EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

ACCOUNTING STANDARDS FRAMEWORK

SUMMARY OF XRB DELIBERATIONS AND DECISIONS ON SUBMISSIONS ON THE 2011 CONSULTATION PAPERS

March 2012

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List of Abbreviations

The following abbreviations are used in this document.

AASB	Australian Accounting Standards Board
ED	Exposure Draft
GPFR	General Purpose Financial Reports
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-Sized Entities
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NFP	Not-for-profit
NZASB	New Zealand Accounting Standards Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ IFRS Diff Rep	New Zealand equivalents to International Financial Reporting Standards with differential reporting recognition, measurement and disclosure concessions.
NZ IFRS RDR	New Zealand equivalents to International Financial Reporting Standards with disclosure concessions in accordance with the New Zealand for-profit Reduced Disclosure Regime
Old GAAP	The suite of accounting standards (Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs)) that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand.
PAS	PBE Accounting Standards
PAS RDR	PBE Accounting Standards with disclosure concessions in accordance with the PBE Reduced Disclosure Regime
PBE	Public Benefit Entity
RDR	Reduced Disclosure Regime
The Board	The XRB Board

Part A: Introduction

Background

1. In September 2011 the XRB Board (the Board) issued two Consultation Papers entitled:

   - *Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities*; and

   - *Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities*.

2. These were accompanied by a Position Paper entitled *Accounting Standards Framework: A Multi-Standards Approach*.

3. The two Consultation Papers outlined the Board's proposals for a new accounting standards framework based on a multi-standards approach.[1]

4. Submissions on the two Consultation Papers closed on 16 December 2011. The Board considered the submissions at its meetings on 15 February 2012 and 13 March 2012.

5. This document summarises the Board's deliberations on the matters raised in submissions. It also outlines the Board's decisions on the Accounting Standards Framework.

6. In preparing this document it has been assumed that readers are familiar with the process the Board has been following over the last three years to develop the accounting standards framework, and the broad content of the Board's proposals.

Consultation Paper Proposals

7. In relation to for-profit entities, the Consultation Papers proposed:

   - A two tier structure;

   - Using public accountability, as defined by the International Accounting Standards Board (IASB), as the criterion for allocating for-profit entities to tiers;

   - "Deeming" all issuers, registered banks, deposit takers and registered superannuation schemes to be publicly accountable and therefore in Tier 1;

   - Allocating all large for-profit public sector entities to Tier 1 using $30 million expenses as the criterion;

   - Allowing all non-publicly accountable entities required to prepare general purpose financial reports (GPFR) to be in Tier 2;

   - Requiring current NZ IFRS (which is harmonised with Australia) to be applied by Tier 1 entities – this is the status quo;

   - Establishing a reduced disclosure regime (RDR) of NZ IFRS for Tier 2 (which is harmonised with Australia and has no recognition and measurement concessions); and

[1] The Position and Consultation Papers are available on the XRB website: http://xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Framework.aspx

- Establishing the tier structure and RDR for early adoption from mid-2012 and required application from when the revised legislation comes into force.

8. In relation to public benefit entities (PBEs), the Consultation Papers proposed:

- Retaining the current definition of PBE (as contained in Standard XRB A1 – this was brought forward from the old framework);
- Defining public sector PBEs as PBEs which are public entities as defined by the Public Audit Act 2001, and NFP PBEs as all other PBEs;
- A three tier structure with:
  - Tier 1 comprising entities with >$30million expenses, plus all coercive leviers, plus all issuers;
  - Tier 2 comprising entities with expenses ≤$30million and ≥$2million;
  - Tier 3 comprising entities with expenses <$2million with a cash sub-tier for entities <$40,000 (or such other amount as the legislation sets);
- The threshold levels be defined using (operating) expenses excluding any (grant) distributions;
- Tier 1 would be required to apply full PBE Standards, which would be based on IPSAS (modified as appropriate for New Zealand), together with other (modified) standards as necessary;
- Tier 2 entities would be able to use a reduced disclosure regime (RDR) version of the PBE Standards (with disclosure but no recognition and measurement concessions);
- Tier 3 entities would be able to use a Simple Format Reporting approach, with the cash sub-tier being able to report its financial information using cash accounting;
- 1 July 2013 as the adoption date for public sector PBEs to adopt the new framework, with the final standards being issued by the third quarter of 2012; and
- 1 July 2014 (or when the revised legislation comes into force if this is later) as the adoption date for NFP entities with early adoption from 1 July 2013.

Number and Source of Submissions

9. A total of 99 submissions were received: 34 on the for-profit framework Consultation Paper; and 65 on the PBE Consultation Paper. Nineteen respondents made submissions on both consultation papers. Having considered the number and source of submissions the Board concluded that it was sufficient for the XRB to use as the basis for final decisions.

10. The Board would like to thank the respondents. The Board appreciates the quality of the submissions and the amount of effort that has obviously gone into preparing them. The Board found the submissions very helpful as it finalised its views on the framework.

11. A breakdown of the source of submissions by type of submitter is provided in Table 1. Copies of the submissions are available for viewing on the XRB website: www.xrb.govt.nz/Site/Financial_Reporting_Strategy/Submissions_to_XRB.aspx.

Table 1: Submissions by Submitter Type

Submitter	For-Profit CP	PBE CP
Regulators	1	1
Accounting Firms – Big 4	4	4
Accounting Firms – Medium	4	4
Accounting Firms – Other	2	4
Professional Bodies	3	2
For-Profit Entities	9	-
Central Government Central Agencies	1	3
Public Sector Umbrella Organisations	-	2
Central Government Entities	1	8
Local Government Entities	1	4
NFP Umbrella Organisations	-	4
NFP Entities - Churches	-	3
NFP Entities - Other	2	14
Academics	1	1
Individuals	5	11
TOTAL	**34**	**65**

Part B: Accounting Standards Framework for For-Profit Entities

Overall Feedback

12. In relation to the proposals for the accounting standards framework for for-profit entities there was general support among respondents for:

- The two tier approach;
- The use of public accountability to define the tiers;
- The proposed deeming approach to supplement the IASB definition of public accountability;
- The inclusion of large public sector entities in Tier 1;
- The use of NZ IFRS by Tier 1 entities (except by a small number of respondents who prefer to use Old GAAP rather than IFRS);
- The proposed disclosure concessions for Tier 2; and
- The retention of the status quo (Differential Reporting, Old GAAP) in the interim for entities that will no longer be required to prepare GPFR once the amendments to legislation to give effect to the Government's announcement come into force.

13. There was mixed support among respondents for Tier 2 only having disclosure concessions and no recognition and measurement concessions. There was also some concern among respondents about the proposed timing of the new for-profit framework.

14. The main matters reconsidered by the Board in relation to the for-profit framework as a result of the feedback from respondents were:

- The definition of large for-profit public sector entities;
- The use of IFRS-based standards for for-profit entities;
- Whether recognition and measurement concessions should be allowed for Tier 2 and whether Tier 2 should be harmonised with Australia;
- Timing; and
- The maintenance of the differential reporting requirements.

Definition of Large For-Profit Public Sector Entities

15. The majority of respondents agreed with the Consultation Paper proposal that large for-profit public sector entities be defined as entities with $30 million of expenses. However, a small number of respondents suggested that the definition of large used in the Government's framework ($30m revenue or $60m assets) should be used instead.

16. The Board considered this feedback and considered that the issue being raised was about which characteristic should prevail: the fact that they are public sector entities; or the fact that they are for-profit.

17. The Board takes the former view i.e. that the same criterion for large should apply to all public sector entities regardless of what sector they are in. A key consideration for the Board is neutrality between frameworks i.e. a public sector entity should be considered as large regardless of whether it was a PBE or a for-profit and not be large in one framework and non-large in the other merely because of definitional differences. Having a consistent definition reduces the incentive on entities to "game the system".

18. The Board noted that the respondents advocating the different definition held the latter view but that the majority of respondents supported the former approach.

19. The Board also reflected on the fact that the measures established in the Government's framework were for a different purpose (whether a for-profit entity should be required to report or not) than the purpose the Board was concerned about (whether a for-profit public sector entity should be in Tier 1 or not).

20. Having considered the feedback and related issues, the Board decided that the consistent definition approach is more appropriate and that the position outlined in the Consultation Paper should therefore be confirmed.

Use of IFRS-based Standards

21. A small number of respondents (mostly individuals) suggested in their submissions that New Zealand should move away the use of IFRS-based standards for for-profit entities and revert to standards akin to Old GAAP (while allowing optional use of IFRS). Their rationale for this is that IFRS is complex and expensive, and results in financial reports that "bewilder all but the most highly trained analysts".

22. The Board has considered the use of IFRS on a number of previous occasions and its rationale for the use of IFRS was outlined in the Consultation Paper. The vast majority of respondents agreed that NZ IFRS, converged with IFRS and harmonised with Australia, should be used by Tier 1 entities. The Board confirmed that NZ IFRS should be used as the basis for for-profit reporting in New Zealand, except for those entities that are currently using Old GAAP, which should be able to continue to do so in the interim period until the announced legislative changes are enacted.

RDR and Harmonisation

23. The majority of respondents supported the adoption of a reduced disclosure regime (RDR) for Tier 2, with the RDR being harmonised with Australia. However, some respondents suggested that some recognition and measurement concessions be included, or an option which includes recognition and measurement concessions also be available (such as IFRS for SMEs).

24. In the course of developing the Consultation Paper, the Board considered at length whether only disclosure concessions should be allowed in Tier 2 or whether some recognition and measurement concessions should also be provided. The Board decided that, at this time, there should only be disclosure concessions primarily on the basis of the benefits to users of having one recognition and measurement basis for all for-profit reporting; the benefits to groups of having a consistent recognition and measurement approach; and the Australian harmonisation benefits which are necessary to achieve the Government's single economic market outcome goals.

25. During the Consultation Paper preparation process the Board also considered whether both RDR and IFRS for SMEs should be available as options for Tier 2 entities. It concluded that such an approach would increase complexity and fragmentation to an extent not justified in the New Zealand context.

26. The Board carefully considered the comments made in submissions. It concluded that while they were useful articulations of the issues, the submissions did not provide any new information that had not previously been considered by the Board or which would change the balance of the judgement made by the Board.

27. The Board agreed that the Tier 2 accounting standards should be NZ IFRS RDR with only disclosure concessions and no other option allowed. However, the Board also agreed to request the NZASB to monitor the effectiveness of the RDR once it is in place and to explore opportunities with the AASB to further reduce compliance costs, including through limited recognition and measurement concessions where appropriate.

Timing

28. The Board noted that some respondents were concerned that the timing for the for-profit framework proposed in the Consultation Paper (effective date 1/7/13 with early adoption from 1/7/12) was too soon for entities to adequately prepare for the changes. However, the Board considered that these concerns were probably based on a misunderstanding of how the proposals will affect entities.

29. Under the proposals in the Consultation Paper:

- Tier 1 entities will already be reporting in accordance with (full) NZ IFRS and so the new framework will not affect them.
- Tier 2 entities are for the most part likely to be currently reporting in accordance with full NZ IFRS so there will be no additional cost for those entities as a result of the implementation of the accounting standards framework. To the contrary; compliance costs can be reduced for those entities by allowing them to adopt Tier 2 concessions (NZ IFRS RDR) at an early opportunity.
- Small and medium companies will be allowed to continue to follow either NZ IFRS Diff Rep or Old GAAP until the legislative changes come into force. This means that there should be little or no change for these entities.

30. Further, the way in which the Board proposes to operationalise the accounting standards framework is to allow entities that meet the Tier 2 criteria to elect to adopt RDR rather than requiring them to do so. As RDR is always to be voluntarily adopted, there seems little disadvantage in making it available for adoption as soon as possible. In this regard the Board agreed with the suggestion of some respondents that RDR be able to be adopted from the date it is issued.

31. The Board therefore agreed that the new for-profit tier structure and the NZ IFRS RDR standards be finalised and made available for early adoption as soon as is practical – expected to be September 2012.

32. A key issue for those entities currently using NZ IFRS Diff Rep or Old GAAP which will be required to prepare GPFR (and therefore move to Tier 2) after the legislation comes into force, will be the commencement date of the legislation. This is a matter beyond the XRB's control but it is likely to be late 2013 or possibly early 2014. For many entities that may be less than two reporting periods away, which will be problematic if they are required to adopt IFRS based recognition and measurement for the first time.

33. A transitional issue is therefore whether these entities (which are likely to be relatively few in number) should be given some additional time to move from their old framework to the new framework. One respondent suggested that the effective date for these entities to move to from NZ IFRS Diff Rep or Old GAAP to Tier 2 should

be one year after the legislative changes come into force. The Board agreed with this suggestion.

Maintenance of the Differential Reporting Requirements

34. It is expected that the majority of entities currently using differential reporting will no longer be required to prepare GPFR once the legislative changes take effect. That being the case there is a rationale for reducing compliance costs for these entities as much as possible in the meantime.

35. Compliance costs result from, among other things, on-going changes to the differential reporting standards and requirements. These costs can be addressed by "freezing" the differential reporting requirements (including any standards not yet mandatory at 1 March 2012) from now until they are withdrawn when the legislation comes into force. The Board considered this and agreed that such an approach should be adopted.

36. The way in which this will be given effect is to make all changes to NZ IFRS (i.e. amendments to existing IFRS plus any new standards) optional for entities applying NZ IFRS Diff Rep.

Summary of the Board's For-Profit Accounting Standards Framework Decisions

37. In summary the Board decided the following in relation to the accounting standards framework for for-profit entities:

- The accounting standards framework should comprise two tiers, plus two transitional tiers to cater for entities reporting in accordance with NZ IFRS Diff Rep or Old GAAP.
- The IASB definition of public accountability, supplemented by the deeming approach as outlined in the Consultation Paper (amended in due course as necessary to reflect changes incorporated in the Financial Markets Conduct Bill), should be used to define the tiers.
- Large for-profit public sector entities be included in Tier 1, and that for this purpose "large" should be defined as expenses >$30 million.
- Tier 1 entities should be required to follow NZ IFRS, converged with IFRS and harmonised with Australia.
- Entities that fall within Tier 2 should be able to elect to use the NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).
- NZ IFRS RDR should at this time contain only disclosure concessions and should be harmonised with Australia.
- The NZASB is to be requested to monitor the effectiveness of NZ IFRS RDR once it is in place and to explore opportunities with the AASB to further reduce compliance costs, including through limited recognition and measurement concessions where appropriate.
- The for-profit tier structure and NZ IFRS RDR arrangements should be finalised and made available for early adoption as soon as is practical.
- Entities currently required to prepare GPFR, but which will not be required to do so under the Government's new financial reporting framework, should be able to

continue to report in accordance with the existing NZ IFRS Diff Rep, or Old GAAP (including the Old GAAP differential reporting) (as applicable) until such date as the legislative amendments come into force, but that they should be able to early adopt the new framework if they so wish.

- For those entities that are currently using Old GAAP or NZ IFRS Diff Rep and which will be required to move to Tier 2 after the legislation comes into force, the effective date to adopt the new framework should be one year after the legislative changes come into force.
- The standards and concessions comprising the current NZ IFRS differential reporting requirements be "frozen" as at 1 March 2012 (including any standards not yet mandatory at 1 March 2012) until they are withdrawn when the legislation comes into force.

Part C: Accounting Standards Framework for Public Benefit Entities

Overall Feedback

38. The views of respondents on the proposals for the accounting standards framework for PBEs were as follows:

<u>PBE Definition</u>

- There were some concerns expressed about the appropriateness and understandability of the PBE definition.

<u>Tier Structure</u>

- There was general support for the three tier approach (with particularly strong support for the simple format reporting tier) with Tier 1 comprising large entities and all issuers, Tier 2 comprising medium size entities, and Tier 3 comprising small entities.
- There were some concerns about including all coercive leviers in Tier 1.
- There were requests for:
    - A separate tier/disclosure regime for privately funded charities;
    - The threshold criteria (expenses, coercive leviers, issuers) to be clearly defined; and
    - Stability provisions to cater for movement between tiers.
- There were suggestions that:
    - The size thresholds should also have an asset criterion;
    - All schools should be in the same tier;
    - All gaming machine societies should be in Tier 1;
    - The cash sub-tier should be treated as a separate tier; and
    - The cash sub-tier threshold should be higher.

<u>PBE Standards</u>

- There was mixed support for adopting PBE standards based on modified IPSAS. Setting aside those that do not support the proposal because they do not support a multi-standards approach, the major concern is the requirement for PBEs that are "commercial" in nature or which are financial institutions to apply PBE standards based on IPSAS rather than IFRS (this was also expressed in part as concern about the PBE definition).
- There was general support for:
    - Using "public entity" as defined by the Public Audit Act to define public sector PBEs and then defining NFPs as all other PBEs;
    - Consistent recognition and measurement requirements in Tiers 1 and 2;

    - Full PBE standards applying to Tier 1;
    - RDR PBE standards applying to Tier 2; and
    - Simple format reporting applying to Tier 3.

- There were concerns about how a number of NFP accounting issues, including consolidation, will be dealt with in the PBE standards.
- There were requests for:
    - Guidance on the accounting standards to be applied in mixed groups; and
    - Greater guidance on service performance reporting.

Timing

- There was general support for all public sector entities adopting the new standards at the same time but concerns about the proposed effective dates for both public sector and NFP entities.

39. The main matters considered by the Board in relation to the PBE accounting standards framework as a result of the feedback from respondents were:

- The appropriateness and understandability of the PBE Definition;
- Tier Structure: various issues relating to the tier criteria; and stability provisions;
- PBE Accounting Standards: accounting for mixed groups; NFP accounting issues; and service performance reporting guidance; and
- Timing.

The PBE Definition

Appropriateness

40. The Consultation Paper proposed that the current PBE definition be retained under the new framework. The Paper did not specifically ask for comments on this definition as it had previously been consulted on. However, a number of respondents, mostly PBEs that are also financial institutions, queried the appropriateness of the definition.

41. Having considered these submissions the Board decided the issue was not about the PBE definition per se, but rather how it interfaces with the standards that will be applied.

42. The spectrum of entities that fall within the PBE definition is quite wide: from entities that have a commercial orientation at one end, to those which have pure social objectives on the other. Some of the entities at the more commercial end of the PBE spectrum consider that IFRS-based reporting may be more appropriate to some of their users than IPSAS-based reporting. Those users (as identified by the respondents in their submissions) are:

- Capital market investors (lenders);
- Banking counterparties (commercial banks);
- "Sophisticated global financial experts including domestic and foreign financial institutions assessing the counter-party risk";

- Insurance Regulators (Reserve Bank and APRA);
- Credit Rating Agencies;
- International central bank peers;
- Financial and industry analysts and commentators;
- Members of the entity (in the case of NFP entities); and
- Market competitors.

43. The driver for the Board's decision to adopt a multi-standards approach has been user-needs i.e. to adopt standards which best meet the user-needs of the range of entities required to prepare GPFR. The Board therefore considered the issue from this perspective.

44. PBE reporting entities will typically have a number of different users with different information needs. Some of those users will be interested in information from a capital market /investor perspective. Others will be interested in information from a service recipient perspective. Others will be interested in information from a public ownership or member ownership perspective.

45. IFRS is focused primarily on the first set of users (capital market resource providers). IPSAS on the other hand is designed to provide information for the wider sets of users – or at least that is how it is expected to develop given the direction of the IPSASB conceptual framework project. IPSAS therefore does cater for the user-needs of issuers and other capital market users, but it does so in a way that balances that reporting with the needs of other users.

46. Viewed from this perspective it can be argued that IPSAS adequately addresses the user-needs of PBE Financial Institutions and there is therefore no need for entities to have to use IFRS to meet those user-needs. This was the position taken by the Board in both the 2009 Discussion Document and the 2011 PBE Accounting Standards Consultation Paper.

47. The respondents' view, however, is that even if this is the case there is still a perception and understandability problem for capital market users. Those users are familiar with IFRS and that is the "currency" they use. The use of any other set of standards, no matter how valid, is likely to have a detrimental impact on those users' assessment of performance, and possibly funding costs.

48. The Board considered the two perspectives and in particular the issues raised by the respondents. It also undertook some limited further discussions with them and other key stakeholders. The Board noted that there are disparate views about the issue amongst stakeholders and that as the issues had not been raised in response to the 2009 Discussion Document, the Board had not consulted on the matter as part of the 2011 Consultation Papers.

49. The Board concluded that the issue is one that warrants further investigation and discussion. It agreed to establish a project to consider the issue in more detail, and to consult with the wider stakeholder group as appropriate. The Board will revisit the issue when that project is completed – which is expected to be later this year. This timing is to ensure that consideration of the matter is finalised in advance of the PBE accounting standards framework becoming mandatory.

Understandability

50. A respondent suggested that, while it was quite comfortable with the PBE definition, the terminology used in the definition would not necessarily resonate well with NFPs, particularly those falling under the accounting standards framework for the first time. Adopting an alternative "plain language" definition was suggested.

51. The Board reflected on the fact that the PBE definition has been in place for some time and seems to be generally understood by the majority of the constituency that have been applying it to date. Amending the language of the definition at this juncture could have unintended consequences. The Board concluded that the wording of the definition should be left unchanged.

52. However, the Board was sympathetic to the respondent's suggestion and considers it important that NFP entities are able to understand and apply the definition. The Board agreed that explanatory guidance should be developed for this purpose.

Tier Structure

Asset Criterion

53. There was general agreement amongst respondents that entity size should be the primary determinant for allocating entities to the PBE tiers and that size should be measured on the basis of expenses. However, a small number of respondents suggested that an asset criterion should also be used to define the tier thresholds (i.e. expenses or assets). The argument in support of this was that entities could have a small value of expenses but a large value of assets. In the latter case the entity should be regarded as large and an expense only criterion does not allow for this.

54. The Board's view is that the purpose of the tier structure is not to determine whether an entity is large or not per se, but rather to match the costs and benefits. The costs of reporting are reflected best by an entity's expenses not its assets. If an asset criterion was applied it is likely that some entities with small value expenses would face disproportionately large financial reporting costs because of their large asset base. This was not what was intended when the Board established the tier approach. The Board concluded that an asset criterion should not be adopted.

Coercive Leviers Criterion

55. As part of its deliberations on the 2009 Discussion Document, the Board decided that all coercive leviers should be in PBE Tier 1 and this decision was included in the Consultation Paper.

56. A number of respondents commented on this decision in their submissions. One, the Department of Internal Affairs, noted that:

- Approximately one-third of local authorities (29 of 78) have expenses less than $30 million and would therefore be in Tier 2 if not for the coercive levier requirement;
- Of these 29 local authorities, 16 had expenses less than $20 million, of which five had expenses less than $10 million; and
- Some of the smallest councils "do not have sufficient resources to employ a chartered accountant on the staff and rely entirely on consulting services to meet their external reporting needs".

57. The respondents' view was that requiring these "tier 2" local authorities to be in Tier 1 would result in a mismatch of costs and benefits that would need to be funded by their ratepayers. A number of registration boards also expressed concern that the criterion might result in them being required to report in accordance with Tier 1.

58. The Board decided to reconsider the coercive levier criterion in light of these comments. The Board noted that the criterion is used under the existing differential reporting framework and that there is good justification for that. However, under the new accounting standards framework the same recognition and measurement requirements will apply to Tiers 1 and 2. The difference between the two tiers is therefore only reduced disclosures. These mainly relate to things like reconciliations, sensitivity analysis, and more detailed analysis of items.

59. The Board accepted the respondents' proposition that none of the reduced disclosures were likely to relate to anything that is intrinsically important to the accountability of local authorities. That being the case, there seems little benefit in requiring all coercive leviers to be in Tier 1.

60. The Board decided that levying of coercive revenue should no longer be a tier criterion and therefore entities that levy coercive revenue should be allocated to tiers on the basis of size (unless they have public accountability (as defined)). It also requested the NZASB to bear this in mind when it is finalising the RDR concessions for the PBE standards.

<u>Issuers Criterion</u>

61. The Consultation Paper proposed that all issuers be in Tier 1 but sought comment on an alternative approach – allowing issuers to be in Tier 2 according to their size, but with some additional reporting requirements. A significant majority of respondents supported the Tier 1 approach.

62. However, an issue raised by a respondent was whether certain issuers who have an exemption to issue a prospectus under the Securities Act should be required to report as an issuer. The Board noted that this is not a new issue but accepted that there is an important cost-benefit issue that lies behind it. The issue is also related to statutory requirements. The Board agreed to initiate discussions with the Financial Markets Authority (FMA) and the Ministry of Economic Development to establish appropriate mechanisms to provide appropriate relief for small issuers.

63. As part of its deliberations the Board also reflected on the use of the term "issuer". As the Board has been discussing the PBE framework over the last three years it has been referring to "issuers" as this is the term that has been historically used in New Zealand standards. However, the for-profit framework agreed by the Board refers to entities that have "public accountability" rather than issuers. Public accountability has been defined as the IASB definition (securities traded in a public market or assets held in a fiduciary capacity as part of the entity's primary business) plus four categories of entities that have been deemed to have public accountability. This definition is wider than "issuer".

64. Having reflected on this, the Board's view is that there does not appear to be a good reason for constraining the PBE requirements to just issuers. The same logic applies to fiduciary agencies and any such PBEs should also be in PBE Tier 1. The Board therefore decided that all PBEs with public accountability (as defined in the for-profit framework – not just issuers) should be required to be in Tier 1.

Tier Criteria Definitions

65. A number of respondents requested that the terms used to define the PBE tiers be clearly defined. Of particular concern to most of those respondents was how "expenses" will be defined.

66. The Board agreed that these terms should be defined and included in the revised XRB Standard A1 which will specify the new tier structure.

Tiers for Specific Entities

67. Various respondents suggested that particular entity types should be allocated to the same tier regardless of size, in particular:

- All schools should be in the same tier so that they have the same reporting requirement;
- All gaming societies should be in Tier 1 because of their social impact; and
- Privately funded charities should be allocated to their own tier with reduced reporting requirements because they are privately (not publicly) funded and therefore have reduced public accountability.

68. The ASRB considered the issue of tiers for specific entities as part of its deliberations on the 2009 Discussion Document where similar issues had been raised. It decided that cost-benefit was the driver for the tier approach and that there needed to be a very strong reason to override the size criterion approach. It specifically considered schools in this context and decided that the costs and benefits did not justify allocating all schools to one tier. This conclusion was specifically addressed in the Consultation Paper. The Board concluded that no new information has been provided to suggest the Board should reconsider its decision.

69. In relation to gaming societies, the Board noted that GPFR is not designed to provide information on the social impact of gambling. It is unlikely that any additional information related to that impact would result from allocating all gaming societies to Tier 1. Further, a separate regulatory regime which incorporates special purpose reporting, applies to gaming societies. This is designed to address the matters of concern to the respondent. The Board decided that gaming societies should be allocated to tiers on the same basis as other entities.

70. In establishing the new statutory framework, the Government has taken the view that if an entity registers as a charity under the Charities Act then it is deemed to be publicly accountable. This includes any privately funded registered charities. The Board decided that given this, it would be inappropriate for the standard setter to establish a set of reporting requirements for those entities that assumed that such entities are not publicly accountable. The Board concluded that privately funded registered charities should be allocated to tiers on the same basis as other entities.

Separate Cash Tier

71. Two respondents suggested that clarity and understandability would be enhanced if the proposed Tier 3 cash sub-tier was treated as a separate tier i.e. as Tier 4. The Board agreed with this suggestion and decided that a Tier 4 (simple format reporting on a cash basis) should be established within the PBE tier structure.

72. A number of respondents also suggested that the threshold for cash accounting should be higher. The Board noted these comments and also that the cash accounting threshold is a matter being determined by the Government, not the XRB.

The Board agreed to pass on the comments of respondents to Ministry of Economic Development (and has done so).

Stability Provisions

73. A number of respondents suggested that the PBE Standards should contain provisions dealing with moving between tiers and allowing a grace period for this to occur (these are called "stability provisions" in standard-setting speak).

74. The Board agreed that such provisions are useful. The Board agreed that stability provisions should be developed for inclusion in Standard XRB A1 and consulted on as part of the exposure draft for that revised standard.

PBE Accounting Standards

Mixed Groups

75. A number of respondents requested that guidance be provided on the accounting standards that should be applied in a mixed group situation (groups with for-profit and PBE subsidiaries). The Board agreed that such guidance is required and that it should be reflected in the appropriate accounting standards. It also agreed to work with the NZASB to develop the basis for such guidance.

NFP Accounting Issues

76. A number of NFP related accounting issues, including in relation to consolidation, were identified by some respondents. The Board acknowledged these issues and referred them to the NZASB for its consideration as part of its work on amending the PBE Accounting Standards for application by NFP entities.

Service Performance Reporting Guidance

77. Some respondents noted the importance of the PBE standards containing guidance about service performance reporting. The Board agreed with this and decided that a project on service performance should be initiated as a high priority.

Timing

78. A large number of respondents expressed concern about the timeline proposed in the PBE Consultation Paper. The general consensus was that:

    - More time is needed for the constituency to consider the PBE Accounting Standards ED once it is issued;
    - More time is needed for the constituency to prepare to adopt the PBE Accounting Standards once they have been finalised and issued; and
    - Given budget preparation requirements it is necessary for the PBE Accounting Standards to be issued at least 15 months before the beginning of the effective period.

79. The Board acknowledged this feedback. It agreed that the effective dates for adopting the PBE Accounting Standards should be delayed from that proposed in the Consultation Paper. This means that they would be effective for public sector PBEs for reporting periods beginning on or after 1 July 2014 (i.e. the 2014/15 financial year) and for NFPs for reporting periods beginning on or after 1 April 2015 (or such later date as the legislative enactments come into force).

80. The Board also agreed that the various suites of exposure drafts be finalised and issued in the following order using a staggered timeline:

- Tier 1 and 2 PBE Standards applying to public sector PBEs;
- Tier 3 Simple Format Standard (and templates) applying to NFPs (accrual) and Tier 4 Simple Format Standard (and templates) applying to NFPs (cash);
- Tier 3 Simple Format Standard (and templates) applying to public sector PBEs (accrual) and Tier 4 Simple Format Standard (and templates) applying to public sector PBEs (cash); and
- Tier 1 and 2 PBE Standards applying to NFPs.

(see Table 2 on page 24 for the indicative timing).

Summary of the Board's PBE Accounting Standards Framework Decisions

81. In summary, the Board decided the following in relation to the accounting standards framework for public benefit entities:

PBE Definition

- The PBE definition should be unchanged.
- A project to consider the issues raised by PBE Financial Institution respondents is to be established and the Board will consider these issues further when that project is completed.
- Explanatory guidance should be developed to explain the PBE definition (and if appropriate other matters contained in Standard XRB A1) in language appropriate for NFP entities.

Tier Structure

- The PBE tier structure should consist of four tiers as follows:
    - Tier 1: All entities >$30 million expenses plus all PBEs that have public accountability (as defined in the for-profit framework);
    - Tier 2: All entities >$2 million expenses and ≤$30 million expenses;
    - Tier 3: All entities ≤$2 million expenses which are not in Tier 4; and
    - Tier 4: All entities allowed by law to use cash accounting.
- An asset criterion not be used to define the tiers.
- A coercive leviers criterion not be used to allocate entities to PBE tiers; and the NZASB be requested to review its proposed RDR concessions in PBE Standards in light of the fact that some local authorities are likely to elect to be in PBE Tier 2.
- Discussions should be initiated with the FMA and the Ministry of Economic Development to establish appropriate mechanisms to provide appropriate relief for small issuers.
- The terms used in the tier criteria should be defined in revised Standard XRB A1.

- Schools, gaming societies, and privately funded charities should be allocated to tiers on the same basis as other entities.

- Comments in submissions relating to the cash accounting threshold should be provided to Ministry of Economic Development officials.

<u>PBE Accounting Standards</u>

- "Public entity" as defined by the Public Audit Act should be used to define public sector PBEs; and NFPs be defined as all other PBEs.

- The accounting standards applying to PBEs should be PBE Accounting Standards (PAS) based on IPSAS (modified as appropriate for New Zealand), together with other standards as necessary (modified as appropriate).

- Full PAS should apply to Tier 1, PAS RDR should apply to Tier 2, simple format reporting using the accrual basis apply to Tier 3, and simple format reporting using the cash basis apply to Tier 4.

- The NZASB should consider the NFP related accounting issues raised by respondents as part of its work to develop a NFP version of PAS.

- Guidance should be provided on accounting for mixed groups.

- Stability provisions should be included in Standard XRB A1.

- A project on service performance reporting should be initiated as a high priority.

<u>Timing</u>

- The effective dates for the new standards (including the Simple Format Standard) should be as follows:

    - Public sector entities: years beginning on or after 1 July 2014, with no early adoption;

    - NFP entities: years beginning on or after 1 April 2015 or such later date as determined by legislation, with early adoption allowed.

- The finalisation and release of the various exposure drafts relating to the suites of for-profit and PBE accounting standards should be staggered.

Part D: Next Steps

Key Milestone

82. Parts B and C of this document summarise the Board's decisions on a new accounting standards framework. They represent the culmination of three years' work developing and consulting on the new framework.

83. The Board appreciates the support and feedback (both formal and informal) that it has received from the constituency over this period. The Board has carefully considered the submissions and comments made and taken them into account, where it considers them appropriate, in making its final decisions.

84. Having reached this point the next steps for the Board, which in many cases also involves the NZASB, are as follows:

- Preparation and submission of a "Draft Tier Strategy" to the Minister of Commerce;
- Giving effect to the Accounting Standards Framework/Tier Strategy through revisions to Standard XRB A1; and
- Developing, consulting on, and issuing the new standards required.

Tier Strategy

85. The Financial Reporting Act 1993 (as amended in 2011) establishes the Draft Tier Strategy process as the mechanism for the formal approval of the Accounting Standards Framework. The required content of the Draft Tier Strategy specified in the Act effectively matches that of the Accounting Standards Framework.

86. In accordance with the Act the Board must submit the Draft Tier Strategy no later than 31 March 2012.

87. Under the Act, the Minister may either approve or decline to approve the strategy. He may only do the latter if he considers appropriate due process has not been followed by the Board or the tier structure proposed by the Board does not adequately reflect the advantages and disadvantages (costs and benefits) of placing different classes of entities in different tiers.

Revisions to XRB A1

88. Standard XRB A1 is the overarching standard that establishes which suite of accounting standards reporting entities must follow.

89. Existing Standard XRB A1 reflects the current accounting standards framework. As the new framework is significantly different from the existing framework, XRB A1 needs to be completely rewritten. The new XRB A1 will replace the existing XRB A1 when it becomes effective.

90. The Board proposes to rewrite XRB A1 in stages. This is necessary to reflect the staged timing for the roll-out of the new accounting standards framework agreed by the Board and outlined in Parts B and C of this document. Under that roll-out, the for-profit aspects of the new accounting standards framework will be effective before the public sector aspects, which in turn will be effective before the not-for-profit sector aspects.

91. The proposed rewrite stages are:

- Stage 1 which will reflect the new framework for for-profit entities while retaining the existing PBE framework;
- Stage 2 which will reflect the new for-profit framework and the new PBE framework as it applies to public sector entities, while retaining the existing framework for not-for-profit entities; and
- Stage 3 which will reflect the new framework as it applies to all entities required to prepare GPFR, including in particular, not-for-profit entities.

92. The Board plans to develop an exposure draft for each rewrite stage and will issue those for comment progressively over coming months.

93. The Board intends to issue the Stage 1 ED shortly (while the Minister is considering the Tier Strategy). This is designed to keep the consultation process moving in the interim and is consistent with the XRB's obligation under the Financial Reporting Act to implement the Tier Strategy as soon as it is approved.

New Standards

94. The full implementation of the new accounting standards framework requires the development of some new standards:

- NZ IFRS RDR for application by for-profit Tier 2 entities;
- The PBE Accounting Standards (PAS) and PAS RDR for application by PBE Tier 1 and 2 entities respectively; and
- The PBE Simple Format Reporting Standard (accrual and cash versions) for application by PBE Tier 3 and 4 entities respectively.

95. The NZASB has been actively working on the development of these five sets of standards. It plans to issue exposure drafts for each set progressively over the coming months in accordance with the staggered release strategy agreed by the Board. The initial priority will be exposure drafts for NZ IFRS RDR, PAS and PAS RDR for public sector PBEs, and Simple Format Reporting Standards for NFPs. This will be followed by exposure drafts for Simple Format Reporting for public sector Tier 3 and 4 PBEs and Tier 1 and 2 PBE Standards for NFPs.

96. The planned timeline for the issue of the EDs and finalisation of the standards for each sector is summarised in Table 2.

Table 2: Broad Timeline for the Issue of New Standards

	For-Profit Sector	PBE – Public Sector	PBE – NFP Sector
Tier 1	**NZ IFRS** Exists – no change	**PBE Standards** Issue ED: Mid Q2, 2012 Issue Standard: Late Q1, 2013 Effective date: 1/7/14	**PBE Standards** Issue ED: Mid Q2, 2013 Issue Standard: Q1, 2014 Possible effective date: 1/4/15
Tier 2	**NZ IFRS RDR** Issue ED: Early Q2, 2012 Issue Standard: Early Q4, 2012 Adopt date: Early Q4, 2012	**PBE Standards RDR** Issue ED: Mid Q2, 2012 Issue Standard: Late Q1, 2013 Effective date: 1/7/14	**PBE Standards RDR** Issue ED: Mid Q2, 2013 Issue Standard: Q1, 2014 Possible effective date: 1/4/15
Tier 3	**NZ IFRS Diff Rep** Exists – no change	**Simple Format (Accrual)** Issue ED: Late Q3, 2012 Issue Standard: Early Q2, 2013 Effective date: 1/7/14	**Simple Format (Accrual)** Issue ED: Late Q2, 2012 Issue Standard: Late Q1, 2013 Possible effective date: 1/4/15
Tier 4	**Old GAAP** Exists – no change	**Simple Format (Cash)** Issue ED: Late Q3, 2012 Issue Standard: Early Q2, 2013 Effective date: 1/7/14	**Simple Format (Cash)** Issue ED: Late Q2, 2012 Issue Standard: Late Q1, 2013 Possible effective date: 1/4/15