



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

EXPOSURE DRAFT

2017 PROPOSED AMENDMENTS TO XRB A1

Invitation to Comment

June 2017

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New Zealand
<http://www.xrb.govt.nz>

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Information for Respondents

Invitation to Comment

The XRB Board is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising *Amendments to XRB A1*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please refer to *Amendments to XRB A1* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **28 August 2017**.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

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

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
PBE	Public benefit entity
XRB A1	External Reporting Board Standard A1 <i>Application of the Accounting Standards Framework</i>

Questions for Respondents

	Paragraphs
1. Do you agree with the proposed deletion of paragraph 9(c)? If not, please explain why.	8–9
2. Do you agree that an entity and all its controlled entities that exceeds the statutory threshold for total operating payments should not report under Tier 4 PBE Accounting Requirements? If you disagree, please provide reasons.	10–17
3. Do you agree that an entity and all its controlled entities that does not exceed the statutory threshold for total operating payments should be able to continue to report under Tier 4 PBE Accounting Requirements? If you disagree, please provide reasons.	10–17
4. Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2018, with earlier application of paragraph 42A permitted. If you disagree, please provide reasons.	18
5. Do you have any other comments on the Exposure Draft?	

1. Introduction

1.1 Background

1. External Reporting Board Standard A1 *Application of the Accounting Standards Framework* (XRB A1) reflects the requirements of the Accounting Standards Framework as it applies to entities that are required (or opt under an enactment) to prepare general purpose financial reports in the for-profit and public benefit entities sectors.
2. The XRB Board is sometimes made aware of amendments that are needed to XRB A1 to reflect legislative changes and/or the application of the Accounting Standards Framework.

1.2 Purpose of this Invitation to Comment

3. The purpose of this Invitation to Comment is to seek comments on the proposed amendments set out in the Exposure Draft (ED).

1.3 Timeline and next steps

4. Submissions on the ED are due by **28 August 2017**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
5. After the consultation period ends, the XRB Board will consider the comments received and, subject to the comments in those submissions, expects to finalise the amendments soon afterwards.

2. Development of the Exposure Draft

2.1 Overview

6. This Invitation to Comment and accompanying ED proposes amendments to XRB A1 to delete paragraph 9(c) and to amend the criteria for a public benefit entity (PBE) to report in accordance with Tier 4 PBE Accounting Requirements.

2.2 Proposed amendments to XRB A1

7. The ED proposes:
 - (a) to delete paragraph 9(c) relating to section 55 of the Financial Reporting Act 2013 to reflect the end of the transitional period for issuers of securities under the repealed Securities Act 1978 and the repealed Financial Reporting Act 1993 to transition to the Financial Markets Conduct Act 2013; and
 - (b) to add paragraph 42A so that the size criteria for a PBE to report in accordance with Tier 4 PBE Accounting Requirements is based on the total combined operating payments of the entity and its controlled entities.

2.3 Proposed deletion of paragraph 9(c)

8. The definition of “public accountability” in XRB A1 includes, under paragraph 9, certain FMC reporting entities that are deemed to have public accountability. Paragraph 9(c) also deems an entity to which section 55 of the Financial Reporting Act 2013 applies as having public accountability.
9. Section 55 of the Financial Reporting Act 2013 provides for the continued application of the Financial Reporting Act 1993 to issuers of securities under the Securities Act 1978 prior to those entities’ transition to the Financial Markets Conduct Act 2013. Clause 10 of the Financial Reporting Regulations 2015 provides for the transitional period for the issuers of securities under the two repealed Acts to end by 30 November 2017. It is therefore proposed that paragraph 9(c) of XRB A1 be deleted.

Question for Respondents

1. Do you agree with the proposed deletion of paragraph 9(c)? If not, please explain why.

2.4 Criteria for Tier 4 PBE Accounting Requirements

10. A PBE may elect to report in accordance with Tier 4 PBE Accounting Requirements if it is permitted by an Act to report in accordance with non-GAAP standards (that is, the cash basis of accounting) because it does not have public accountability and it does not meet the legislative size threshold to be a “specified not-for-profit entity”.
11. An entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are \$125,000 or more (section 46 of the Financial Reporting Act 2013).

12. For the purposes of applying the Tier 1 criteria, Tier 2 criteria and the Tier 3 criteria in XRB A1, the size threshold is based on the total expenses of the group, that is, the controlling entity and all its controlled entities.
13. However, the size threshold for the Tier 4 criteria is based on the total operating payments of the entity, with no reference to whether there is a group for financial reporting purposes.
14. The XRB Board and the New Zealand Accounting Standards Board (NZASB) have been informed that the current tier structure in XRB A1 may allow a registered charity to elect to report under Tier 4 PBE Accounting Requirements when it controls another entity that has substantial resources. If this election is taken, the total resources controlled by the registered charity will not be reflected in the Tier 4 financial statements prepared, because there is no requirement for the preparation of consolidated financial statements in the Tier 4 PBE Accounting Requirements.
15. When the tier structure was developed by the XRB Board it was intended that Tier 4 would be applied by very small entities. The ability for a registered charity to elect to report in accordance with Tier 4 PBE Accounting Requirements, when it controls another entity that has substantial resources, is considered by the XRB to be an unintended outcome.
16. To address the concerns raised, the ED proposes to require a PBE to determine its eligibility to report in accordance with Tier 4 PBE Accounting Requirements based on the total combined operating payments of the entity and any entities that it controls (that is, on a group basis), which is consistent with the size criteria for Tier 1, Tier 2 and Tier 3 PBE Accounting Requirements.
17. The ED proposes that an entity and all its controlled entities that exceeds the statutory threshold for total operating payments should not be eligible to report under Tier 4 PBE Accounting Requirements but should report under Tier 3, Tier 2 or Tier 1 PBE Accounting Requirements as appropriate. An entity and all its controlled entities that does not exceed the statutory threshold for total operating payments may continue to report under Tier 4 PBE Accounting Requirements.

Questions for Respondents

2. Do you agree that an entity and all its controlled entities that exceeds the statutory threshold for total operating payments should not report under Tier 4 PBE Accounting Requirements? If you disagree, please provide reasons.
3. Do you agree that an entity and all its controlled entities that does not exceed the statutory threshold for total operating payments should continue to be able to report under Tier 4 PBE Accounting Requirements? If you disagree, please provide reasons.

2.5 Effective date and other comments

18. The proposed effective date in the ED is annual periods beginning on or after 1 January 2018, with earlier application of paragraph 42A permitted. This date is tentative and would be reviewed prior to issuing any standard.

Questions for Respondents

4. Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2018, with earlier application of paragraph 42A permitted. If you disagree, please provide reasons.
5. Do you have any other comments on the Exposure Draft?



Te Kāwai Ārahi Pūrongo Mōwaho

EXPOSURE DRAFT

2017 Amendments to External Reporting Board Standard A1 Application of the Accounting Standards Framework

This Standard was issued on [DATE] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [DATE].

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part C of this Standard.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend XRB A1 to reflect a legislative change and to amend the criteria for a public benefit entity to report in accordance with Tier 4 Accounting Requirements.

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Part A

Introduction

This Standard amends External Reporting Board Standard A1 *Application of the Accounting Standards Framework* by:

- (a) deleting paragraph 9(c); and
- (b) adding paragraph 42A to amend the criteria for an entity to report in accordance with Tier 4 PBE Accounting Requirements.

Amendments to XRB A1

Paragraph 9(c) is deleted (deleted text is struck through) and paragraphs 42A and 75 are added

Public Accountability

...

- 9 An entity is deemed to have public accountability in New Zealand if:
- (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013 [footnote omitted]; or
 - (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013 ~~or~~;
 - ~~(c) it is an entity to which section 55 of the Financial Reporting Act 2013 applies.~~

...

Tier 4 Criteria

- 42 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 4 PBE Accounting Requirements if it is permitted by an Act to report in accordance with non-GAAP standards (i.e., the cash basis of accounting) because it does not have public accountability and does not meet the legislative size threshold to be a “specified not-for-profit entity”. [footnote omitted]
- 42A For the purpose of applying the legislative size threshold, where an entity has controlled entities¹, total operating payments means the combined operating payments of the entity and all its controlled entities.² An entity may elect to report in accordance with Tier 4 PBE Accounting Requirements where the combined total operating payments of the entity and all its controlled entities do not exceed the legislative size threshold. Where the combined total operating payments exceed the legislative size threshold, the entity shall apply the criteria for other tiers to determine the appropriate tier for reporting.

...

D. EFFECTIVE DATE

...

- 75 *2017 Amendments to XRB A1*, issued in [date], deleted paragraph 9(c) and added paragraph 42A. Those amendments are effective for reporting periods beginning on or after 1 January 2018. Earlier application of paragraph 42A is permitted.

¹ An entity determines whether it controls another entity in accordance with GAAP.

² The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

Part C

Effective Date

This Standard is effective for annual periods beginning on or after [Date]. Earlier application of paragraph 42A is permitted.