



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Policy Approach to Developing the Suite of PBE Standards

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Preface

1. In May 2013, the New Zealand Accounting Standards Board (NZASB) issued the PBE Standards – a new suite of standards for Tier 1 and Tier 2 public benefit entities. That initial set of standards, developed in accordance with the External Reporting Board's (XRB Board's) Accounting Standards Framework, can be regarded as the "foundation suite" of PBE Standards. It is expected that the foundation suite will be enhanced and developed over time.
2. This Policy Approach paper has been developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards i.e. when considering enhancements and developments to the suite of PBE Standards in the future.
3. While primarily based on International Public Sector Accounting Standards, the foundation suite of PBE Standards was developed using a range of source standards: International Public Sector Accounting Standards, selected NZ IFRSs and domestic standards developed within New Zealand. Developments are likely to arise from each of these sources as changes are made to the international standards and as issues specific to New Zealand emerge.
4. Without a policy such as this, it would be possible for significant fluctuations in the NZASB's approach to developing the suite of PBE Standards to emerge over time. This Policy Approach paper therefore provides constituents with some certainty about the likely future direction of the PBE Standards suite, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB. It also assists constituents to understand the likely implications of future changes to the PBE Standards suite for public benefit entities (PBE) groups containing for-profit entities (commonly referred to as "mixed groups").

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Summary

The Development Principle

In accordance with the Accounting Standards Framework, the primary purpose of developing the suite of PBE Standards is to better meet the needs of the PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made; and
- (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
 - (ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
- (c) In the case of a potential development arising from the issue of a new or amended IFRS, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).

Application of the Development Principle

The paper includes a series of rebuttable presumptions in applying the development principle:

- (a) The NZASB will adopt a new or amended IPSAS.
- (b) The NZASB will not include an NZ IFRS that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.
- (c) In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE standard based on an IPSAS, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change.
- (d) The NZASB will not incorporate minor amendments to NZ IFRS into the equivalent PBE Standard in advance of the IPSASB considering the change.

1. Introduction

1. This paper addresses the approach to developing and enhancing the suite of PBE Standards, now that the transition suite for public sector PBEs is completed. References to PBEs in this paper include references to all PBEs: public sector PBEs and not-for-profit entities, and public sector PBE groups and not-for-profit groups.
2. Triggers for possible changes to the standards are likely to come from three sources:
 - (a) the IPSASB issuing a new IPSAS or a change to an existing IPSAS (section 4.1);
 - (b) the IASB issuing a new IFRS or a change to an existing IFRS (section 4.2); and
 - (c) domestic developments within New Zealand, including both exogenous events such as changes to the legislative framework and endogenous events where the NZASB considers that developments are warranted (section 4.3).
3. This paper considers the implications of the Accounting Standards Framework for developing the suite of PBE Standards and identifies an approach to be taken for each of the triggers for possible changes to PBE Standards.

2. Basis for Development of PBE Standards

4. The multi-standards approach in the Accounting Standards Framework is designed to better meet the needs of users of the financial statements of PBEs. In its decision to base the development of standards for Tier 1 and Tier 2 entities on IPSAS, the XRB Board decided the following:
 149. The XRB therefore proposes that a set of PBE Accounting Standards (PAS) be developed and that they use IPSAS as their base. PAS would modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context at this time. Such modifications would only be made where the IPSAS requirement in question would have a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements' usefulness to users. Based on work to date, the number of modifications is expected to be relatively few.
 150. The XRB also proposes that PAS include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.
 151. Thirdly, the XRB proposes PAS be modified to make them relevant, applicable and understandable to not-for-profit sector preparers and users. This is necessary because IPSASB has developed IPSAS for public sector entities. Some modification is desirable to enhance their usefulness in the not-for-profit context.(Accounting Standards Framework, paragraphs 149 – 151)
5. This paper uses the term 'development' to encompass any change to the suite of PBE Standards.
6. In considering the appropriateness of potential developments of the suite of PBE Standards, it is necessary to consider these developments in the context of the Accounting Standards Framework, including the impact of any developments on the quality of the financial reporting arising from those standards and the trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs.

2.1 Quality of Financial Reporting

7. The suite of PBE Standards is designed to meet users' needs by providing high quality financial reporting by PBEs. It follows that any development of PBE Standards should aim to improve the quality of financial reporting. The quality of financial reporting relies on meeting the needs of users of PBE general purpose financial reports (including financial statements), while endeavouring to ensure that the costs arising from a development do not outweigh the benefits.
8. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs (as it applies from time to time), with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework.
9. The categories of users of financial statements of PBEs and for-profit entities are different. The IASB's emerging Conceptual Framework identifies users of IFRS as

suppliers of resources to the entity, and notes that the decisions that they make are related to providing resources to the entity.¹

10. In contrast, the IPSASB considers that the objective of financial reporting is to serve a wider group of users, being resource providers and service recipients and their representatives. The IPSASB notes that information is needed for both accountability and decision-making purposes².
11. A development of the suite of PBE Standards will improve the quality of financial reports prepared in compliance with PBE Standards if it improves the accounting for specific transactions by better meeting the objective of financial reporting and the associated qualitative characteristics of financial reporting.
12. Further, high quality financial reporting depends on consistent treatment of similar transactions. For example, it would usually be inappropriate to require different measurement for similar liabilities in similar circumstances. As a result, any development of PBE Standards (including the conceptual framework for PBEs) should ensure that the suite is maintained as a coherent whole.
13. It follows that any developments should ensure that the needs of users are better met than they were prior to the development. Alternatively, the cost-benefit test (see next section) may be met where the needs of users are equally as well served, with a consequent benefit in some other way such as a reduction in the costs of preparing the financial statements.

2.2 Costs and Benefits

14. In considering a potential development of the suite of PBE Standards, the primary purpose and benefit is to improve the information provided to users of PBE financial statements.
15. Benefits need to be considered in relation to the suite of standards as a whole, in addition to the implications for a specific area of financial reporting. The benefit of aligning the PBE Standards with NZ IFRS to the extent possible is that this will reduce differences between the financial statements of PBEs and for-profit entities. This benefit is particularly relevant to entities that are members of mixed groups³ and users of PBE financial statements whose familiarity with financial statements arises from experience in the for-profit sector. However, for other preparers that are not part of a mixed group, there may be additional preparation costs as a result of changes in accounting standards that might not otherwise arise.
16. The PBE Standards are largely based on IPSAS in accordance with the Accounting Standards Framework and, therefore, careful consideration is required before making any change to a PBE standard based on an IPSAS in circumstances other than as a consequence of the IPSASB issuing a new or amended IPSAS (as

¹ New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*, paragraph OB2.

² IPSASB, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, January 2013, paragraphs 2.1–2.4.

³ For the purposes of this paper, a mixed group is a PBE group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted under the consolidation standards.

discussed further below in paragraph 28). In addition, the benefit of using IPSAS to the extent possible is that IPSAS are a suite of standards that comprise a coherent package. It also reduces standard-setting costs as the IPSASB documents are readily available for application in New Zealand with little additional work. Reducing the time spent on setting the base standards releases resources for working with the international standard setters and for necessary domestic projects.

17. In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as not-for-profit entities. However, it is expected that recognition and measurement requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated.
18. At times, there is a tension between reducing the costs borne by preparers within mixed groups – that is the elimination of differences between PBE Standards and NZ IFRS that are not sector-specific – and improving the suite of PBE Standards taken as a whole. This policy takes the view that reducing the costs on preparers within mixed groups should be considered to the extent that these costs can be reduced whilst meeting the needs of the wider range of users of financial statements of public sector PBEs and not-for profit entities (including public sector and not-for-profit groups) through a complete and coherent suite of PBE Standards.

3. The Development Principle

19. In accordance with the Accounting Standards Framework, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:
- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made; and
 - (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
 - (ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
 - (c) In the case of a potential development arising from the issue of a new or amended IFRS, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).
20. The NZASB will need to exercise its judgement in balancing the factors in the development principle because, in many cases, there will need to be a trade-off between these factors. This policy provides a basis for making such a trade-off decision: it cannot replace the application of judgement by the NZASB with a series of bright-line rules.

4. Application of the Development Principle

21. The following sections are designed to assist in the application of the factors in the development principle. They consider, in turn, potential developments of the suite of PBE Standards that might arise from developments in IPSAS and NZ IFRS as well as addressing issues that might arise within New Zealand. Although this paper treats each of these developments separately, it is likely that specific developments will need to be considered from a number of perspectives. For example, the NZASB may have planned to continue to update PBE IAS 34 *Interim Financial Reporting* in line with developments of NZ IAS 34 *Interim Financial Reporting* to retain consistent interim reporting across all sectors (section 4.2). However, if the IPSASB were to issue a standard addressing interim reporting, this new IPSAS would be considered as a development resulting from an enhancement to IPSAS (section 4.1).

4.1 New or Amended IPSAS

22. **There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS. It is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met.**
23. This rebuttable presumption is based on the expectation that the IPSASB has considered the needs of the wide range of users of public sector financial statements in developing and enhancing the suite of IPSAS.
24. Depending on the circumstances, it may be appropriate to amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:
- (a) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance to enable not-for-profit entities and public sector PBEs to apply the standard consistently or adding guidance to assist not-for-profit entities in applying the standard, given that the standard has been developed for application by public sector PBEs;
 - (b) amendments necessary to maintain the coherence of the suite of PBE Standards;
 - (c) excluding options that are not relevant in the New Zealand context; or
 - (d) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for not-for-profit entities.

4.2 New or Amended NZ IFRS

25. New or amended NZ IFRS will require the NZASB to consider whether to initiate a development of the PBE standards in the following circumstances:⁴
- (a) an IFRS that the IPSASB has used as the basis for an IPSAS is changed;
 - (b) the IASB issues an IFRS on a new topic; and
 - (c) there is a change to an NZ IFRS that has been used as the basis for a PBE Standard⁵.

4.2.1 An IFRS that the IPSASB has used as the basis for an IPSAS is changed

26. As noted earlier, the PBE Standards are primarily based on IPSAS. In turn, many IPSAS are primarily based on IFRS. Examples of such standards are PBE IPSAS 16 *Investment Property* and PBE IPSAS 17 *Property, Plant and Equipment*, which are based on IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, respectively. Accordingly, there are likely to be many instances in which a new or amended NZ IFRS relates to a topic covered by an existing IPSAS standard that has been incorporated into the PBE standards.
27. **In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE standard based on an IPSAS, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change.**
28. Given the presumption in paragraph 22 that any standard issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with "getting ahead of the IPSASB". Therefore, the NZASB needs to decide whether to develop a PBE standard ahead of the IPSASB or to wait for the IPSASB's response. If the issue is already on the IPSASB's active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.
29. **Furthermore, in the case of minor amendments to an NZ IFRS, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-benefit test, particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account.

⁴ An amendment to an NZ IFRS can fall into more than one of the above categories, for example, an NZ IFRS on a new topic might also result in changes to other NZ IFRS that fall into category (a) and/or (c).

⁵ The NZ IFRS applying to PBEs were "frozen" in 2011, pending the establishment of the XRB and the anticipated development of PBE Standards. The "frozen" NZ IFRS that the NZASB has included in the PBE Standards are PBE IFRS 3 *Business Combinations*, PBE IFRS 4 *Insurance Contracts*, PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*, PBE IAS 12 *Income Taxes* and PBE IAS 34 *Interim Financial Reporting*, together with NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE IFRS 45 *Service Concession Arrangements: Operator*).

30. Where there is a major change to an IFRS for which there is an existing IPSAS and where the IPSASB is unlikely to address the change in an acceptable time frame, the NZASB could either develop a domestic modification to the PBE Standard or assist the IPSASB to develop an IPSAS. Options for assisting the IPSASB include offering to provide staff resources for the IPSASB or partnering with the IPSASB to update a specific IPSAS in the light of the major change. It may be more effective to assist the IPSASB because any uncertainties about the IPSASB's approach to the issue will be resolved sooner rather than later. However, the level of effort required to develop an IPSAS based on an IFRS for international use is likely to be significantly higher than developing a PBE Standard based on an IFRS or its equivalent NZ IFRS for use in New Zealand. The IPSASB's due process, multi-constituency reach and less regular meetings leads to a standards development process for the IPSASB that is more time consuming and complex.

4.2.2 The IASB issues an IFRS on a new topic

31. An example of a new topic is where the IASB is considering issuing a standard on rate-regulated activities.
- 32. There is a rebuttable presumption that the NZASB will not include an NZ IFRS that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.**
33. As noted in paragraph 35, some NZ IFRS were included in the suite of PBE Standards to maintain current practice until the IPSASB addresses the related issues. This rationale does not apply to an NZ IFRS on a new topic. Also, given the PBE standards are primarily based on IPSAS in accordance with the Accounting Standards Framework, adding further PBE standards based on NZ IFRS is unlikely to be consistent with the objectives of that Framework.
34. In considering whether to rebut the presumption, the NZASB should consider whether the new standard both leads to a major improvement in the quality of financial reporting and fills a gap in the suite of PBE Standards (as distinct from a gap in NZ IFRS). This is unlikely to arise.

4.2.3 An NZ IFRS that the NZASB has included in the PBE Standards is changed

35. The NZASB has included selected "frozen" NZ IFRS in the suite of PBE Standards (see footnote 5) in order to maintain current practice until the IPSASB addresses the related issues.
- 36. In considering a change to an NZ IFRS that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.**
37. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB's likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE standards. This is because the potential problems

associated with “getting ahead of the IPSASB” (as discussed in paragraph 28 above) are less likely to arise.

38. An implication of this policy is that those PBE Standards based on a “frozen” NZ IFRS (see footnote 5) may need to be updated to align with the current equivalent NZ IFRS.

4.3 Domestic Developments

39. Domestic developments include developing standards to meet specific requirements in New Zealand.
40. The suite of PBE Standards contains standards directly addressing issues relevant to New Zealand, including PBE FRS 42 *Prospective Financial Statements* and PBE FRS 43 *Summary Financial Statements*. Further domestic standards may be developed where a need arises when an issue of importance in New Zealand is not addressed in a standard issued by the IPSASB (section 4.1) or the IASB (section 4.2).
- 41. In determining whether to initiate the development of a domestic standard for inclusion in the PBE suite, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context.**
42. The Accounting Standards Framework presumes that New Zealand will be a standards-taker rather than a standards-maker whenever possible, for a range of reasons, including:
- (a) the quality derived by an international due process;
 - (b) the prospect of international comparability; and
 - (c) the limited resources available for the domestic development of standards.
43. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:
- (a) there is no other source of material available internationally; or
 - (b) the available international guidance is not targeted specifically towards addressing New Zealand issues.