



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

New Zealand Accounting Standards Framework

Incorporating the Tier Strategy approved by the Minister of Commerce on
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Act 1993

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List of Abbreviations

The following abbreviations are used in this document.

ASRB	Accounting Standards Review Board
FMA	Financial Markets Authority
GAAP	Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NFP	Not-for-profit
NZ IFRS RDR	NZ IFRS with reduced disclosures
PBE	Public Benefit Entity
PBE Standards RDR	PBE Standards with reduced disclosures
Tier 3 (NFP/PS) Standard	Reporting Requirements for Tier 3 Not-for-Profit/Public Sector Entities
Tier 4 (NFP/PS) Standard	Reporting Requirements for Tier 4 Not-for-Profit/Public Sector Entities
RDR	Reduced Disclosure Regime
Tier Strategy	Criteria for establishing different tiers of financial reporting in respect of different classes of relevant reporting entities
XRB	External Reporting Board

1. Introduction

1. This document sets out the External Reporting Board's (XRB's) *New Zealand Accounting Standards Framework*. The *New Zealand Accounting Standards Framework* applies to entities that are statutorily required to prepare financial reports in accordance with accounting standards issued by the XRB.
2. The *New Zealand Accounting Standards Framework* was developed using a "user-needs" approach. It is based on a multi-standards approach that uses tiers of reporting to match costs and benefits.
3. The *New Zealand Accounting Standards Framework* establishes:
 - A system of financial reporting tiers consisting of up to four tiers for each of two sectors (the for-profit sector and the public benefit sector);
 - The criteria to determine which entities are eligible to be in each tier with the criteria being such that each tier will comprise different classes of entities; and
 - Different accounting requirements or standards for each tier that are appropriate for the entities concerned because they reflect the relative cost and benefits of reporting by entities, including taking into account international convergence and harmonisation with Australia.
4. The *New Zealand Accounting Standards Framework* uses International Financial Reporting Standards (IFRS) for for-profit entities that have a statutory requirement to prepare financial statements that comply with standards issued by the XRB, and International Public Sector Accounting Standards (IPSAS) as the starting point for public benefit entities (PBEs) that have a statutory requirement to prepare financial statements that comply with standards issued by the XRB.

2. New Zealand Accounting Standards Framework

2.1 Tier Structure

5. The *New Zealand Accounting Standards Framework* consists of a two-sector, multi-tier structure with different accounting requirements or standards applying to each tier.
6. The tiers, tier criteria and accounting standards are as follows:

For-Profit Entities

- Tier 1: entities that have “public accountability” (as defined) plus for-profit public sector entities that are large (as defined) apply Tier 1 For-profit Accounting Requirements. These are the requirements in the accounting standards (referred to as NZ IFRS) and applicable authoritative notices; and
- Tier 2: entities that do not have “public accountability” (as defined) and for-profit public sector entities that are not large (as defined), and which elect to be in Tier 2, apply Tier 2 For-profit Accounting Requirements. These are the requirements in the accounting standards with reduced disclosures (referred to as NZ IFRS RDR) and applicable authoritative notices.

Public Benefit Entities

- Tier 1: entities that have “public accountability” (as defined) plus entities that are large (as defined) apply Tier 1 PBE Accounting Requirements. These are the requirements in the accounting standards (referred to as PBE Standards) and applicable authoritative notices;
 - Tier 2: entities that do not have “public accountability” (as defined) and entities that are not large (as defined) and which elect to be in Tier 2 apply Tier 2 PBE Accounting Requirements. These are the requirements in the accounting standards with reduced disclosures (referred to as PBE Standards RDR) and applicable authoritative notices;
 - Tier 3: entities that do not have “public accountability” (as defined) and which have expenses ≤\$5 million and which elect to be in Tier 3 – apply Reporting Requirements for Tier 3 Not-for-Profit/Public Sector Entities (Tier 3 (NFP/PS) Standard);
 - Tier 4: entities allowed by law to report in accordance with “non-GAAP” accounting standards and which elect to be in Tier 4 – apply Reporting Requirements for Tier 4 Not-for-Profit/Public Sector Entities (Tier 4 (NFP/PS) Standard)
7. The structure that applies under the *New Zealand Accounting Standards Framework* is depicted in Table 1.

Table 1: New Zealand Accounting Standards Framework

	For-Profit Entities		Public Benefit Entities	
	Entities	Accounting Requirements/Standards	Entities	Accounting Requirements/Standards
Tier 1	<ul style="list-style-type: none"> With "Public Accountability" (as defined) Large (as defined) for-profit public sector entities 	NZ IFRS	<ul style="list-style-type: none"> With Public Accountability (as defined) Large (as defined) 	PBE Standards
Tier 2	<ul style="list-style-type: none"> Without "Public Accountability" (as defined) Non-large for-profit public sector entities <p>which elect to be in Tier 2</p>	NZ IFRS with reduced disclosures (also called NZ IFRS RDR)	<ul style="list-style-type: none"> Without Public Accountability (as defined) Non-large (as defined) <p>which elect to be in Tier 2</p>	PBE Standards with reduced disclosures (also called PBE Standards RDR)
Tier 3			<ul style="list-style-type: none"> Without Public Accountability (as defined) with expenses ≤\$5 million <p>which elect to be in Tier 3</p>	Reporting Requirements for Tier 3 Not-for-Profit/Public Sector Entities (also called Tier 3 (NFP/PS) Standard)
Tier 4			<ul style="list-style-type: none"> Entities allowed by law to use non-GAAP accounting standards <p>which elect to be in Tier 4</p>	Reporting Requirements for Tier 4 Not-for-Profit/Public Sector Entities (also called Tier 4 (NFP/PS) Standard)

2.2 Tier Criteria

8. The various tiers are defined using the criteria outlined in this section.

Sector Definitions

9. The definitions used to determine whether an entity falls within the for-profit or PBE accounting standards frameworks are as follows:

Public Benefit Entity (PBE)

A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

For-Profit Entity

Any reporting entity that is not a public benefit entity.

10. Some of the PBE Accounting Standards requirements may only apply to public sector PBEs or only apply to not-for-profit (NFP) PBEs. Where this is the case the following definitions apply:

Public Sector PBE

A reporting entity that is a public entity as defined by the Public Audit Act 2001 and which is a PBE, and all Offices of Parliament.

Not-for-profit PBE (NFP PBE)

Any reporting entity that is a PBE and is not a public sector PBE.

For-Profit Tier Criteria

Tier 1 Criteria

Public Accountability

11. "Public accountability" is the primary criterion that establishes the for-profit tiers, and in particular which entities should be required to report in accordance with Tier 1 requirements. The public accountability distinction has been used by the International Accounting Standards Board (IASB) in developing International Financial Reporting Standards (IFRS) and is generally accepted internationally.
12. The following definition applies:

An entity has public accountability if:

- (a) it meets the IASB definition of public accountability as specified; or*
- (b) it is deemed to have public accountability in New Zealand.*

In accordance with the IASB definition, an entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or*

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

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; 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.*

An FMC reporting entity is not considered to have public accountability unless it is considered to have a "higher level of public accountability" under the law or if it is designated as having a "higher level of public accountability" by the FMA.

13. In addition to the IASB's public accountability definition, certain FMC reporting entities are deemed to have public accountability. The definition of "public accountability" reflects current legislation, most notably the Financial Markets Conduct Act 2013. The Financial Markets Conduct Act 2013 designates certain entities as having a "higher level of public accountability". It also empowers the Financial Markets Authority to designate an FMC reporting entity or a class of FMC reporting entities as having a "higher level of public accountability" or not having a "higher level of public accountability". Under the *New Zealand Accounting Standards Framework*, only FMC reporting entities that have a "higher level of public accountability" are deemed to have public accountability and are therefore required to report under Tier 1. FMC reporting entities that do not have a "higher level of public accountability" may report under Tier 2 in the for-profit sector.
14. All other entities that have public accountability (as defined) are required to report in accordance with Tier 1 requirements.

Large For-Profit Public Sector Entities

15. For-profit entities can be from any sector and so will include for-profit public sector entities, such as State-Owned Enterprises and for-profit Council Controlled Organisations. Large for-profit public sector entities which do not have public accountability (as defined) are also required to report in accordance with Tier 1 requirements.

16. For this purpose, large is defined as:

Entities with annual expenses greater than \$30 million

with expenses defined as:

Expenses recognised in the profit or loss section of the Statement of Profit or Loss and Other Comprehensive Income in accordance with NZ IFRS.

Tier 2 Criteria

17. Under the *New Zealand Accounting Standards Framework*, Tier 1 is the default tier for all for-profit reporting entities. However:

A for-profit entity may elect to be in Tier 2 when the entity:

(a) does not have public accountability (as defined); and

(b) is not a large for-profit public sector entity (as defined)

with the same definitions of public accountability and large as specified in paragraph 12 and paragraph 16 respectively applying.

18. This approach allows entities that do not meet these criteria to report in accordance with reduced disclosure requirements if they consider that it results in a better matching of the costs and benefits of their reporting.

PBE Tier Criteria

Tier 1 Criteria

Entity Size

19. Under the *New Zealand Accounting Standards Framework*, entity size is used as the primary criterion to establish the PBE tiers. All large PBEs are required to report in accordance with Tier 1 requirements. For this purpose, large is defined as:

Entities with annual expenses greater than \$33 million

with expenses defined as:

Expenses recognised in the surplus or deficit section of the Statement of Comprehensive Revenue and Expense in accordance with PBE Standards.

Public Accountability

20. Under the *New Zealand Accounting Standards Framework*, PBEs which have "public accountability" (as defined) are also required to report in accordance with Tier 1 requirements. This is consistent with the higher level of accountability expected of entities operating in the capital markets.
21. The same definition of public accountability as specified in paragraph 12 above applies (to ensure consistency across the whole *New Zealand Accounting Standards Framework*). While this has a narrower meaning than being "publicly

accountable” as used in general parlance, it is consistent with that used internationally and in the for-profit framework.

Tier 2 Criteria

22. As with the for-profit framework, Tier 1 is the default tier for all public benefit entities. However,

A PBE may elect to be in Tier 2 when the entity:

- (a) does not have public accountability (as defined); and*
(b) is not a large PBE (as defined).

with the same definitions of public accountability and large as specified in paragraph 12 and paragraph 19 respectively applying.

23. This approach allows entities that do not meet these criteria to report in accordance with reduced disclosure requirements if they consider it results in a better matching of the costs and benefits of their reporting.

Tier 3 Criteria

24. The criteria for Tier 3 is as follows:

A PBE may elect to be in Tier 3 when the entity:

- (a) does not have public accountability (as defined); and*
(b) has annual expenses (as defined) less than or equal to \$5 million

with expenses defined as:

Expenses recognised in the Statement of Financial Performance in accordance with Tier 3 PBE Accounting Requirements.

Tier 4 Criteria

25. The criterion for Tier 4 is as follows:

A PBE may elect to be in Tier 4 when the law allows the entity to report in accordance with non-GAAP accounting standards.

26. This criterion caters for those entities which, under legislation, are required to prepare general purpose financial reports but may do so using non-GAAP (cash accounting) standards rather than accrual-based GAAP. The criterion for entities to report on a non-GAAP basis is specified in statute.

2.3 Accounting Standards

27. The accounting requirements and standards applying to the for-profit tiers are as follows:

- For-Profit Tier 1: Tier 1 For-profit Accounting Requirements – These are the requirements in the accounting standards (referred to as NZ IFRS) and applicable authoritative notices.

They comprise the accounting standards converged with IFRS, supplemented by additional New Zealand specific standards as necessary, and applicable authoritative notices. Tier 1 Accounting Requirements are harmonised with Australia as appropriate.

- For-Profit Tier 2: Tier 2 For-profit Accounting Requirements – These are the requirements in the accounting standards with reduced disclosures (referred to as NZ IFRS RDR) and applicable authoritative notices.

They comprise the accounting standards applying to Tier 1 but with reduced disclosures and applicable authoritative notices. Tier 2 Accounting Requirements are harmonised with Australia as appropriate.

28. The accounting standards applying to the PBE tiers are as follows:

- PBE Tier 1: Tier 1 PBE Accounting Requirements – These are the requirements in the accounting standards (referred to as PBE Standards) and applicable authoritative notices.

They comprise International Public Sector Accounting Standards (IPSAS), modified as appropriate for New Zealand circumstances (for either public sector or NFP entities), together with additional standards as necessary and applicable authoritative notices.

- PBE Tier 2: Tier 2 Accounting Requirements – These are the requirements in the accounting standards with reduced disclosures (referred to as PBE Standards RDR) and applicable authoritative notices.

They comprise the accounting standards applying to Tier 1 but with reduced disclosures and applicable authoritative notices.

- PBE Tier 3: Tier 3 PBE Accounting Requirements – These are the requirements in the standards for each of the public sector and not-for-profit sub-sectors (referred to as *Reporting Requirements for Tier 3 Not-for-Profit/Public Sector Entities*).

The standards allow reporting in accordance with a simple format approach, using accrual accounting but not necessarily the same recognition or measurement requirements as Tier 1 and Tier 2.

- PBE Tier 4: Tier 4 PBE Accounting Requirements – These are the requirements in the standards for each of the public sector and not-for-profit sub-sectors (referred to as *Reporting Requirements for Tier 4 Not-for-Profit/Public Sector Entities*).

The standards allow reporting in accordance with a simple format approach, using cash accounting.

3. Basis for the New Zealand Accounting Standards Framework

3.1 Initial Accounting Standards Framework

29. In April 2012, the External Reporting Board (XRB) issued a document entitled *Proposals for The New Zealand Accounting Standards Framework* – the initial Accounting Standards Framework. That document was prepared by the XRB in accordance with section 34A of the Financial Reporting Act 1993 (FRA 1993), and approved by the Minister of Commerce in accordance with section 34C of that Act.
30. The initial Accounting Standards Framework established different tiers of financial reporting for different classes of reporting entities (the Tier Strategy). It also contained a detailed discussion of:
- The historical context (including the institutional arrangements for accounting standard setting in New Zealand up until the early 1990s and the previous framework for accounting standards);
 - The need for a new Accounting Standards Framework;
 - The rationale used by the XRB (and its predecessor, the Accounting Standards Review Board (ASRB)) for the development of the initial Accounting Standards Framework; and
 - The extensive consultations that were undertaken (and the consultation results) in the development of the initial Accounting Standards Framework.¹

3.2 Updated New Zealand Accounting Standards Framework

31. The initial Accounting Standards Framework was updated in 2015 to reflect:
- Legislative changes, most notably the enactment of the Financial Reporting Act 2013, the Financial Reporting (Amendments to Other Enactments) Act 2013, and the Financial Markets Conduct Act 2013;
 - The removal of For-profit Tier 3 and Tier 4 and the consequential revocation of the accounting standards for those tiers; and
 - An amendment to the description of Tier 1 and Tier 2 Accounting Standards.
32. *Legislative changes* – The enactment of the Financial Markets Conduct Act 2013 has resulted in a change to the entities that were deemed to have public accountability. Previously, all issuers of securities were deemed to have public accountability. In order to reflect the Financial Markets Conduct Act 2013, only FMC reporting entities with a “higher level of public accountability” are deemed to have “public accountability” for financial reporting purposes in the updated Accounting Standards Framework.

¹ The initial Accounting Standards Framework, as approved by the Minister, is available at: <http://xrb.govt.nz/includes/download.aspx?ID=120683>.

33. *Withdrawal of For-profit Tier 3 and Tier 4* – The enactment of the Financial Reporting Act 2013 and associated enactments, has resulted in the majority of small and medium-sized for-profit entities no longer having to prepare financial statements that comply with standards issued by the XRB². As indicated in the initial Accounting Standards Framework, the XRB has withdrawn for-profit Tiers 3 and 4 as a result because they are no longer needed. The updated New Zealand Accounting Standards Framework therefore has only two for-profit tiers (Tier 1 and Tier 2).
34. *Amendment to the Description of Tier 1 and Tier 2 accounting requirements* – The XRB has amended the manner in which the reporting obligations are described for Tier 1 and Tier 2. The XRB considered it more appropriate to describe the reporting obligations for Tier 1 and Tier 2 as different requirements contained in a single set of standards, rather than as separate standards for each of the two tiers.
35. The updated Accounting Standards Framework does not substantively change the requirements of the initial Accounting Standards Framework. It continues to consist of a two-sector, multi-tier structure with different accounting requirements or standards applying to each tier. The two sectors are those relating to for-profit entities and public benefit entities (PBEs). The definitions in the previous framework for accounting standards³ continue to be used (in both the initial and updated Accounting Standards Framework) to determine whether an entity is a for-profit entity or a PBE.
36. Similar to the initial Accounting Standards Framework, the updated Accounting Standards Framework covers the following matters:
- The tier structure, including an updated tier structure for for-profit entities;
 - The classes of entities within each tier, together with the criteria for determining those classes of entities; and
 - The accounting standards or requirements that will apply to each tier.
37. The content of the updated Accounting Standards Framework complies with the requirements of section 29 of the Financial Reporting Act 2013 which continues to require the XRB to provide for a system of tiers for financial reporting that establish different financial reporting requirements in respect of different classes of reporting entities to ensure that the requirements that apply in respect of those entities are appropriate.
38. The initial Accounting Standards Framework was developed using a “user-needs” approach. Having undertaken an extensive review of the options, the XRB concluded that user-needs can best be met by a multi-standards approach that also uses tiers to match costs and benefits. The updated Accounting Standards Framework continues to reflect this approach. It uses International Financial Reporting Standards (IFRS) for for-profit entities that have a statutory

² A small or medium-sized for-profit public sector PBE will continue to have a reporting obligation if it is required under the law to prepare financial statements that comply with standards issued by the XRB.

³ The previous framework for accounting standards is the framework that was applicable to reporting entities prior to December 2012.

requirement to prepare financial statements that comply with standards issued by the XRB, and International Public Sector Accounting Standards (IPSAS) as the starting point for public benefit entities that have a statutory requirement to prepare financial statements that comply with standards issued by the XRB.

3.3 Meeting User-Needs: The Multi-Standards Approach

39. The XRB's rationale for the New Zealand Accounting Standards Framework (and its associated advantages and disadvantages), is set out in full in the initial Accounting Standards Framework.⁴
40. The rationale underlying the updated New Zealand Accounting Standards Framework has not changed. The updated New Zealand Accounting Standards Framework continues to be based on:
 - a. A user-needs approach that recognises the different users and user-needs in the for-profit entity and the public benefit entity sectors; and
 - b. Meeting user-needs through a multi-standards and multi-tier approach.

3.4 Accounting Standards that Reflect the Tier Rationale

Accounting Standards for For-Profit Entities

Tier 1 Standards

41. It continues to be important, in the interests of international competitiveness, for New Zealand Tier 1 reporting entities to be able to assert compliance with international standards.
42. In the period since New Zealand decided to adopt IFRS, international acceptance of IFRS has grown rapidly. Over 100 countries world-wide now use IFRS for all or most of their public companies. IFRS is now the common basis for reporting by entities involved in most international capital markets.
43. The XRB's view is that requiring Tier 1 entities to apply IFRS is in New Zealand's best economic interests and results in meaningful and relevant general purpose financial reporting by for-profit entities, especially those operating in the global financial markets.
44. In order for New Zealand reporting entities to be able to assert compliance with IFRS, and therefore for entities to gain the benefits of international credibility and for users to gain the benefits of comparability, IFRS as issued by the IASB has to be applied. Compliance cannot be asserted if standards have been modified in a local jurisdiction (in contrast to being added to, which is permitted). This means that adoption of IFRS is essentially an "all or nothing" proposition.

⁴ This is available on: http://xrb.govt.nz/Site/Financial_Reporting_Strategy/ASRB_History/default.aspx.

Therefore, NZ IFRS are substantively identical to (pure) IFRS⁵. This approach results in the effective adoption of (pure) IFRS.

45. There is also substantive convergence of IFRS-equivalent accounting standards for for-profit entities in New Zealand and Australia, resulting in a common set of standards for reporting on both sides of the Tasman.
46. The XRB characterises this approach as NZ IFRS converged with IFRS, supplemented by additional NZ specific standards, and harmonised as appropriate with Australia. Such an approach allows entities to assert compliance with IFRS while still providing a vehicle for addressing New Zealand specific issues.
47. The XRB considers this to be appropriate for Tier 1 entities and accordingly, the requirements of NZ IFRS apply to Tier 1.
48. The XRB's tier criteria means that the "public accountability" criterion overrides the size criterion. This means that entities which meet the public accountability criterion will be required to report in accordance with Tier 1 requirements regardless of their size. It is possible, therefore, that some small entities that have "public accountability" will find themselves having to report in accordance with Tier 1 requirements e.g. small issuers of financial products or small FMC reporting entities with a "higher level of public accountability".
49. The XRB's view is that the highest level of reporting should be required of entities that meet the "public accountability" criterion, regardless of their size. It is Parliament, not the XRB, which decides through legislation whether an FMC reporting entity has "public accountability" or not i.e. whether it is an issuer of financial products or an entity that holds assets in a fiduciary capacity.
50. The financial reporting obligations of small issuers of financial products are, however, an important cost-benefit issue. The XRB considers that an appropriate mechanism to deal with any excessive reporting costs that may be faced by small FMC reporting entities with "public accountability" (in both for-profit and PBE sectors) has been established through the Financial Markets Conduct Act 2013. That Act provides some general exemptions for small offers of financial products, together with appropriate mechanisms for designating FMC reporting entities.

Tier 2 Standards

51. In accordance with the tier approach, the objective of Tier 2 is to have a set of accounting requirements that results in a reduced preparation cost to reflect a reduced user-benefit. This requires some form of differential reporting.
52. In the initial Accounting Standards Framework the XRB decided on a Reduced Disclosure Regime (RDR) which requires the same recognition and measurement requirements as NZ IFRS (i.e. Tier 1) but with reduced disclosures. This approach is continued unchanged in the updated New Zealand Accounting Standards Framework.

⁵ This alignment with pure IFRS has been achieved through the promulgation of standards that contain New Zealand specific additional disclosures that address areas not covered by IFRS.

53. The Australian Accounting Standards Board (AASB) has also adopted this approach with reduced disclosure requirements.
54. The RDR approach retains the recognition and measurement requirements of NZ IFRS. The advantages of this includes:
- Preparers and users need to be familiar with only one set of recognition and measurement requirements which are applied in both tiers;
 - The comparability of financial information between tiers is enhanced;
 - The preparation of consolidated financial statements where a group comprises entities in both tiers is simplified; and
 - The movement of entities between tiers is easier and less costly.
55. Adopting an RDR approach that is common with Australia also enhances harmonisation with Australia because it eliminates Tier 2 reporting differences and, therefore, compliance costs for companies with trans-Tasman reporting obligations. This is an important consideration in the for-profit sector.
56. Therefore, NZ IFRS RDR consisting of the same recognition and measurement requirements as Tier 1 (NZ IFRS) but with reduced disclosures, harmonised with Australia, apply to Tier 2.

Accounting Standards for Public Benefit Entities

Modified IPSAS

57. An explicit part of the multi-standards approach outlined above is the adoption of a set of accounting standards for PBEs other than one based on IFRS.
58. The only set of international accounting standards, other than IFRS, is IPSAS. IPSAS provides a better basis for PBE reporting for entities in Tier 1 and Tier 2 than does IFRS because it is developed for a wider set of users, notably service recipients as well as resource providers.
59. The XRB also considers that IPSAS is a credible set of standards. The historical concerns about IPSAS had been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB (at least compared to those applying to the IASB). These concerns have been addressed by both the IPSASB and the International Federation of Accountants (IFAC – the IPSASB’s parent body). The IPSASB issued its conceptual framework *General Purpose Financial Reporting by Public Sector Entities* in late 2014 and an independent governance body for the IPSASB has been established for the first time in 2015.
60. However, the XRB continues to consider that it is premature to adopt “pure” IPSAS (in the way that NZ IFRS reflects “pure” IFRS). This is because, among other matters, the IPSAS is developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. Moreover, IPSAS does not currently represent a complete set of standards. Therefore, a set of PBE Standards has been

developed that uses IPSAS as their base. PBE Standards modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in New Zealand. Such modifications are only made where the IPSAS requirement in question has a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements' usefulness to users.

61. Since the adoption of the initial Accounting Standards Framework, the XRB, in conjunction with its sub-Board, the New Zealand Accounting Standards Board (NZASB), has developed (and issued in September 2013) a *Policy Approach to Developing the Suite of PBE Standards*⁶. The Policy Approach establishes an approach, based on a "development principle" and a series of "rebuttable presumptions", which are used by the NZASB to determine whether, and when, to make changes to PBE Standards.
62. PBE Standards include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.
63. The PBE Standards are also modified to make them relevant, applicable and understandable to the not-for-profit sector preparers and users. Some modification is desirable to enhance their usefulness in the not-for-profit context.

Tier 1 Standards

64. The accounting requirements for Tier 1 entities are PBE Standards. This reflects the relative costs and benefits of reporting by entities in this tier. This approach is also consistent with that proposed for the for-profit sector where NZ IFRS standards apply to Tier 1.

Tier 2 Standards

65. PBE Standards with reduced disclosures (PBE Standards RDR) apply to Tier 2 entities. These have the same recognition and measurement requirements as PBE Standards but with disclosure concessions.
66. This approach is consistent with that for for-profit sector Tier 2. The same advantages apply.

Tier 3 Standards

67. PBE entities in Tier 3 are required to prepare their financial statements (the performance report) in accordance with a simple format reporting approach. This reflects the small size and reduced level of expertise within entities in this tier.
68. The Tier 3 simple format reporting requirements are specified in Reporting Requirements for Tier 3 Not-for-Profit/Public Sector Entities (Tier 3 (NFP/PS) Standard). A separate standard applies to each of the public sector and not-for-profit sub-sectors. The standards are accompanied by optional templates that identify the various financial and non-financial items to be reported in the performance reports and a suggested format for doing so.

⁶ The Policy Approach paper can be accessed on: <http://xrb.govt.nz/includes/download.aspx?ID=130692>

69. In broad terms, the recognition and measurement requirements applying to simple format reporting are the same as those applying to Tier 1 and 2 entities. However, some concessions may be included to reflect the “simple” nature of the entities in the Tier.

Tier 4 Standards

70. PBE entities in Tier 4 are also required to prepare their financial statements (the performance report) in accordance with a simple format reporting approach. The Tier 4 simple format reporting requirements are specified in Reporting Requirements for Tier 4 Not-for-Profit/Public Sector Entities (Tier 4 (NFP/PS) Standard). Similar to Tier 3, a separate standard applies to each of the public sector and not-for-profit sub-sectors. The standards are also accompanied by optional templates. The Tier 4 accounting requirements are based on Tier 3 (NFP/PS) Standard but modified for the use of cash accounting.

3.5 Consistency with Legislative Objective

71. Section 34 of the Financial Reporting Act 1993 specified that the purpose of the Tier Strategy is to

“establish a system for tiers of financial reporting that impose different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate”.

72. The XRB considers that the *New Zealand Accounting Standards Framework* (as updated) meets that legislative objective. It is also consistent with the requirements of the Financial Reporting Act 2013 which continues to require the XRB to provide for a system of tiers for financial reporting that establish different financial reporting requirements in respect of different classes of reporting entities to ensure that the requirements that apply in respect of those entities are appropriate.
73. The updated New Zealand Accounting Standards Framework establishes:
- A system of financial reporting tiers consisting of up to four tiers for each of two sectors;
 - The criteria to determine which entities are eligible to be in each tier with the criteria being such that each tier will comprise different classes of entities; and
 - Different accounting requirements or standards for each tier that are appropriate for the entities concerned because, in the XRB’s view, they reflect the relative cost and benefits (assessed in a general way) of reporting by entities, including taking into account international convergence and harmonisation with Australia.