3 Standard on biological assets.</p>	<p><b>No further action</b></p> <p>Based on feedback received this concern does not appear to be widespread. We consider that including additional guidance on accounting for biological assets within the Tier 3 Standard would result in unnecessary complexity.</p> <p>We note that this issue may also be partially addressed through our response related to the opting up requirements within the Tier 3 Standard.</p>		

What we heard	Our response		
<p><b>Intangible assets</b></p> <p>One respondent noted that no explicit guidance is provided in the Tier 3 Standard on intangible assets.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>This issue may be partly addressed by the inclusion of opting up requirements within the Tier 3 Standard.</p> <p>The Tier 3 Standard refers to intangible assets but does not provide specific guidance or disclosure requirements.</p> <p>We will develop an FAQ to illustrate how intangible assets should be accounted for.</p>		
<p><b>The minimum categories for presenting income and expenditure</b></p>	<p>Relates to Tier:</p>	<p>3</p>	<p>4</p>
<p><b>Appropriateness and clarity of the minimum categories</b></p> <p>Many respondents noted that the required presentation of minimum categories of income and expenditure are difficult to apply in practice.</p> <p>Respondents also considered that aggregation of some items obscures important information. For example, some respondents considered that bequests, public donations, and government grants should be shown separately.</p> <p>Although the standards allow entities to remove or relabel the minimum categories, many respondents commented that they have been required to use the minimum categories in their audited performance reports.</p>	<p><b>Further consideration by the NZASB</b></p> <p>Based on the feedback received we consider that there is scope to refine the minimum categories.</p> <p>We will consider options for amending the minimum categories in the Tier 3 and Tier 4 Standards to:</p> <ul style="list-style-type: none"> <li>(a) better reflect the terminology used by small PBEs to describe their transactions;</li> <li>(b) clarify which types of income and expenditure should be included in each category; and</li> <li>(c) ensure the minimum categories address the information needs of users.</li> </ul> <p>We will liaise with stakeholders, including Charities Services, to identify options which could best meet the needs of users.</p>		
<p><b>Disaggregation of the minimum categories</b></p> <p>Many considered that the standards are unclear about the degree to which disaggregation (breaking down of balances) and relabelling of the minimum categories is permissible. They noted this is leading to diversity in practice with many entities essentially still presenting full lists of income and expenses based on their trial balance.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We will develop additional guidance to illustrate how the minimum categories may be disaggregated in the performance reports without compromising the quality, consistency, or comparability of information presented.</p> <p>We will work with key stakeholder groups (including auditors) to ensure there is a consistent understanding in application of the minimum categories.</p>		

What we heard	Our response		
<b>Revenue</b>	Relates to Tier:	<b>3</b>	
<p><b>Revenue recognition and disclosure requirements in the Tier 3 Standard</b></p> <p>Many respondents would like revenue deferral to be more widely permitted. Some of these respondents raised concerns that the current “use or return” condition requirement in the Tier 3 Standard is too restrictive.</p> <p>It was noted that, as a consequence of this requirement, some funders no longer offer multi-year funding arrangements.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options to address the revenue recognition concerns raised.</p>		
<p><b>Illustrative examples for revenue in the Tier 3 Standard</b></p> <p>Two respondents wanted the illustrative examples in the Tier 3 Standard to be improved or expanded.</p> <p>One respondent considered the examples in the public sector version of the Standard were unclear.</p> <p>One respondent considered that an example of sponsorship revenue was needed in the NFP version of the Tier 3 Standard.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will update the illustrative examples to reflect any change in the revenue recognition requirements as discussed above.</p> <p>We will review the illustrative examples in the public sector version of the Tier 3 standard.</p> <p>We will develop an FAQ to illustrate how sponsorship revenue should be accounted for.</p>		

What we heard	Our response		
<b>Statement of cash flows</b>	Relates to Tier:	<b>3</b>	
<p><b>Understandability of the requirements for the statement of cash flows in the Tier 3 Standard</b></p> <p>Three respondents commented that the statement of cash flows was difficult to prepare. The main issue expressed was the difficulty distinguishing between (i) operating cash flows and (ii) investing and financing cash flows.</p> <p>One respondent also questioned the usefulness of the statement of cash flows, in particular whether the statement was used by Charities Services. Charities Services has confirmed that it finds the statement of cash flows useful in assessing complaints made against registered charities and that it considers the statement is working well.</p> <p>Two respondents commented that the complexity of classification and preparation of the statement of cash flows led to complications with the audit process.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We do not consider that the feedback indicates there is an underlying issue with the requirement to prepare a statement of cash flows. Rather, we consider it indicates a lack of familiarity with the purpose of the statement and how the statement is prepared.</p> <p>We will develop additional guidance to explain:</p> <ul style="list-style-type: none"> <li>(a) the purpose of the statement of cash flows; and</li> <li>(b) how to determine the appropriate classification for different cash flows.</li> </ul> <p>We will also review the Tier 3 explanatory guidance, which outlines what these three classifications are and what should be included in investing, financing and operating activities.</p> <p>We will liaise with key stakeholders, including Charities Services, to identify other areas of the statement of cash flows requiring further guidance.</p>		
<p><b>Layout of the statement of cash flows</b></p> <p>One respondent suggested that the Tier 3 requirements should be aligned with the Tier 4 statement of receipts and payments.</p> <p>Another respondent suggested that Tier 3 entities should be required to show a reconciliation between the statement of cash flows and the surplus/deficit in the statement of financial performance.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider the merits of aligning the format of the statement of cash flows in the Tier 3 Standard with the statement of receipts and payments in the Tier 4 Standard.</p> <p>We do not consider it is appropriate to require a reconciliation between the statement of cash flows and the statement of financial performance. We consider that this would add unnecessary complexity to the Tier 3 Standard. However, we will consider whether this could be included as an optional disclosure.</p>		

What we heard	Our response		
<b>Accumulated Funds</b>	Relates to Tier:	<b>3</b>	
<p><b>Narrative description about the nature and purpose of equity reserves</b></p> <p>Respondents requested additional guidance on equity reserves, particularly restricted reserves.</p> <p>Other respondents suggested a reserves policy should be included as a disclosure requirement in the Tier 3 Standard, to provide greater transparency over entities' reasons for accumulating resources, the purposes for which this is done and any restrictions on those reserves.</p> <p>This matter has also been raised by the Policy Team Department of Internal Affairs as part of the review of Charities Act 2005.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options for amending the Tier 3 Standard to improve disclosures related to accumulated funds and other reserves. In particular, we will consider how disclosures could be improved to provide more information about the purpose for which any equity reserves are held.</p> <p>We will liaise with Department of Internal Affairs regarding the feedback it has received on this topic as part of the Charities Act Review to inform the development of options.</p>		
<p><b>Simplification of terminology related to accumulated funds</b></p> <p>Respondents considered there was not enough clarity about the difference between reserves for accounting purposes and "operating reserves" and that capital contributions creates confusion for NFPs that do not have members or owners. They recommended removing the requirement to distinguish capital contributions and suggested that references to owners are removed from the Standard.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options for amending the Tier 3 Standard to simplify the terminology used in relation to accumulated funds and other reserves.</p>		

What we heard	Our response		
<p><b>Opting Up</b></p>	<p>Relates to Tier:</p>	<p>3</p>	
<p><b>Additional guidance on the requirements related to opting up to the Tier 2 PBE Standards for specific transactions or balances</b></p> <p>The Tier 3 Standard currently allows an entity to opt-up to a higher tier of reporting requirements for certain balances and transactions – e.g. if an entity chooses to revalue property or investments.</p> <p>Some respondents considered that the requirements for opting up in the Tier 3 Standard are unclear resulting in diversity in practice.</p> <p>These respondents suggested additional guidance should be provided which explains what is required in the common situations in which Tier 3 entities choose to opt up.</p> <p>In particular it was noted that guidance is needed on where to present any asset revaluation gains (or losses) in the Tier 3 performance report.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options for clarifying the opting up requirements in the Tier 3 Standard, including how any revaluation movements should be accounted for.</p> <p>Feedback received suggests that the most common cases in which entities elect to opt up relate to revaluation of assets. We will also consider whether revaluation requirements could be introduced into the Tier 3 Standard – therefore removing the need to opt up to Tier 2.</p>		

What we heard	Our response		
<b>Accounting Policies</b>	Relates to Tier:	<b>3</b>	
Some respondents consider that more guidance on accounting policies is needed, including plain English examples of common accounting policies.	<p><b>Further consideration by the NZASB</b></p> <p>We will consider the extent to which examples of common accounting policies can be incorporated into the Tier 3 Standard or accompanying guidance material and reporting templates.</p>		
<b>Requirement to report on resources and commitments in the Tier 4 Standard</b>	Relates to Tier:		<b>4</b>
<p>Respondents advised that the statement of resources and commitments was difficult to prepare, while other respondents considered that the Tier 4 Standard should require more information about resources and commitments. They considered that the information currently required is insufficient to meet user needs.</p> <p>Some respondents think that the concept of depreciation of assets is useful for Tier 4 entities and should be incorporated into the disclosures on resources, but not everyone agrees. One respondent considers that it would be inappropriate to force accrual concepts onto preparers that are applying a cash-based standard.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We note that there are mixed views on the statement of resources (assets) and commitments (liabilities) both in regard to its appropriateness and what it has to include.</p> <p>However, our view is that disclosure of an entity's significant resources and commitments is useful. As such, we will consider options for how to improve disclosure of this information in the Tier 4 Standard. These options may include:</p> <ul style="list-style-type: none"> <li>(a) requiring disclosure of resources and commitments in the notes to the performance report rather than as a separate statement; and</li> <li>(b) reviewing which resources and commitments are required to be disclosed and what the disclosure requirements are.</li> </ul>		



What we heard	Our response		
<b>Meaning of “significant”</b>	Relates to Tier:	<b>3</b>	<b>4</b>
<p>Some respondents advised that there is a lack of understanding among small PBEs about what is meant by the term “significant”.</p> <p>The principle of considering “significant” items is used throughout the Tier 3 and Tier 4 Standards.</p> <p>The term significant is defined in paragraph A26 of the Tier 3 Standard as:</p> <p><i>Items are significant if their omission or misstatement could, individually or collectively, influence the decisions or assessment of users relying on the performance report. Significance is considered in relation to both the nature and size of the item, or a combination of both. For the purposes of this Standard, significance has the same meaning as materiality.</i></p>	<p><b>Additional education and awareness raising activities</b></p> <p>We will develop guidance to help explain the meaning of the term “significant” in the Tier 3 and Tier 4 Standards and the factors an entity should consider when making judgements about significance.</p>		
<b>Related party transactions</b>	Relates to Tier:	<b>3</b>	<b>4</b>
<p>Some respondents commented that the requirements in the Tier 3 and Tier 4 Standards for reporting related party transactions are not well understood in practice.</p> <p>These respondents considered that more guidance is required about:</p> <p>(a) who is captured by the definition of related parties; and</p> <p>(b) which transactions are required to be disclosed.</p> <p>Two respondents considered that some entities may be concerned that disclosing related party transactions will result in the disclosure of private information.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We will develop additional guidance to clarify the requirements to report on related party transactions.</p> <p>We will also liaise with Charities Services to identify opportunities to promote both new and existing guidance on this topic.</p>		

What we heard	Our response		
<p><b>Determining whether an entity has exceeded the size threshold for Tier 3 or Tier 4</b></p>	Relates to Tier:	<b>3</b>	<b>4</b>
<p>One respondent considered that more clarity is needed about when and how entities are required to transition between tiers. They recommend including guidance on determining whether an entity has exceeded the size threshold for Tier 3 or Tier 4 within the standards themselves (rather than in XRB A1 <i>Application of the Accounting Standards Framework</i>).</p> <p>One respondent considered the definition of a capital payment in the Tier 4 Standard needs to be reviewed.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We agree that it would be useful to include guidance on determining whether an entity has exceeded the size threshold within the standards themselves, given the majority of preparers would not be familiar with XRB A1.</p> <p>We do not consider the definition of capital payment to be a widespread issue and consider that the cost of removing this definition would outweigh any benefits.</p>		
<p><b>Inclusion of additional items in the statement of financial performance</b></p>	Relates to Tier:	<b>3</b>	
<p>Two respondents considered that the statement of financial performance should allow for reporting of items outside of net surplus and deficit.</p> <p>One respondent considered the statement should allow for the reporting of “below the line” items similar to other comprehensive revenue and expense in the Tier 1 and 2 PBE Standards.</p> <p>One respondent considered that it should be permitted to present the statement of financial performance in a manner which aligns with the accounting treatment prescribed by trust law.</p>	<p><b>No further action</b></p> <p>Based on the feedback received we do not consider this is a widespread issue.</p> <p>We consider that including additional mandatory subtotals in the statement of financial performance would result in unnecessary complexity.</p> <p>However, the structure and requirements of the statement of financial performance may change as a result of our response to other matters raised.</p>		
<p><b>Going concern and events after balance date in the Tier 3 Standard</b></p>	Relates to Tier:	<b>3</b>	
<p>Two respondents considered that disclosure requirements related to going concern and events after balance date should be refined to make them more appropriate for NFPs.</p> <p>One respondent expressed concerns that NFPs may not be appropriately considering the impact of COVID-19 on their going concern assessments.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We will promote the recently developed FAQ on going concern assessments and disclosures<sup>1</sup> which provides additional guidance on this topic for NFPs. We will also consider developing additional guidance on the disclosure of events after balance date.</p>		

<sup>1</sup> [XRB COVID-19 Alerts » XRB](#)

What we heard	Our response		
<b>Requirement to include entity information in the Tier 3 and Tier 4 Standards</b>	Relates to Tier:	3	4
Two respondents considered that the requirements for entity information in the performance report was unnecessary and should be removed or simplified.	<p><b>Further consideration by the NZASB</b></p> <p>We will consider options to refine (and possibly reduce) the disclosures required in the <i>entity information</i> section of the Performance Report for both tiers.</p>		
<b>Choice to report on a GST inclusive or exclusive basis in the Tier 4 Standard</b>	Relates to Tier:		4
<p>Two respondents raised concerns with this choice permitted in the Tier 4 Standard.</p> <p>One respondent noted that reporting on a GST exclusive basis can create reconciliation issues within the statement of receipts and payments.</p> <p>Another considered it would be unlikely that an entity which is registered for GST would elect to report on a GST inclusive basis.</p>	<p><b>No further action</b></p> <p>Based on the feedback received we do not consider this is a widespread issue and we consider it is appropriate to retain the option of including or excluding GST in the Tier 4 Standard.</p> <p>We will consider developing guidance to assist preparers to understand how GST should be accounted for in their performance reports.</p>		
<b>Use of the term “performance” in the Tier 3 Standard</b>	Relates to Tier:	3	
<p>One respondent considered that this term could be interpreted in different ways and should be changed to a more neutral term.</p> <p>One respondent considered that the frequent use of this term in different contexts is confusing for small NFPs.</p>	<p><b>No further action</b></p> <p>Based on the feedback received we do not consider that this is a widespread issue.</p> <p>Given that PBEs are now familiar with the performance report terminology, we consider that the costs of changing it would outweigh the benefits.</p>		

What we heard	Our response		
<b>Consolidation requirements</b>	Relates to Tier:	<b>3</b>	<b>4</b>
<p>Two respondents raised concerns about the requirement to consolidate where there is a control relationship for financial reporting purposes.</p> <p>One respondent considered that the requirements are unclear and too judgemental. The respondent recommended including consolidation requirements in the Tier 3 Standard which explicitly state when an entity is required to consolidate and how.</p> <p>One respondent noted that there is still widespread misunderstanding about control for financial reporting purposes and how it differs from the layman’s concept of control.</p>	<p><b>Additional education and awareness raising activities</b></p> <p>We agree that there is still more that can be done to spread the message regarding the need to consolidate where there is “control” for financial reporting purposes. We will review the existing guidance in EGs 8 and 9<sup>2</sup> to check that they are understandable and that they explain in plain English:</p> <ul style="list-style-type: none"> <li>(a) the meaning of “control” for financial reporting purposes and how it differs from the layman’s definition;</li> <li>(b) the key factors PBEs need to consider to determine whether there is a control relationship; and</li> <li>(c) the rationale for requiring consolidated financial statements.</li> </ul> <p>Activities will include promoting awareness of existing guidance material on this topic.</p>		
<b>Use of the term “receipts” in the Tier 4 Standard</b>	Relates to Tier:		<b>4</b>
<p>One respondent noted that use of this terminology was confused with physical receipts and may lead to inappropriate inclusion of receipts from members in the revenue section of the statement of receipts and payments.</p> <p>One respondent considered that some items may inappropriately be treated as receipts in the Tier 4 Standard in cases where funds are being held on behalf of others.</p>	<p><b>Further consideration by the NZASB</b></p> <p>We agree that amending this terminology in the Tier 4 Standard may make it more understandable for small PBEs. We will consider this as part of an overall review to simplify the terminology and language used in the Tier 4 Standard.</p>		

<sup>2</sup> [Not-for-profit standards » XRB](#)

What we heard	Our response		
<b>Definition of current and non-current in the Tier 3 Standard.</b>	Relates to Tier:	<b>3</b>	
One respondent considered that the current definitions do not appropriately reflect the information that funders are looking for when assessing working capital.	<p><b>No further action</b></p> <p>Based on the feedback received we do not consider there is a widespread issue. We consider it is appropriate that these definitions remain aligned with the Tier 1 and 2 PBE Standards to the extent appropriate.</p>		
<b>Requirement to sign performance reports</b>	Relates to Tier:	<b>3</b>	<b>4</b>
One respondent commented that the requirement to sign the performance report was superfluous given the Charities Register records the date of when the annual return (which includes the performance report) is submitted and who it is submitted by. The respondent also considered that including signatures on a public register creates undue risk for NFPs.	<p><b>No further action</b></p> <p>We consider that the benefit of signing and dating the performance report outweighs the cost or any risks.</p> <p>This requirement was added in response to feedback received when the Tier 3 and 4 Standards were first introduced. We received feedback that it was important that the performance reports be signed and dated to discharge accountability in relation to financial reporting responsibilities by those charged with governance.</p>		
<b>Title of the Tier 4 Standard</b>	Relates to Tier:		<b>4</b>
One respondent considered that use of the word “cash” in the title of the Tier 4 Standard was confusing and that many charities do not think it applies to them because they do not operate using physical cash.	<p><b>Further consideration by the NZASB</b></p> <p>We will consider the title of the standards as part of the overall review to simplify the terminology and language used in the Tier 4 Standard.</p>		

## Closing comments

The Tier 3 and 4 Standards are a very important part of Aotearoa New Zealand's financial reporting framework. While we are heartened by the overall positive impact of the Tier 3 and Tier 4 Standards on the PBE sector, we are committed to addressing the issues raised to ensure they continue having a positive impact in the future.

The NZASB greatly appreciates the time and effort constituents have put in to responding to the request for information. The feedback received has been very useful, both in confirming that the Tier 3 and Tier 4 Standards are working well overall and in focusing our attention on the parts of the standards where improvement is needed.

As noted above, the next stage of the project will involve developing proposals to amend the Tier 3 and 4 Standards. Any proposed changes will be made available for public consultation before any final decisions are made. You can expect to have a chance to comment on the proposals in early 2022.

Any questions or comments on this Feedback Statement can be directed to [enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz).