

Request for Information

Simple Format Reporting Standards – Post-implementation Review

Issued: September 2020

Comments due: 31 March 2021

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Information for respondents

Request for Information

The New Zealand Accounting Standards Board (NZASB)¹ is conducting a post-implementation review of the Simple Format Reporting Standards applied by Tier 3 and Tier 4 public benefit entities (PBEs). As part of this review the NZASB is seeking feedback on the questions in this Request for Information.

Your comments are important to help the NZASB assess how well the standards are working and decide whether any changes are needed.

The closing date for comments is **31 March 2021**.

Are you a Tier 3 or Tier 4 PBE?

Tier 3 Criteria	<ul style="list-style-type: none">• does not have public accountability;²• has total expenses ≤\$2 million; and• elects to be in Tier 3.
Tier 4 Criteria	<ul style="list-style-type: none">• does not have public accountability;• is allowed by law to use the cash basis of accounting;• has total operating payments ≤\$125,000; and• elects to be in Tier 4.

How to comment

You may comment on any or all of the questions. Please indicate who the comments are from (for example, you as an individual, a group of people, an entity or a number of entities).

We prefer to receive comments electronically. However, you may comment using any of the following methods.

Electronically Visit the 'simple format reporting standards review' page on our website at:

<https://www.xrb.govt.nz/reporting-requirements/review-of-simple-format-reporting-standards/>

By email Send comments to submissions@xrb.govt.nz with Simple Format Reporting Standards in the subject line

By post External Reporting Board
PO Box 11250 Manners St Central
Wellington 6142
NEW ZEALAND

Publishing comments

We will publish all comments on the XRB website, unless they may be defamatory. If you have any objection to publication, we will not publish your comments on the internet. However, your comments will remain subject to the Official Information Act 1982 and, therefore, may be released in part or in full. The Privacy Act 1993 also applies.

If you object to the release of any information in your comments, we would appreciate you identifying the parts to be withheld, and the grounds under the Official Information Act 1982 for doing so (for example, that it would be likely to unfairly prejudice the commercial position of the person providing the information).

What happens next?

After the consultation period ends the NZASB will consider all comments and the appropriate courses of action. This could include proposing amendments to the Simple Format Reporting Standards, changing guidance and templates or providing additional support. The NZASB would seek feedback on any proposals to amend the standards.

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting accounting standards.

² An entity is usually considered to have public accountability if it sells debt or equity (such as bonds and shares) on a public market like the New Zealand Exchange. Entities are also publicly accountable if they hold assets in a fiduciary capacity (for example banks and insurance companies).

1. Request for Information

1.1 Objectives and scope of the review

1. The New Zealand Accounting Standards Board (NZASB) is carrying out a post-implementation review (PIR) of the Simple Format Reporting Standards and has issued this Request for Information to seek feedback from constituents on how well the Simple Format Reporting Standards applied by Tier 3 and Tier 4 public benefit entities (which includes registered charities, and other not-for-profits) are working.
2. In New Zealand, legislation sets out **who** is required to report using XRB standards. The XRB is responsible for accounting standards themselves, which set out **what** information entities are required to report and **how** it should be presented.
3. The scope of this review includes the standards, guidance, and templates issued by the NZASB and available on the XRB website. The scope does not include **who** is required to report using XRB standards.
4. There are four Simple Format Reporting Standards (see Table 1). The public sector and not-for-profit versions of each standard are almost identical. Each standard is accompanied by optional performance report templates and associated guidance material.

Table 1 The Simple Format Reporting Standards

Tier 3	PBE Simple Format Reporting – Accrual <ul style="list-style-type: none">• PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)• PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)
Tier 4	PBE Simple Format Reporting – Cash <ul style="list-style-type: none">• PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)• PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)

5. The Tier 3 standards include accrual-based reporting requirements. This is the smallest Tier of “traditional” accounting rules and is designed to be a much simpler version of the Tier 1 and 2 requirements applied by larger entities. For example, Tier 3 entities include a “Balance Sheet” in their performance reports.
6. The Tier 4 standards include cash-based reporting requirements. These standards do not follow the same kind of accounting rules as the other Tiers, presenting receipts and payments rather than revenue and expenses. Tier 4 has been designed to be used by only the smallest entities.
7. We are not seeking feedback on the resources developed by Charities Services to assist registered charities to complete their performance reports and submit their annual returns. However, if you consider that there is a need for guidance on other topics, please let us know.

1.2 What we’ve heard

8. Over the past five years we have received feedback from our constituents regarding the implementation of the standards. Some constituents have raised specific issues while others, particularly Tier 4 entities, have voiced more general concerns about the ability of volunteers to apply the requirements in the standards.

9. Some of the initial implementation issues have been largely resolved as people become more familiar with the requirements in the standards and the information they need to collect. Guidance issued by Charities Services and others has been helpful in dealing with these initial implementation issues.
10. Some Tier 3 entities have indicated a desire for the standards to cover a broader range of transactions and allow more options, such as allowing revaluation of investments as an accounting policy choice. There have also been some issues raised in relation to accounting for multi-year grants and donations, both from the perspective of the donor/grantor and the recipient.
11. We are interested in hearing your views on any issues or other matters that should be considered as part of this review.

1.3 Feedback sought

12. Your feedback is essential to help the NZASB to carry out this review. We are interested in all feedback including from:
 - (a) preparers, auditors, funders and other users;
 - (b) public sector entities and registered charities; and
 - (c) entities required to apply the standards, as well as those voluntarily applying the standards.
13. To obtain feedback from a wide range of people we will be contacting several umbrella organisations. You may therefore receive requests from any collective bodies that you belong to. We will also be contacting professionals that prepare and audit performance reports. You are welcome to comment individually or as part of a group.

1.4 Questions for respondents

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.
4. Have you developed any custom guidance to help apply the standards? If yes, please tell us what the guidance covers and whether you think it could be useful to others? We would love to see a copy of it (by separate email to submissions@xrb.govt.nz). Any guidance you send us will remain confidential and will not form part of your formal comments.
5. Do you have any other comments you would like to raise about the standards, guidance, or templates?

1.5 Information about respondents

Please tell us:

- Your name
- Whether the comments are from you in a personal capacity, or on behalf of an entity or a number of entities
- Whether you are commenting on the Tier 3 or Tier 4 Standard
- Whether you are commenting on the not-for-profit or public sector version of the standards
- How we can contact you if we need further information

Information about how to respond can be found on [page 3](#) of this document and on our [website](#).

2. Background Information

2.1 Overview of the post-implementation review.

14. The objective of a post-implementation review is to assess whether standards are working as intended and achieving their objectives. PIRs are a regular part of standard setting and are usually carried out once a new standard has been applied for a few years. They help ensure that standards remain current and operational. The NZASB relies on extensive outreach to make the best decisions when developing new standards. However, it is not until the standards are applied that any unforeseen issues become apparent.
15. A PIR looks at:
 - (a) whether the standards are performing as intended;
 - (b) whether any new issues have emerged since the standards were issued; and
 - (c) whether the cost of applying the standards is consistent with expectations.
16. Understandably, the requirement to comply with the Simple Format Reporting Standards has imposed costs on individual entities. These costs need to be weighed up against the benefits to a wide range of users (including funders, donors, members, managers, and the general public), of having access to reliable and comparable information.
17. On the positive side, feedback indicates that the standards have led to improved accountability and more consistent information which has been beneficial to users. Greater disclosure of service delivery outcomes and outputs has also enabled entities to tell a more complete story of the year's performance.
18. However, the NZASB is aware that some entities are experiencing challenges in applying the standards. The NZASB is interested in whether refinements to the standard are required or more guidance is needed to assist smaller entities in applying these standards.
19. The standards were issued at the end of 2013 and have been applied for five years.¹ It is therefore an appropriate time to review whether they are working as intended and achieving their objectives.
20. The Request for Information is seeking feedback on the standards, guidance and templates issued by the NZASB. It is not seeking feedback on guidance issued by any other bodies or filing requirements such as the annual return required by Charities Services.

2.2 Simple Format Reporting Standards

21. Registered charities and many public sector entities are required by legislation to prepare financial statements in accordance with accounting standards issued by the XRB. In the case of registered charities this requirement was introduced to the Charities Act in 2013.² Prior to this registered charities were required to file annual returns with the Registrar of Charities, but there were no specific requirements for the content and format of financial statements. Not surprisingly, the content and format varied, and comparisons between the financial statements of registered charities were difficult.

¹ The standards were effective for public sector PBEs from 1 July 2014 and NFP PBEs from 1 April 2015.

² Introduced by the Financial Reporting (Amendments to Other Enactments) Act 2013

22. The Simple Format Reporting Standards were developed to set out the reporting requirements for Tier 3 and Tier 4 public benefit entities (PBEs) when preparing reports to meet the accountability and decision-making needs of a wide range of users. The standards were intended to improve the quality and consistency of the information reported, and to facilitate comparability between entities, and between years for the reporting entity. Non-financial information was seen as an important component of these reports.
23. The NZASB aimed to develop a single short and relatively simple standard for each group of entities, written in less technical language than is normally found in accounting standards (see tables 2 and 3 below for a full list of standards, guidance, and templates). The standards focussed on transactions expected to be common in that tier.³ This reflected a desire to meet the needs of the majority of entities in a tier without unnecessarily complicating the standards. The standards were based on extensive consultation and research (see [Appendix 1](#) for more details).

Table 2 NFP Standards, Guidance and Templates

<p>Standards</p> <ul style="list-style-type: none"> • PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit) • PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-for-Profit)
<p>Guidance and templates</p> <ul style="list-style-type: none"> • EG A5 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)</i> • EG A6 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)</i> • EG A8 <i>Financial Reporting by Not-for-profit Entities: The Reporting Entity</i> • EG A9 <i>Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes</i> <p>Templates: XLSX and PDF versions Links</p>

Table 3 Public Sector Standards, Guidance and Templates

<p>Standards</p> <ul style="list-style-type: none"> • PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) • PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)
<p>Guidance and templates</p> <ul style="list-style-type: none"> • EG A3 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)</i> • EG A4 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</i> <p>Templates: XLSX and PDF versions Links</p>

24. The Tier 3 standards establish accrual-based reporting requirements. Although some of the recognition and measurement requirements are similar to the Tier 1 and 2 requirements in PBE Standards, the Tier 3 standards are much simpler and do not have the options available in the Tier 1 and 2 PBE Standards (such as the option to measure property, plant and equipment using the revaluation model). However, an entity applying the Tier 3 standard can choose to apply the requirements in PBE Standards for a specific type of transaction (including any

³ For example, the accrual standards did not contain guidance on financial instruments, other than payables, receivables and term deposits.

disclosure concessions for Tier 2 entities), as long as the entity applies those requirements to all transactions of that type. This is referred to as 'opting up'.

25. The Tier 4 standards establish cash-based reporting requirements for entities permitted by legislation to use a cash accounting standard (referred to in legislation as a non-GAAP standard). These standards are fundamentally different to the accrual standards. For example, entities applying the cash standards are required to provide some information about assets and obligations, but they do not prepare a balance sheet. However, the categories of receipts and payments have been aligned with the categories of revenue and expenses in the Tier 3 accrual standards to the extent possible.

2.3 Other reviews and developments

26. This Request for Information is seeking feedback on the Simple Format Reporting Standards at this point in time. However, the financial reporting landscape continues to evolve and there are other developments or reviews that could change the number or type of entities required to apply the standards. [Appendix 2](#) outlines the following reviews and reforms that have recently occurred or are still in progress.
 - (a) Targeted Review of the Accounting Standards Framework
 - (b) Review of the Charities Act 2005
 - (c) Incorporated Societies Act Reform

2.4 Limited changes since issue

27. To allow time for entities to become familiar with the requirements and reduce the cost of complying for smaller entities, the NZASB has not made significant changes to the standards since issue. There have however been some small changes needed. These are outlined in [Appendix 3](#).

3. Next steps

28. After the consultation period ends the NZASB will consider all the comments it receives, along with other information it gathers through outreach. On the basis of that information, the NZASB will form its views about what actions it should take. This could include proposing amendments to the standards (and guidance and templates), education or developing more guidance.
29. Before proposing any changes to the standards the NZASB would need to weigh up the costs and benefits of changes on all entities and users, bearing in mind the original objectives of the standards and the desire to maintain a relatively stable platform. Any proposals to change the standards would require careful consideration. For example, requests to include requirements for a wider range of transactions and events could make the standards longer, more detailed and less understandable for some preparers.
30. The NZASB will also liaise with Charities Services, and the Office of the Auditor-General in considering appropriate courses of action.
31. If the NZASB subsequently proposes any changes to the standards it would issue an exposure draft and seek your feedback on the proposals.

Appendix 1 How the standards were developed

In 2011 a not-for-profit working group, including experienced preparers and users of financial reports from across the not-for-profit sector, was established to consider options for simple format reporting for NFPs. The working group's report, *Simple Format Reporting for NFP Entities* (November 2011),⁴ was carefully considered when developing the standards. The working group focused on two main issues: what statements should be included in the simple format financial reports of NFP entities; and what specific items should be disclosed in those statements.

Both the working group and the NZASB were of the view that non-financial information is crucial to an understanding of an NFP's performance. This led to the requirements to prepare performance reports that include both financial and non-financial information. The working group was also of the view that the presentation requirements of the Tier 4 cash standards should be aligned as much as possible with the Tier 3 accrual standards.

The NZASB also used research to assist it in identifying transactions which did not need to be addressed in the standards because they were infrequently undertaken by small and medium charities. The research report, *Typical transactions in charities (2012)*,⁵ pulled together information from a sample of charities, together with feedback from telephone interviews and one-on-one meetings.

The public sector standards were developed in consultation with the Office of the Auditor-General. Research was also undertaken into the types of transactions entered into by public sector entities eligible to apply the standards.

The NZASB sought public feedback on the proposals before finalising the standards. The NZASB joined with Charities Services to promote awareness of the new Accounting Standards Framework and outlined the proposals in a series of seminars held throughout the country.

The NZASB and Charities Services also ran seminars explaining the new standards.

⁴ <https://www.xrb.govt.nz/reporting-requirements/history/>

⁵ <https://www.xrb.govt.nz/reporting-requirements/history/>

Appendix 2 Other reviews and developments

Targeted Review of the ASF

The XRB recently carried out a targeted review of the Accounting Standards Framework (ASF).⁶ The ASF sets out New Zealand's financial reporting strategy and establishes which standards apply to which entities.

The purpose of the Targeted Review was to 'check in' with constituents on whether the ASF is functioning as anticipated and achieving its original objectives. As part of this review the XRB sought feedback on whether the PBE tier size criteria need to be revisited. The majority of respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.

Review of the Charities Act 2005

In February 2019 the Department of Internal Affairs issued the Discussion Document *Modernising the Charities Act 2005*. One of the proposals in that document was the establishment of a new 'micro entity' tier for charities with less than \$10,000 operating expenditure and the suggestion that such entities should not be required to comply with XRB accounting standards. Following widespread public consultation the Department released a summary of submissions.⁷

Of the submitters that commented on obligations of charities, 211 specifically commented on reporting requirements. More than two thirds of these submitters favoured reducing reporting requirements for small charities. Suggestions for achieving this included: increasing the maximum expenditure of a Tier 4 charity, introducing a 'micro entity' or 'Tier 5' reporting tier and simplifying the current reporting forms. The Department has indicated that it will provide advice on the issues to the Minister for the Community and Voluntary Sector and that there will be further consultation before any legislative changes.

If the Government decides to act on the proposals to change the requirements for small charities it would reduce the number of small charities required to apply the Tier 4 cash standard. However, there would still be a large number of charities required to report in accordance with the Tier 3 and Tier 4 standards. In addition, any legislative changes would take time. The NZASB therefore considers that it is appropriate to carry out this review of the Simple Format Reporting Standards as planned.

Incorporated Societies Act Reform

The Government has indicated its intention to replace the Incorporated Societies Act 1908. The Exposure Draft of the Incorporated Societies Bill was released in November 2015. In May 2019, the Government considered feedback on that Exposure Draft and agreed to make a number of changes to the reform Bill before introducing it to Parliament.

⁶ Discussion Paper *Targeted Review of the Accounting Standards Framework* (July 2019)

⁷ <https://www.dia.govt.nz/charitiesact>

In respect of incorporated societies that are not registered as charities the Government has agreed (as per the Cabinet decisions, May 2019)⁸ that the requirement to use XRB standards in annual financial statements will be limited to those societies that have one or more of the following:

- (a) annual payments of \$10,000 or more; and/or
- (b) assets of \$30,000 or more; and/or
- (c) donee status under the Income Tax Act 2007.

It will be some time until requirements for incorporated societies that are not registered charities have been finalised. At that point the NZASB will consider the appropriateness of the standards for such entities. However, any incorporated societies currently applying the Simple Format Reporting Standards are welcome to respond to this request for information.

⁸ <https://www.mbie.govt.nz/assets/6f974df044/reform-of-the-incorporated-societies-act-1908-minute-of-decision.pdf>

Appendix 3 Changes made to the standards since issue

When the standards were first issued the NZASB had a clear view that they should be amended as infrequently as possible. The NZASB wanted to allow time for entities, particularly charities, to become familiar with the requirements and was aware that changes to the standards could impose undue costs on smaller entities. In addition, the large number of entities applying the standards and the reliance on volunteers makes it more difficult to communicate changes.

Despite this objective, a few changes have been required.

- (a) *September 2014: Interests in Other Entities*
When the Tier 3 standards were first issued they were silent as to the treatment of interests in other entities. Subsequently Tier 3 entities were required to account for interests in other entities by applying the requirements in the Tier 1 and 2 PBE Standards. In January 2017 the relevant paragraphs were updated to refer to new PBE Standards dealing with interests in other entities (being PBE IPSASs 34–38).
- (b) *December 2015: Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1*
These amendments aligned the wording in the standards with the revised wording in XRB A1.
- (c) *July 2018: 2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*
These amendments were relatively minor. They aligned wording with other new pronouncements such as the PBE Conceptual Framework, clarified existing requirements and made editorial amendments. In response to feedback received from a range of stakeholders, a requirement to date and sign the performance report was added.

List of abbreviations and terms

The following abbreviations and terms are used in this Request for Information.

NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE Accounting Requirements	The accounting requirements for each tier of PBEs required to apply standards issued by the XRB (or the NZASB). XRB A1 <i>Application of the Accounting Standards Framework</i> specifies the tier criteria and the standards that comprise each tier of PBE Accounting Requirements.
PBE Standards	PBE Standards are standards issued by the XRB or the NZASB. They comprise: <ul style="list-style-type: none"> • PBE IPSASs; • PBE IFRSs, including PBE IASs; and • PBE FRSs.
PBE Standards RDR	PBE Standards with disclosure concessions for Tier 2 public benefit entities.
PIR	Post-implementation review
Simple Format Reporting Standards	There are four Simple Format Reporting Standards. <p><u>PBE Simple Format Reporting – Accrual</u></p> <ul style="list-style-type: none"> • PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) • PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) <p><u>PBE Simple Format Reporting – Cash</u></p> <ul style="list-style-type: none"> • PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit) • PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)
Tier criteria	The criteria for PBEs to be eligible to report in accordance with a particular tier of PBE Accounting Requirements.
XRB	External Reporting Board
XRB A1	XRB A1 <i>Application of the Accounting Standards Framework</i>

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