

FINANCIAL REPORTING STRATEGY¹ PARAMETERS FOR THE NZASB **24 August 2011**

Introduction

1. In accordance with its terms of Reference, the NZASB has delegated authority from the XRB Board to develop or adopt and issue accounting standards for general purpose financial reporting. However, the XRB Board is responsible for determining the overall financial reporting strategy and it is important that the standards issued by the NZASB are consistent with that strategy.
2. This document outlines the technical strategic parameters that the XRB Board wishes the NZASB to work within when establishing accounting standards. It effectively represents the elements of the XRB's overall financial reporting strategy that are relevant to the work of the NZASB.
3. It is expected that this document will be revised from time to time to take account of changes to the XRB's overall financial reporting strategy, or to changes in legislative requirements or in the accounting environment.

Strategic Objective

Organisational

4. The XRB's outcome goal is:

To contribute to the creation of dynamic and trusted markets² through the establishment of an accounting and assurance standards framework that engenders confidence in New Zealand financial reporting; assists entities to compete internationally; and enhances entities' accountability to stakeholders.

5. The delivery of three outputs will be used to impact this outcome goal:
 - developing financial reporting strategy;
 - preparing and issuing accounting standards; and
 - preparing and issuing auditing and assurance standards.
6. All of the work of the organisation, including that of the NZASB is therefore linked to influencing the outcome goal.

NZASB

7. The existence of accounting standards that encourage high quality financial reports that are meaningful and accepted by users, and recognised internationally is crucial to the achievement of the outcome goal. The NZASB therefore has a key role to play in the achievement of this goal.
8. Accordingly, the XRB Board considers the NZASB's strategic objective should be:

To establish accounting standards for general purpose financial reporting which will encourage the preparation of financial reports³ that engender confidence in New

¹ The term "Financial Reporting Strategy" is used as per section 24(1)(c) of the Financial Reporting Act 1993 and refers to financial reporting in its wider sense incorporating both accounting and assurance.

² "Markets" should be viewed in a wider multi-sectoral sense rather than in just a commercial or capital markets context.

³ The content of "financial reports" includes both financial and non-financial information.

Zealand financial reporting, assist entities to compete internationally, and enhance entities' accountability to stakeholders.

9. The XRB Board expects the NZASB to consider the suite of accounting standards, and how they are being applied, with this objective in mind, and to do so on an ongoing basis. The NZASB should issue such standards or guidance as it considers necessary from time to time to achieve this strategic objective.

Scope of Responsibilities

10. The XRB Board expects the NZASB to issue accounting standards for all entities required by law to prepare GPFR. The NZASB is not expected to issue accounting standards for other purposes such as special purpose financial reporting.

Immediate Period

11. Under existing legislative requirements most for-profit entities (including small and medium sized companies) and all public sector entities are statutorily required to prepare GPFR. The majority of not-for-profit entities are not so required.
12. The current accounting standards reflect these arrangements through the following accounting standards framework:
 - A suite of NZ IFRS standards for for-profit entities;
 - A suite of NZ IFRS standards with modifications for PBEs;
 - A Framework for Differential Reporting containing recognition, measurement and disclosure concessions for qualifying entities; and
 - A suite of "old GAAP" standards that may be applied by for-profit or public benefit entities which previously qualified under ASRB Release 9 and now under standard XRB A1.
13. These arrangements were codified in XRB Standard A1 issued by the XRB Board on 1 July 2011. Unless otherwise agreed with the XRB Board, the XRB Board expects the NZASB to maintain that approach and those standards until such time as the XRB Board completes its consultation process on an alternative accounting standards framework.

Short to Medium Term

14. It is expected that the Government will enact changes to the Financial Reporting Act 1993 that will change which entities are required to prepare GPFR. It is likely that following these changes only publicly accountable and large for-profit entities will be required to prepare GPFR, along with all public sector entities as well as publicly accountable and large not-for-profit entities.
15. In anticipation of this the XRB Board's predecessor, the ASRB, has developed a new proposed accounting standards framework. That proposed framework is based on separate suites of accounting standards for each of the for-profit and PBE sectors and an explicit (and separate) tier structure for each sector.
16. The proposed new accounting standards framework is expected to be consulted on shortly. Once the XRB Board has considered the comments resulting from the consultation process it will finalise the new accounting standards framework. This financial reporting strategy document will then be amended to reflect that new framework.

17. Once that has occurred the XRB Board will expect the NZASB to prepare or adopt and issue standards in accordance with that accounting standard framework. Subject to the results of the consultation, this is likely to include developing or adopting standards for:
- For-profit entities based on IFRS, with a reduced disclosure version (RDR) for tier 2;
 - Public Sector PBEs based on a New Zealand modified version of IPSAS, with a reduced disclosure version (RDR) for tier 2 and a simple format reporting version for tier 3; and
 - Not-for-profit entities based on the New Zealand modified version of IPSAS developed for Public Sector PBEs but applied and adapted for NFP entities, with a reduced disclosure version (RDR) for tier 2 and a simple format reporting version for tier 3.
18. The initial tier structure and criteria for each tier will be established by the XRB Board. However, the NZASB will be expected to maintain that structure over time and recommend any amendments to it to the XRB Board.
19. The accounting standards framework for for-profit entities is likely to need to be completed by 30 June 2012, and the framework for public sector PBE entities ready for issue by 31 August 2012 (these dates are subject to confirmation by the XRB Board following the consultation process).

Specific Strategic Parameters

Adoption of International Standards

20. The XRB has a strong preference to adopt international standards where they are generally applicable and appropriate in the New Zealand context. This approach is designed to enhance convergence with international practice as well as reducing standard setting costs in New Zealand.
21. Accordingly, the XRB Board wishes the NZASB to adopt international accounting standards as the standards applying in New Zealand unless there are very strong reasons why they should not be.
22. This is particularly the case in relation to for-profit standards. On 1 July 2011 the NZASB inherited a suite of NZ IFRSs that are effectively fully converged with (pure) IFRS – excluding the PBE modifications. The XRB Board sees this as highly desirable in the for-profit space and expects the NZASB to retain and maintain the standards in this fully converged state. If for any reason this is not achievable, the XRB Board would expect the NZASB to consult with the XRB Board before taking any action that would result in non-convergence. The XRB Board considers that in committing to adopt IFRS it is committing to using that set of standards as a whole. This means that the failure to adopt any particular standard, or to modify it other than with superior requirements, would remove the ability of preparers in New Zealand to claim compliance with those standards. Accordingly, it is essential that any modifications do not conflict with the requirements of the international standards.

Domestic Standards

23. If there are topic areas or other matters for which a standard is required in order to achieve the strategic objective, but for which no international standard exists (or is likely to exist in the foreseeable future), the XRB Board would expect the NZASB to develop a domestic standard. Domestic standards should only be developed where

there is a gap in international standards, and not to replace an international standard.

24. Domestic standards should also be used to specify requirements that are additional to those contained in an international standard that has been adopted by the NZASB in accordance with the philosophy underlying FRS-44 *New Zealand Additional Disclosures*.

Harmonisation with Australia

25. A second key strategic objective of the XRB is harmonisation with Australia in relation to reporting by for-profit entities. Harmonisation is reflected in a substantively common set of for-profit standards that apply in both countries. This allows for-profit entities (in any tier) to prepare a single set of financial reports that are acceptable in both jurisdictions.
26. The XRB Board notes that the suite of NZ IFRS standards inherited by the NZASB on 1 July 2011 is already harmonised with Australia, insofar as they apply to for-profit entities. The XRB Board expects the NZASB to work with its Australian counterpart, the Australian Accounting Standards Board (AASB), to ensure that this degree of harmonisation is maintained over time and that any country specific requirements are contained in domestic standards. The impact on, or opportunity for, harmonisation should be a factor considered by the NZASB when developing or adopting any standard relating to for-profit entities applying full NZ IFRS.
27. The XRB Board also notes that tier 2 requirements are not currently harmonised. The XRB Board expects the NZASB to work with the AASB to also achieve harmonisation of requirements for these entities. The XRB Board acknowledges that this is dependent on the final form of the accounting standards framework for which it is responsible.
28. The XRB Board does not expect the NZASB to produce standards for PBE entities that are harmonised with Australia. However, it is keen for the NZASB to explore opportunities to work with the AASB on PBE projects that are of mutual benefit to New Zealand and Australia.

Engaging with International Standard Setters

29. A consequence of the XRB's "adopting international standards" strategy is that the NZASB's ability to determine the content of standards once the international exposure draft is issued is limited. This means that it is important that the NZASB engage with international standard setters during the project development phase. In other words it is necessary to refocus our technical effort and input from the back-end to the front-end of the standard setting process.
30. Accordingly the XRB Board expects the NZASB (with the support of and/or via the staff) to look for opportunities to engage with international standard setting bodies at an early opportunity in the process of developing an international standard. This engagement may be directly, or in conjunction with the AASB, or (in particular) via regional standard setting bodies, or other mechanisms.
31. Compared to many international counterparts, the XRB is a small standard setter with very limited resources. The XRB Board therefore expects the NZASB to prioritise its work in topics or areas that are significant to New Zealand and/or in which New Zealand can make a worthwhile contribution.
32. The XRB Board also expects the NZASB to make submissions to relevant international standard setting bodies on due process documents issued by them, where those documents are relevant or important in the New Zealand context.