



Te Kāwai Ārahi Pūrongo Mōwaho

External Reporting Board Standard A1 Application of the Accounting Standards Framework

Issued December 2015 and incorporates amendments to 10 May 2019

This Standard was issued on 10 December 2015 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 7 January 2016.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective dates in Part D 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 reflect the requirements of the Accounting Standards Framework as it applies to the entities that are required (or opt under an enactment) to prepare general purpose financial reports in the for-profit and public benefit entities sectors.

This Standard, when effective, will supersede XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* (XRB A1 (FP Entities + PS PBEs + NFPs – FP Tier 3 and Tier 4 Update)) for reporting periods beginning on or after 1 January 2016, with early application permitted for reporting periods beginning on or after 1 April 2015.

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BASIS FOR CONCLUSIONS ON STANDARD XRB A1 *APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK*

External Reporting Board Standard A1 *Application of the Accounting Standards Framework* is set out in paragraphs 1–76 and Appendices A–E. All the paragraphs have equal authority.

A. INTRODUCTION

Objective

- 1 The objectives of this Standard are to establish:
 - (a) the accounting standards framework for those entities that have a statutory obligation, or that opt under an enactment, to prepare financial statements or financial reports that comply with generally accepted accounting practice (GAAP) or non-GAAP standards that are issued by the External Reporting Board (XRB), hereafter referred to as general purpose financial reports (GPFR);
 - (b) what comprises “GAAP” and what comprises a “non-GAAP standard” issued by the XRB;
 - (c) the tiers of financial reporting for all entities that have a statutory obligation, or that opt under an enactment, to prepare GPFR;
 - (d) the criteria for each tier of financial reporting;
 - (e) the accounting standards and authoritative notices that are applicable to each tier of financial reporting; and
 - (f) the requirements for an entity to move from one tier of financial reporting to another tier of financial reporting.

Scope

- 2 An entity shall apply this Standard when it prepares, or when it opts under an enactment to prepare, GPFR in accordance with accounting standards issued by the XRB.
- 3 An entity that has a statutory requirement to prepare, or opts under an enactment to prepare, a GPFR shall:
 - (a) determine:
 - (i) whether it is a for-profit entity or a public benefit entity (PBE) in accordance with the definitions in this Standard and the integral guidance in Appendix A; and
 - (ii) if it is a PBE, determine whether it is a public sector PBE or a not-for-profit PBE; and
 - (b) if it is a for-profit entity, report in accordance with Tier 1 For-profit Accounting Requirements specified in this Standard unless:
 - (i) the entity meets the criteria to report in accordance with Tier 2 For-profit Accounting Requirements; and
 - (ii) the entity elects to report in accordance with Tier 2 For-profit Accounting Requirements; and
 - (c) if it is a PBE, report in accordance with Tier 1 PBE Accounting Requirements specified in this Standard unless:
 - (i) the entity meets the criteria to report in accordance with Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements or Tier 4 PBE Accounting Requirements; and
 - (ii) the entity elects to report in accordance with another tier that it is eligible to apply.

Generally accepted accounting practice

- 4 The financial statements of various reporting entities are required by legislation to comply with “generally accepted accounting practice” (GAAP). GAAP comprises:
 - (a) accounting standards issued by the XRB, or its sub-Board the New Zealand Accounting Standards Board (NZASB), pursuant to section 12(a) of the Financial Reporting Act 2013; and
 - (b) authoritative notices issued by the XRB or the NZASB, pursuant to section 12(c) of the Financial Reporting Act 2013.

Non-GAAP standard

- 5 Certain enactments permit an entity that does not meet the size threshold to be a “specified not-for-profit entity”¹ to prepare its financial statements in accordance with a “non-GAAP standard”. A “non-GAAP standard” is a standard issued by the XRB or NZASB pursuant to section 12(a) of the Financial Reporting Act 2013 that is stated to be a non-GAAP standard. Only the Tier 4 PBE Accounting Requirements comprise non-GAAP standards.

Definitions

- 6 The following terms are used in this Standard with the meanings specified:

Accounting standard (for the purposes of this Standard) has the same meaning as “financial reporting standard” and includes an “applicable financial reporting standard” as defined in the Financial Reporting Act 2013.

For-profit entities are reporting entities that are not public benefit entities.

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001.

General purpose financial reports (GPFR) are financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Not-for-profit public benefit entities (NFP PBEs) are PBEs that are not public sector PBEs.

Public accountability, for the purposes of the Tier 1 criteria, has the meaning set out in paragraphs 7 to 13.

Public benefit entities (PBEs) are reporting entities 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.

Public sector public benefit entities (public sector PBEs) are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

Reporting period is the period covered by an entity’s general purpose financial report (which could be an annual or interim reporting period).

Tier 1 For-profit Accounting Requirements are the requirements in the accounting standards (referred to as NZ IFRS), and the authoritative notices, as listed in Appendix B.

Tier 1 For-profit entity is a for-profit entity that applies Tier 1 For-profit Accounting Requirements.

Tier 1 PBE Accounting Requirements are the requirements in the accounting standards (referred to as PBE Standards), and the authoritative notices, as listed in Appendix C.

Tier 1 PBE is a PBE that applies Tier 1 PBE Accounting Requirements.

Tier 2 For-profit Accounting Requirements are the requirements in the accounting standards with reduced disclosures (referred to as NZ IFRS RDR) and the authoritative notices, as listed in Appendix B.

Tier 2 For-profit entity is a for-profit entity that applies Tier 2 For-profit Accounting Requirements.

Tier 2 PBE Accounting Requirements are the requirements in the accounting standards with reduced disclosures (referred to as PBE Standards RDR) and the authoritative notices, as listed in Appendix C.

Tier 2 PBE is a PBE that applies Tier 2 PBE Accounting Requirements.

Tier 3 PBE Accounting Requirements are the accounting standards (referred to as PBE Simple Format Reporting – Accrual), and the authoritative notices, as listed in Appendix D.

Tier 3 PBE is a PBE that applies Tier 3 PBE Accounting Requirements.

Tier 4 PBE Accounting Requirements are the accounting standards (referred to as PBE Simple Format Reporting – Cash) as listed in Appendix E.

Tier 4 PBE is a PBE that applies Tier 4 PBE Accounting Requirements.

¹ Section 46 of the Financial Reporting Act 2013 provides that an entity is a “specified not-for-profit entity” if, in each of the preceding two accounting periods, its total operating payments are \$125,000 or more. Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* sets out the meaning for the size threshold of a “specified not-for-profit entity”.

Public Accountability

- 7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:
- (a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or
 - (b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.
- 8 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 (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
- 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 2013²; 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.
- 10 Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).
- 11 Some entities may 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, that does not mean that they have public accountability. For example:
- (a) this 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;
 - (b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and
 - (c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a “fiduciary capacity for a broad group of outsiders” it is not holding them “as one of its primary businesses”. This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.
- 12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.
- 13 Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability.

² The terms “FMC reporting entity” and an FMC reporting entity with a “higher level of public accountability” are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a “higher level of public accountability” for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a “higher level of public accountability” or not to have a “higher level of public accountability” than other FMC reporting entities.

B. FOR-PROFIT ENTITIES

TIER STRUCTURE

- 14 The tier structure for for-profit entities consists of two tiers.
- 15 A for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it meets the Tier 1 criteria.
- 16 A for-profit entity that does not meet the Tier 1 criteria may elect to report in accordance with Tier 2 For-profit Accounting Requirements.

Tier 1 Criteria

- 17 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it:
- (a) (i) has public accountability at any time during the reporting period; or
 - (ii) is a large for-profit public sector entity; or
 - (b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier.
- 18 For the purpose of applying the Tier 1 size criteria, a for-profit public sector entity is large if it has total expenses over \$30 million. Total expenses means the total expenses (including income tax expense) recognised in its profit or loss by an entity in accordance with Tier 1 For-profit Accounting Requirements, where profit or loss is defined as the total of income less expenses, excluding the components of other comprehensive income. Where income and expenses are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the parent/controlling entity and all its subsidiaries/controlled entities.
- 19 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 1 For-profit Accounting Requirements shall apply Tier 1 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 1 For-profit Accounting Requirements.

Tier 2 Criteria

- 20 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity may elect to report in accordance with Tier 2 For-profit Accounting Requirements if it:
- (a) does not have public accountability; and
 - (b) is not a large for-profit public sector entity (as defined in paragraph 18).
- 21 A for-profit entity that opts under an enactment to prepare GPFR in accordance with Tier 2 For-profit Accounting Requirements shall apply Tier 2 For-profit Accounting Requirements for the reporting period in which it opts to apply the Tier 2 For-profit Accounting Requirements.

ACCOUNTING STANDARDS

Tier 1

- 22 A for-profit entity applying Tier 1 For-profit Accounting Requirements shall apply all the requirements in the accounting standards and authoritative notices listed in Appendix B except for any RDR paragraphs.

Tier 2

- 23 A for-profit entity applying Tier 2 For-profit Accounting Requirements shall apply the requirements in the accounting standards and authoritative notices listed in Appendix B, but may elect not to apply any or all of the disclosure requirements denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall apply any RDR paragraphs associated with that concession.

MOVING BETWEEN TIERS

Moving into Tier 1

Tier 2 to Tier 1

- 24 Where an entity that had applied Tier 2 For-profit Accounting Requirements subsequently has public accountability, it shall apply Tier 1 For-profit Accounting Requirements for the reporting period in which it has public accountability.
- 25 Where a for-profit public sector entity subsequently becomes large, it may continue to apply Tier 2 For-profit Accounting Requirements for the annual reporting period in which it becomes large, and any interim reporting periods during that annual reporting period. However, if the entity was already applying Tier 1 For-profit Accounting Requirements in the annual reporting period immediately preceding the reporting period in which it becomes large, it shall continue to apply the Tier 1 For-profit Accounting Requirements.
- 26 Where an entity that had applied Tier 2 For-profit Accounting Requirements subsequently applies Tier 1 For-profit Accounting Requirements, it shall apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.
- 27 Where an entity that had applied Tier 2 For-profit Accounting Requirements subsequently applies Tier 1 For-profit Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements have identical recognition and measurement requirements. Therefore moving between these two for-profit tiers (whether voluntary or mandatory) does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by NZ IFRS 1 or other Tier 1 For-profit Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Moving into Tier 2

Tier 1 to Tier 2

- 28 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 criteria because it no longer has public accountability, it must continue to apply Tier 1 For-profit Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 2 For-profit Accounting Requirements for the reporting period after it ceases to have public accountability.
- 29 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently meets the Tier 2 size criteria because it is no longer large, it may elect to apply Tier 2 For-profit Accounting Requirements for the reporting period in which it meets the Tier 2 size criteria.
- 30 Where an entity that had applied Tier 1 For-profit Accounting Requirements subsequently applies Tier 2 For-profit Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements have identical recognition and measurement requirements. Therefore, moving between these two for-profit tiers does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by Tier 2 For-profit Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of NZ IAS 8.

C. PUBLIC BENEFIT ENTITIES

TIER STRUCTURE

- 31 The tier structure for PBEs consists of four tiers.
- 32 A PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it meets the Tier 1 criteria.
- 33 A PBE that meets the Tier 2 criteria may elect to report in accordance with Tier 2 PBE Accounting Requirements.
- 34 A PBE that meets the Tier 3 criteria may elect to report in accordance with Tier 3 PBE Accounting Requirements.
- 35 A PBE that meets the Tier 4 criteria may elect to report in accordance with Tier 4 PBE Accounting Requirements.
- 36 If an entity is eligible to report in accordance with more than one tier, the entity may elect to report under any of those tiers.

Tier 1 Criteria

- 37 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it:
- (a) (i) has public accountability³ at any time during the reporting period; or
 - (ii) is large; or
 - (b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.
- 38 For the purpose of applying the Tier 1 size criteria, a PBE is large if it has total expenses over \$30 million. Total expenses means the total expenses (including losses and grant expenses), recognised in its surplus or deficit by an entity in accordance with Tier 1 PBE Accounting Requirements, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

Tier 2 Criteria

- 39 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 2 PBE Accounting Requirements if it:
- (a) does not have public accountability; and
 - (b) is not large (as defined in paragraph 38).

Tier 3 Criteria

- 40 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 3 PBE Accounting Requirements if it:
- (a) does not have public accountability; and
 - (b) has total expenses less than or equal to \$2 million.
- 41 For the purpose of applying the Tier 3 size criteria, total expenses means total expenses (including losses and grant expenses) recognised in accordance with Tier 3 PBE Accounting Requirements in the Statement of Financial Performance. Where revenue and expense are offset as required or permitted, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

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”⁴.
- 42A For the purpose of applying the legislative size threshold, where an entity has controlled entities⁵, total operating payments means the combined operating payments of the entity and all its controlled entities⁶. 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

³ The term “public accountability” is used here with the meaning specified in this document. It is different from the manner in which it was used prior to 2011 in the Accounting Standards Framework. This meaning is also different from the way in which “publicly accountable” is normally used in the public sector and not-for-profit sector. While entities in the public sector and not-for-profit sector are generally considered to be “publicly accountable”, it does not mean that all entities in those sectors have “public accountability” (and are therefore in Tier 1). The definition of “public accountability” has a particular technical meaning and is narrower than the generic term “publicly accountable” as it is commonly used.

⁴ Standard XRB A2 *Meaning of Specified Statutory Thresholds* sets out the meaning for the size threshold of a “specified not-for-profit entity”. Standard XRB A2 can be accessed on: <http://www.xrb.govt.nz/accounting-standards/for-profit-entities/xrb-a2/>

⁵ An entity determines whether it controls another entity in accordance with GAAP.

⁶ 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.

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.

ACCOUNTING STANDARDS

Tier 1

- 43 A PBE applying Tier 1 PBE Accounting Requirements shall apply all the requirements in the accounting standards and authoritative notices listed in Appendix C except for any RDR paragraphs.

Tier 2

- 44 A PBE applying Tier 2 PBE Accounting Requirements shall apply the requirements in the accounting standards and authoritative notices listed in Appendix C, but may elect not to apply any or all of the disclosure requirements denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall apply any RDR paragraphs associated with that concession.

Tier 3

- 45 A PBE applying Tier 3 PBE Accounting Requirements shall apply the Tier 3 PBE Accounting Requirements to be applied by public sector public benefit entities or the Tier 3 PBE Accounting Requirements to be applied by not-for-profit public benefit entities, as relevant, as listed in Appendix D.

Tier 4

- 46 A PBE applying Tier 4 PBE Accounting Requirements shall apply the Tier 4 PBE Accounting Requirements to be applied by public sector public benefit entities or the Tier 4 PBE Accounting Requirements to be applied by not-for-profit public benefit entities, as relevant, as listed in Appendix E.

MOVING BETWEEN TIERS

Moving into Tier 1

Tier 2 to Tier 1

- 47 Where an entity that had applied Tier 2 PBE Accounting Requirements subsequently has public accountability, it shall apply Tier 1 PBE Accounting Requirements for the reporting period in which it has public accountability.
- 48 Where an entity subsequently becomes large, it may continue reporting under Tier 2 PBE Accounting Requirements for the annual reporting period in which it becomes large, and any interim reporting periods within that annual reporting period. However, if the entity was already applying Tier 1 PBE Accounting Requirements in the annual reporting period immediately preceding the reporting period in which it becomes large, it shall continue to apply the Tier 1 PBE Accounting Requirements.
- 49 Where an entity that had applied Tier 2 PBE Accounting Requirements subsequently applies Tier 1 PBE Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements have identical recognition and measurement requirements. Therefore, moving between these two PBE tiers (whether voluntary or mandatory) does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by Tier 1 PBE Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Tier 3 to Tier 1

- 50 Where an entity that had applied Tier 3 PBE Accounting Requirements subsequently has public accountability, it shall apply Tier 1 PBE Accounting Requirements for the reporting period in which it has public accountability.
- 51 Where an entity that had applied Tier 3 PBE Accounting Requirements no longer meets the Tier 3 size criteria but meets the Tier 1 size criteria, it may continue to report in accordance with Tier 3 PBE Accounting Requirements for the annual reporting period in which it fails to meet the Tier 3 size criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.

- 52 Where an entity that had applied Tier 3 PBE Accounting Requirements subsequently applies Tier 1 PBE Accounting Requirements, it shall apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.

Tier 4 to Tier 1

- 53 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently has public accountability, it shall apply Tier 1 PBE Accounting Requirements for the reporting period in which it has public accountability.
- 54 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently no longer meets the Tier 4 criteria but meets the Tier 1 size criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 55 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 1 PBE Accounting Requirements, it shall apply PBE FRS 47.

Moving into Tier 2

Tier 1 to Tier 2

- 56 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 2 criteria because it no longer has public accountability, it must continue to apply Tier 1 PBE Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 2 PBE Accounting Requirements for the reporting period after it ceases to have public accountability.
- 57 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 2 size criteria because it is no longer large, it may elect to apply Tier 2 PBE Accounting Requirements for the reporting period in which it meets the Tier 2 size criteria.
- 58 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently applies Tier 2 PBE Accounting Requirements, the entity's recognition and measurement accounting policies are not changed as a result. Tier 1 PBE Accounting Requirements and Tier 2 PBE Accounting Requirements have identical recognition and measurement requirements. Therefore, moving between these two PBE tiers does not trigger any changes in the entity's recognition and measurement accounting policies, other than as may be required by Tier 2 PBE Accounting Requirements. Voluntary changes in accounting policies shall be made only when such changes comply with the requirements of PBE IPSAS 3.

Tier 3 to Tier 2

- 59 Where an entity that had applied Tier 3 PBE Accounting Requirements subsequently no longer meets the Tier 3 criteria but meets the Tier 2 criteria, it may continue to report in accordance with Tier 3 PBE Accounting Requirements for the annual reporting period in which it fails to meet that criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 60 Where an entity that had applied Tier 3 PBE Accounting Requirements subsequently applies Tier 2 PBE Accounting Requirements, it shall apply PBE FRS 47.

Tier 4 to Tier 2

- 61 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently no longer meets the Tier 4 criteria but meets the Tier 2 criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 62 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 2 PBE Accounting Requirements, it shall apply PBE FRS 47.

Moving into Tier 3

Tier 1 or Tier 2 to Tier 3

- 63 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 3 criteria because it no longer has public accountability, it must continue to apply Tier 1 PBE Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 3 PBE Accounting Requirements for the reporting period after it ceases to have public accountability.

- 64 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 3 size criteria because it is no longer large, it may elect to apply Tier 3 PBE Accounting Requirements for the reporting period in which it meets the Tier 3 size criteria.
- 65 Where an entity that had applied Tier 2 PBE Accounting Requirements subsequently meets the Tier 3 size criteria, it may elect to apply Tier 3 PBE Accounting Requirements for the reporting period in which it meets the Tier 3 size criteria.
- 66 Where an entity that had applied Tier 1 PBE Accounting Requirements or Tier 2 PBE Accounting Requirements subsequently applies Tier 3 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Requirements.

Tier 4 to Tier 3

- 67 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently no longer meets the Tier 4 criteria but meets the Tier 3 criteria, it may continue to report in accordance with Tier 4 PBE Accounting Requirements for the annual reporting period in which it fails to meet the Tier 4 criteria and the following annual reporting period, and any interim reporting periods within those annual reporting periods.
- 68 Where an entity that had applied Tier 4 PBE Accounting Requirements subsequently applies Tier 3 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 3 PBE Accounting Requirements.

Moving into Tier 4

Tier 1, Tier 2 or Tier 3 to Tier 4

- 69 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4 criteria because it no longer has public accountability, it must continue to apply Tier 1 PBE Accounting Requirements for the reporting period during which it ceased to have public accountability. It may apply Tier 4 PBE Accounting Requirements for the reporting period after it ceases to have public accountability.
- 70 Where an entity that had applied Tier 1 PBE Accounting Requirements subsequently meets the Tier 4 size criteria, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it meets the Tier 4 size criteria.
- 71 Where an entity that had applied Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently meets the Tier 4 criteria, it may elect to apply Tier 4 PBE Accounting Requirements for the reporting period in which it meets the Tier 4 criteria.
- 72 Where an entity that had applied Tier 1 PBE Accounting Requirements, Tier 2 PBE Accounting Requirements or Tier 3 PBE Accounting Requirements subsequently applies Tier 4 PBE Accounting Requirements, it shall account for the change in accounting policies in accordance with Tier 4 PBE Accounting Requirements.

D. EFFECTIVE DATE

- 73 This Standard is effective for reporting periods beginning on or after 1 January 2016. Earlier application is permitted for reporting periods beginning on or after 1 April 2015.
- 74 This Standard supersedes XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities minus For-profit Tier 3 and Tier 4 Update)* (XRB A1 (FP Entities + PS PBEs + NFPs – FP Tier 3 and Tier 4 Update)) when adopted.
- 75 *2017 Amendments to XRB A1 Application of the Accounting Standards Framework*, issued in October 2017, 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.
- 76 *2019 Amendments to XRB A1 Appendix A*, issued in May 2019, replaced Appendix A. That amendment is effective for reporting periods beginning on or after 1 January 2020. Earlier application of the revised Appendix A is permitted.

APPENDIX A

WHEN IS AN ENTITY A PUBLIC BENEFIT ENTITY?

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

Purpose

- 1 The purpose of this Appendix is to assist an entity that prepares a general purpose financial report (GPFR) that complies with accounting standards issued by the External Reporting Board (XRB) to determine whether or not it is a public benefit entity (PBE).
- 2 The classification of an entity as a for-profit entity or a PBE is important because it determines which accounting standards and related accounting policies are applied by an entity. Inappropriate classification may result in the adoption of inappropriate accounting policies, and a failure to provide users with information appropriate to assessing the financial performance, financial position and service performance of an entity.

Definition of a PBE

- 3 XRB A1 defines PBEs as “reporting entities 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.” PBEs may be public sector entities or not-for-profit entities.
- 4 The following definitions for public sector PBEs and not-for-profit PBEs are contained in XRB A1:
 - (a) Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and
 - (b) Not-for-profit PBEs are PBEs that are not public sector PBEs.
- 5 For-profit entities are not defined. Rather, the term for-profit entities encompasses all entities other than PBEs. An entity must assess whether it is a PBE or a for-profit entity by considering whether or not it meets the definition of a PBE. Assessing whether an entity meets the definition of a PBE requires an entity to determine its primary objective.
- 6 In many cases it will be obvious whether an entity meets the definition of a PBE. For example, most charities registered under charities legislation are likely to meet the definition of a PBE, although it is possible for a registered charity to be classified as a for-profit entity for financial reporting purposes. Similarly, many public sector entities operate under legislation that specifically requires them to provide goods or services for the benefit of the public. For example, the New Zealand Public Health and Disability Act 2000 requires this for District Health Boards.
- 7 In other cases it will not be immediately obvious that an entity is a PBE. Determining the primary objective of the entity (i.e. why the entity exists and what it intends to achieve) can be difficult where an entity has multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated. In identifying the primary objective, it is necessary to assess the substance of the entity’s purpose.
- 8 In this regard, it should be noted that the definition of a PBE comprises two interdependent parts: (i) the primary objective to provide goods or services for community or social benefit, and (ii) the provision of any equity is to support that primary objective rather than for a financial return to equity holders. Both parts of the definition need to be assessed in combination in determining an entity’s classification. Assessing one of the parts alone is unlikely to be sufficient in determining whether an entity is a PBE or a for-profit entity.
- 9 The legal form of an entity is unlikely to be a conclusive factor in determining whether or not an entity is a PBE. PBEs are constituted in many different forms such as incorporated societies, trusts, statutory bodies and even companies. PBEs include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large.
- 10 Also, although in general terms PBEs exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many PBEs exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a community football club exists to promote and encourage football for the direct benefit of its members. However, society as a whole may also benefit indirectly through a healthier population and through the provision of organised activities for its youth.
- 11 This Appendix sets out several indicators to be considered in determining whether an entity meets the definition of a PBE. In many cases it will be unlikely that any one indicator will be conclusive in determining whether an

entity meets the definition of a PBE and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator.

- 12 The assessment for classification as a PBE or as a for-profit entity is made at the reporting entity level. As a result, the classification at the reporting entity level may differ from the classification at the group level. Therefore, where an entity is a subsidiary of another entity and the subsidiary entity is a reporting entity with its own reporting obligations, the subsidiary assesses its own primary objective for reporting purposes. In determining the classification of a group, it is necessary to consider the characteristics of the group. The classification of the controlling entity of the group would most likely determine the classification of the group.

Indicators

- 13 Paragraphs 14 to 37 discuss key indicators that aim to focus on the substance of an entity's purpose and which should be considered in determining whether an entity is a PBE. These indicators are:
- the stated objectives;
 - the nature of the benefits, including the quantum of expected financial benefits;
 - the primary beneficiaries of the benefits;
 - the nature of any equity interest;
 - the purpose and use of assets; and
 - the nature of funding.

Stated objectives

- 14 In many cases the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, the State-Owned Enterprises Act 1986 states that the principal objective of every State enterprise is to “operate as a successful business and to this end, to be:
- (a) as profitable and efficient as comparable businesses that are not owned by the Crown; and
 - (b) a good employer; and
 - (c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.”⁷
- 15 The founding documents of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides. For example, one of the objectives of District Health Boards is to improve, promote and protect the health of people and communities.
- 16 In the not-for-profit sector, the meaning of charitable purpose is set out in the Charities Act 2005. In that Act, “charitable purpose includes every charitable purpose, whether it relates to the relief of poverty, the advancement of education or religion, or any other matter beneficial to the community.”⁸
- 17 Many entities are established with multiple objectives. For example, Crown Research Institutes (CRIs) are required by the Crown Research Institutes Act 1992 (CRI Act) to:
- undertake research for the benefit of New Zealand;
 - comply with any applicable ethical standards;
 - promote and facilitate application of the results of research and technological developments;
 - be a good employer and exhibit a sense of social responsibility; and
 - operate in a financially responsible manner so that they maintain their financial viability.
- 18 Where an entity's founding documents provide that an entity has multiple objectives, determining the primary objective will depend on an assessment of the substance of the purpose of the entity.
- 19 In assessing the substance of the purpose of the entity where there are multiple objectives, it may be helpful to consider how the entity assesses its performance, as this may indicate which of its stated objectives is its primary objective. For example, if the entity has performance targets for a rate of return on assets or a percentage of return to equity holders, this may indicate the entity is a for-profit entity. However, if the performance targets

⁷ Section 4 State-Owned Enterprises Act 1986

⁸ Section 5(1) Charities Act 2005

focus on the level/amount of benefits that have been delivered to achieve a community or social outcome, this may indicate that the entity is a PBE.

- 20 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. However, being financially viable is not in itself conclusive in distinguishing a for-profit entity from a PBE. There is often a community expectation that PBEs will be financially viable and operate to ensure that the limited resources at their disposal are used effectively.

Nature of the benefits, including the quantum of expected financial benefits

- 21 The nature of the benefits provided by an entity including the quantum of the expected financial benefits, may indicate whether an entity is a PBE.
- 22 Unlike for-profit entities, PBEs do not exist to generate a financial surplus in order to provide a financial benefit/return to equity holders. Instead, they exist to provide goods or services for community or social benefit. Hence, if an entity provides goods or services to recipients at no cost or for nominal consideration, the entity is likely to be a PBE. This does not imply that PBEs never generate, or aim to generate, a financial surplus on the net assets employed. However, where a PBE does generate a financial surplus, it may be required or expected to be used to support the entity's primary objective of providing goods or services for community or social benefit, rather than for providing a financial benefit to equity holders.
- 23 PBEs may establish controlled entities or discrete business units which operate to generate a financial surplus that can be used to support the primary activities of the controlling entity. Such entities or business units may be for-profit. This fact does not affect the classification of the controlling entity or group.⁹
- 24 The benefits provided by for-profit entities are financial in nature. Most for-profit entities aim to generate a commercial or market return – that is, to maximise the financial benefit/return to equity holders commensurate with the relative risks of operating. Hence, the quantum of the expected financial benefits may indicate whether an entity is a for profit entity or a PBE.
- 25 When considering the quantum of the expected financial benefits and the nature of the benefits provided by an entity, it is important to recognise that the generation of profits and payment of dividends is only one form of financial benefit that can be provided to equity holders. There are many other forms of financial benefit that can be returned to members or equity holders. For example, cooperatives provide a financial benefit to members by paying a rebate based on the volume of transactions with the entity rather than through the payment of dividends. Another example of a financial benefit is the provision of discounted goods and services by an entity to its members.

Primary beneficiaries of the benefits

- 26 An understanding of who the primary beneficiaries of the benefits provided by the entity are (i.e. the people who primarily benefit from the activities of the entity) will assist in determining whether an entity is a PBE.
- 27 Typically, the primary beneficiaries of a for-profit entity are its equity holders (including its parent, where the reporting entity is controlled by another entity)¹⁰ or other providers of economic resources to the entity (such as debt holders or suppliers). These parties provide economic resources to the entity in exchange for an entitlement to financial returns.
- 28 In contrast, as the primary objective of a PBE is to provide goods or services for community or social benefit, typically the primary beneficiaries of PBEs are members of the community (or a particular section of the community), rather than resource providers.
- 29 If the entity is membership based and the primary beneficiaries of the benefits provided by the entity are not members of the entity, the entity is likely to be a PBE. For example, a heritage trust where membership monies are used for maintaining and enhancing heritage assets for the benefit of the wider community. However, if the primary beneficiaries are members of the entity, it is necessary to consider other factors to determine whether the entity is a PBE (for example, the nature of the benefits and other indicators discussed in this Appendix).

Nature of equity interest

- 30 Where an entity is established to generate a financial return for the benefit of the equity holders the ownership instrument is usually clearly defined. This is important for for-profit entities because it determines the level of

⁹ If a controlled entity or business unit is required to prepare general purpose financial reports its classification is determined by its own primary objective and not that of the controlling entity of the group.

¹⁰ As noted in paragraph 12, the assessment of the classification of an entity as a PBE or for-profit entity is made at the reporting entity level. Where the reporting entity is controlled by a PBE, how the PBE parent uses the financial returns provided by the reporting entity to its parent is not relevant to the assessment of whether the reporting entity should be classified as a for-profit entity or PBE.

financial benefits/returns such as dividends and rights to the residual net assets. If an entity does not have any clear equity holders or the nature of the equity instrument is unclear, the entity is likely to be a PBE.

- 31 The absence of clear equity holders may manifest itself in a number of ways, including:
- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or
 - a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to another PBE. That is, the use of the assets is effectively restricted to providing goods or services for community or social benefit.

Purpose and use of assets

- 32 The reasons an entity acquires and/or holds an asset may indicate whether it is a PBE. For-profit entities hold assets mainly for sale or for generating a financial benefit for equity holders. The primary reason PBEs (particularly public sector PBEs) hold property, plant and equipment and other assets (including infrastructure assets) is usually for their potential to provide future services for community or social benefit rather than their ability to generate a financial benefit for equity holders. If an entity holds assets primarily for delivering future services for community or social benefit, the entity is likely to be a PBE.
- 33 For example, PBEs may hold assets that contribute to the historical and cultural character of a nation or region, such as art treasures, historical buildings and other artefacts. Other PBEs may be responsible for national parks and other areas of natural significance with native flora and fauna. Such historical items and land are generally not held for sale, even if a market exists. Rather, the respective PBEs have a responsibility to preserve and maintain them for current and future generations.

Nature of funding

- 34 If an entity relies wholly or primarily on donations or other contributions whereby the resource provider does not receive an entitlement to financial returns (or other economic resources) from the entity in return, the entity is likely to be a PBE.
- 35 Many PBEs are dependent on grants and donations. In addition, the sources of funding are usually from third parties (i.e. a source other than the beneficiaries of their services). For example, public sector PBEs receive appropriations and other public funds to carry out their services. Not-for-profit PBEs may rely on government grants, donations from philanthropic organisations and donations and bequests from the public. There may also be restrictions imposed by the provider of the funding on how the funds may be spent.
- 36 PBEs also receive funding through the provision of donated services. For example, many not-for-profit entities rely heavily on volunteers (rather than paid employees) to deliver their services to the community.
- 37 In contrast, for-profit entities are funded primarily by equity holders, debt holders and other suppliers of economic resources, in exchange for an entitlement to dividends, interest and other forms of financial returns (or other economic resources).

Conflicting indicators

- 38 When considering the classification of an entity, in some cases the above indicators may conflict with each other and the primary objective or purpose of the entity may not be obvious. Some indicators may indicate that an entity should be classified as a for-profit entity and others may indicate the entity should be classified as a PBE. In this situation professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment, to determine whether, in substance, the entity meets the definition of a PBE. For example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE.

Changing classification

- 39 Although not expected to be common, changing circumstances may lead to a change in an entity's classification from a PBE to a for-profit entity and vice versa. For example, the constitution of an entity may be amended to change an entity's primary objective from one that is for-profit focused to one that is public benefit focused.
- 40 Accounting for a change in classification depends on the applicable accounting requirements of the new classification. An entity will need to first determine its applicable tier of financial reporting, in accordance with XRB A1. XRB A1 paragraphs 14–30 set out the tier structure for for-profit entities, and paragraphs 31– 72 set out the tier structure for PBEs. The entity would then need to apply the applicable accounting requirements for its tier of financial reporting, including the requirements on the first-time adoption of that tier of reporting. For

example, if an entity's classification changes from a PBE to a for-profit entity, the entity would need to apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

ILLUSTRATIVE EXAMPLES: Determining whether or not an entity is a PBE

- 41 The following examples aim to illustrate application of this Appendix. The examples are illustrative only and do not establish requirements.
- 42 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is or is not a PBE. Rather, the examples illustrate indicators to be considered by preparers in reaching a conclusion regarding whether or not an entity is a PBE. In assessing this classification an appropriate weighting needs to be given to each individual indicator. Depending on the circumstances some indicators will provide a stronger indication than others about whether or not an entity should be classified as a PBE. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether or not the entity is a PBE.

Example 1: Crown Research Institute (CRI)

Entity A is a company established under section 11 of the Crown Research Institutes Act 1992 (the CRI Act).

Stated objectives

The CRI Act states that the purpose of every CRI is to undertake research (section 4) and sets out the principles of operation CRIs are expected to follow in fulfilling this purpose. These principles are set out in section 5 of the Act and include, for example, that a CRI should undertake research for the benefit of New Zealand, operate in a financially responsible manner and be a good employer.

The CRI Act establishes a broad framework for the operation of CRIs. The primary objective (purpose) of CRIs is clearly stated in the CRI Act. The principles set out in section 5 are detailed, but they are not ranked and their implementation can be achieved in a number of ways. CRIs, therefore, appear to have discretion as to how they can achieve their purpose.

Nature of the benefits, including the quantum of expected financial benefits

The key benefit of establishing CRIs is the production of research that will benefit New Zealand. In one sense the CRIs undertake research for community or social benefit. The New Zealand economy and entities operating in New Zealand can benefit from the research undertaken.

However, there may be discretion as to how research findings are distributed, in determining the nature of the research to be undertaken and whether the entity intends to generate a financial return for its equity holder (i.e. the Shareholding Minister).

If Entity A distributes the research findings to its customers on a fee-for-service basis with the aim of generating a financial surplus for its equity holder equivalent to a market return, this may indicate that Entity A is a for-profit entity.

If however Entity A undertakes research of a nature that will benefit New Zealand more broadly and makes its research findings available free of charge or for a nominal charge then the benefits provided would be community/social in nature, which may indicate that Entity A is a PBE.

Primary beneficiaries of the benefits

Although Entity A is a company, the primary beneficiaries of the benefits may not necessarily be the Shareholding Minister or the Government.

If the CRI sells its research on a commercial basis for the purpose of providing a financial return to the Shareholding Minister (i.e. the equity holder) then the primary beneficiary would be the entity's equity holder, which may indicate that Entity A is a for-profit entity.

Whereas if the research findings are made available for a nominal fee or free of charge for the benefit of the wider community, such as all entities operating in New Zealand with an interest in those research findings, then the primary beneficiaries would be the wider community, which may indicate that Entity A is a PBE.

Nature of equity interest

Entity A is a company. The equity interest is in the form of shares owned by the Shareholding Minister. In the case of Entity A, the nature of the equity interest is clear. In addition, there is no restriction on the use of assets in the event Entity A is sold, wound up or ceases to operate. This may indicate that Entity A is a for-profit entity.

Conversely, if the company constitution provides that in the event Entity A is wound up, or otherwise ceases to operate, its net assets are required to be transferred to another entity with a similar purpose, this may indicate that Entity A is PBE.

Purpose and use of assets

Entity A owns property, plant and equipment that it uses to undertake research and produce research reports. If Entity A holds those assets to sell or to generate a commercial financial return for the Shareholding Minister, this may indicate that Entity A is a for-profit entity.

However, if the property, plant and equipment is used to undertake research and report on the research findings for the benefit of the New Zealand public then the assets would be held for their potential to provide services to the community, which may indicate that Entity A is a PBE.

Nature of funding

Entity A competes for funding from government and private sources.

If the CRI funds its research activities primarily through charging commercial fees to customers for research services, this may indicate that Entity A is a for-profit entity.

Conversely, if, funding is derived primarily through government grants and donations from private organisations, and there is no requirement to deliver research findings to those funding organisations in return, this may indicate that Entity A is a PBE.

Example 2: Bicycle Shop

A charitable trust is established with the objective of providing health services to the homeless. The Trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the Trust establishes a bicycle shop (Company 1).

Company 1 sells second hand bicycles and runs a successful bicycle hire service. All surpluses from Company 1 are returned to the Trust to support the primary objective of providing health services to the homeless.

Stated objectives

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust. Therefore, as the entity's stated objective is to generate financial returns for its equity holder, this may indicate that the entity is a for-profit entity.

Conversely, if the entity's stated objective was to provide some form of community or social benefit (e.g. to provide employment for the homeless), this may indicate that the entity is a PBE.

Nature of the benefits, including the quantum of expected financial benefits

Company 1 returns financial surpluses generated through the sale and hire of bicycles to the Trust.

If bicycles are sold and hired at market rates with a view to maximising the financial surplus returned to the Trust, then the nature of the benefits would be financial, which may indicate that the bicycle shop is a for-profit entity.

However, if the shop is used primarily to provide employment to the homeless, and/or the bikes are sold at below market rates or hired out at a nominal/low rate to enable the disadvantaged to benefit from exercise (with any incidental financial surplus returned to the Trust), then the entity would be providing community or social benefits, which may indicate that Company 1 is a PBE.

Primary beneficiaries of the benefits

If bicycles are sold and hired at market rates and the primary beneficiary of the financial surpluses derived is the Trust (i.e. the equity holder), then this may indicate that Company 1 is a for-profit entity.

However, if any financial surplus derived by Company 1 is incidental to employing the homeless and/or providing affordable access to bicycles for the disadvantaged, then this may indicate that Company 1 is a PBE. In this case, the primary beneficiaries of the benefits (employment and bicycle affordability) provided by Company 1 are the homeless and the disadvantaged.

Nature of equity interest

Company 1 is 100% owned and controlled by the Trust. As such the ownership arrangement and equity holder is clear.

If in the event Company 1 ceases trading the trustees are able to determine how to use any residual assets of Company 1, then this may indicate that Company 1 is a for-profit entity.

However, if the trust deed provides that in the event Company 1 ceases trading any residual assets must be donated to a charity that fulfils the same or a very similar charitable purpose to that of the Trust, then this may indicate that Company 1 is a PBE.

Purpose and use of assets

If the directors of Company 1 aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return, they may recommend that the Trust invest its funds in another activity if a market return is not achieved. This may indicate that Company 1 is a for-profit entity.

However, if Company 1 was operated with the objective of generating a sufficient return on the net assets for it to continue to be a viable organisation, with no reference to a market return on the net assets invested, and instead its assets were used to provide goods or services for community or social benefit (i.e. enabling the disadvantaged to benefit from exercise) this may indicate that Company 1 is a PBE.

Nature of funding

Company 1 funds its activities through the sale and hire of bicycles. The Trust provided a small capital contribution to ensure the shop could purchase bicycles in addition to any that were donated. Company 1 pays a small rental to the Trust. Other outgoings are minimal and there are no borrowings.

If a significant number of the bicycles for hire and for sale were donated by members of the community, this may indicate that Company 1 is a PBE. Similarly, if most of the employees of Company 1 are volunteers, this may indicate that Company 1 is a PBE.

If, however, the funding is derived primarily from the sale and hire of bicycles at normal commercial rates and the Trust expects a return on its investment, this may indicate that Company 1 is a for-profit entity.

Example 3: Private Education Organisation

Entity B is a private organisation dedicated to providing low-cost high-quality education to children who immigrated to New Zealand from poverty-stricken countries. Entity B was established as a Trust with an initial endowment of \$5m from the estate of a wealthy business person.

In order to supplement its income Entity B accepts a limited number of fee-paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity B to its objective of providing high-quality education to children who immigrated to New Zealand from poverty-stricken countries. The revenue from fee-paying students has enabled Entity B to expand the range of services it offers and to expand its roll of immigrant children.

The trustees carefully manage the resources of Entity B in order to maximise the number of immigrant children it can accept and to maintain a high-quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve the trust's objectives.

Stated objectives

The trust deed establishing Entity B states that the purpose of Entity B is to provide high-quality education to children who immigrated to New Zealand from poverty-stricken countries.

As Entity B's objective is to provide high-quality education to immigrant children from poverty-stricken countries (i.e. to provide a community or social benefit), this may indicate that Entity B is a PBE.

If the trust deed states that Entity B's purpose is to maximise its financial surplus from fee-paying students while also providing high-quality education to immigrant children, this may indicate that Entity B is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The nature of the benefits provided by Entity B are the educational services delivered to children from poverty-stricken countries. The equity has been provided to Entity B for the benefit of immigrant children and not for the generation of a financial return for equity holders. The nature of the benefits provided is primarily community/social, which may indicate that Entity B is a PBE.

If the financial targets established by the trustees are expressed in terms of meeting the development targets set out in the operational plan rather than being expressed in terms of a return on equity, this may indicate that Entity B is a PBE.

However, if the financial targets are expressed in terms of a return on equity, this may indicate that Entity B is a for-profit entity.

If Entity B established a subsidiary entity through which it ran its commercial education operations to maximise profits to be paid back to the Trust, then that subsidiary may be a for-profit entity. In this case it would also be necessary to consider whether the group reporting entity is a PBE by considering the characteristics of the controlling entity of the group.

Primary beneficiaries of the benefits

If the objective of Entity B is to provide high-quality education to immigrant children, with any surplus generated used to expand the number of immigrant children who are provided with high-quality education, the primary beneficiaries are the immigrant children. This may indicate that Entity B is a PBE.

If the trust deed identifies specific parties as beneficiaries of the trust (i.e. not the immigrant children) and Entity B limits the amount of surplus used to expand the education programme to immigrant children in order to generate a financial return for the specified beneficiaries, this may indicate that Entity B is a for-profit entity.

Nature of equity interest

Entity B is a trust, so there are no clearly defined ownership instruments.

The trust deed requires that in the event Entity B ceases operating any residual assets are to be distributed to another entity with a similar purpose. The use of the assets is restricted, and there are no clear equity holders that have an entitlement to those assets. This may indicate that Entity B is a PBE.

If the trust deed provides that in the event Entity B ceases operating any residual assets are to be distributed to other specified parties (e.g. the specified beneficiaries), this may indicate that Entity B is a for-profit entity.

Purpose and use of assets

Entity B provides education to both immigrant children and to fee-paying students. The trustees have a clear operational plan and have established clear financial targets to achieve the trust's objectives.

If Entity B uses its assets to provide high-quality education to immigrant children from poverty-stricken countries, rather than to generate a financial return on its equity then this may indicate that Entity B is a PBE.

If the trustees of Entity B require a commercial financial return on those assets, this may indicate that Entity B is a for-profit entity.

Nature of funding

Entity B receives funding from several sources: investment income from the initial endowment, income from fee-paying students, and donations from the public and fundraising activities.

If this funding is derived predominantly from third parties who do not benefit from Entity B's services, and the resource provider does not receive an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a PBE.

If Entity B derives its funding predominantly from fee-paying students and other resource providers in exchange for an entitlement to financial returns (or other economic resources) from the entity, this may indicate that Entity B is a for-profit entity.

Example 4: Sports Club

Club AFC is a football club established in a suburb of a large city. Club AFC organises competitions and provides coaching and training for a wide range of age groups, from five-year-olds through to senior grade, and representative grades.

Stated objectives

Club AFC is established as a charitable trust. Its constitution states that it is a non-profit entity established to foster participation and to promote amateur football in its suburb. This indicates that Club AFC may be a PBE.

If, however, the constitution stated that Club AFC's objective is to maximise profits for the club, then this may indicate that Club AFC is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The benefits provided by Club AFC arise from the coordination of football competitions and the provision of football coaching and training to club members. This may indicate that Club AFC is a PBE.

If Club AFC were to sell a significant amount of its coaching, and training services (e.g. to schools, other football clubs, or individuals) at normal market rates, with the aim of generating financial returns for its members this may indicate that Club AFC is a for-profit entity.

If Club AFC uses the surpluses from selling its services to ensure the Club remains financially viable with any surplus used to develop the services it offers to club members and the wider amateur football community, this may indicate that Club AFC is a PBE.

If the financial targets are set with the objective of generating a commercial rate of return for its members, this may indicate that Club AFC is a for-profit entity.

Primary beneficiaries of the benefits

Club AFC provides training and coaching for all age groups and grades of players who are members of the club. The Club also organises football competitions in which other amateur football clubs participate.

If the Club's activities primarily benefit the wider community (for example, by promoting soccer as part of a keeping active programme, providing some coaching at no cost for schools or providing free soccer memberships for disadvantaged children in the community), this may indicate that Club AFC is a PBE.

If, however, the primary beneficiaries of the Club's activities are the members of Club AFC, it is necessary to consider other factors (for example, the nature of the benefits and other indicators discussed in this Appendix) to determine whether the entity is a PBE.

Nature of equity interest

Club AFC is a member-based entity and there are no clear equity holders. This may indicate that the Club is a PBE. If, however, the Club was owned by shareholders expecting a financial return on their investment in the Club, this may indicate that the Club is a for-profit entity.

If the constitution states that in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC, this may indicate that the Club is a PBE.

However, if the constitution states that in the event the Club is wound up or ceases to operate any residual assets are to be distributed to the members, this may indicate that the Club is a for-profit entity.

Purpose and use of assets

Club AFC's assets comprise primarily football equipment (nets, balls, uniforms etc), as well as tripods and filming technology used to analyse matches for the purpose of coaching and training. A small shed is leased at the local community centre to store the equipment.

If the Club's assets are used primarily to provide coaching, training and competitions for amateur players in the community, then this may indicate that Club AFC is a PBE.

However, if Club AFC sells a significant amount of its coaching and training services and charges commercial market rates to other individuals or entities for using its tripods and filming technology, then its assets may be generating a financial return for its members. This may indicate that the Club is a for-profit entity.

Nature of funding

Club AFC receives funding from membership fees, donations, sponsorship and community grants.

If this funding does not establish a financial interest in the Club, this may indicate that Club AFC is a PBE.

If Club AFC receives funding primarily from members and other resource providers who are expecting either a financial return on their investment or other economic resources in return for providing funds, this may indicate that Club AFC is a for-profit entity.

Example 5: Social Enterprise

The social enterprise model is becoming a more prevalent way for entities to operate. It is important to note that an entity that identifies itself as a social enterprise may not necessarily be a PBE. It is possible for an entity that identifies itself as a social enterprise to be a for-profit entity that also has a social objective.

Entity C is a company which donates one lunch for a hungry school child at a low decile school for every lunch that it sells to the public, that is, the cost of the donated lunch is built into the cost of the lunch that is sold.

Stated objectives

Entity C's constitution states that its objective is to provide healthy food, including lunches, to patrons and to children at low decile schools.

If Entity C's constitution states that its objective is to help children at low decile schools by providing healthy lunches, this may indicate that Entity C is a PBE.

If Entity C's objective is to maximise profits while also achieving a social objective of providing healthy lunches to children at low decile schools, this may indicate that Entity C is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

If Entity C generates substantial surpluses, after covering the costs of free lunches, with those surpluses distributed to its shareholders or retained for additional business investments, the nature of the benefits provided are primarily financial. This may indicate that Entity C is a for-profit entity.

If Entity C uses the surpluses from the sale of lunches primarily to fund the costs of the free lunches and other operating costs, with any surplus used to expand the number of free lunches provided to school children, the nature of the benefits provided are primarily community/social. This may indicate that Entity C is a PBE.

Primary beneficiaries of the benefits

Entity C has three shareholders.

If Entity C limits the amount of its surplus from the sale of lunches that can be used to provide free lunches, to ensure that it generates an adequate financial return for its shareholders, the primary beneficiaries are the shareholders, which may indicate that Entity C is a for-profit entity.

Conversely, if Entity C uses most of the surpluses from the sale of lunches to provide free lunches to children in low decile schools rather than distributing the profits to its shareholders, the primary beneficiaries are the children at low decile schools. This may indicate that Entity C is a PBE.

Nature of the equity interest

Entity C has two founding shareholders. To enable expansion plans to be completed, additional shares were issued to a shareholder who has a prominent business in the food distribution sector. The equity holders are clearly identifiable by the equity instruments they hold.

If:

- (a) there were no entitlements to dividends;
- (b) all profits were reinvested in Entity C; and
- (c) on Entity C ceasing to operate, any residual assets were to be donated to an entity with a similar charitable objective,

this may indicate that Entity C is a PBE.

If Entity C's shareholders have an entitlement to dividends and to a share of the residual net assets of the entity if it wound up, this may indicate that Entity C is a for-profit entity.

Purpose and use of assets

Entity C acquires or holds its assets to provide healthy lunches for children in low decile schools and to make lunches and healthy food that are sold to the public.

If the assets are used primarily to provide healthy lunches for children in low decile schools, this may indicate that Entity C is a PBE.

If Entity C acquires or holds its assets primarily to sell or to generate financial benefits for its equity holders, this may indicate that Entity C is a for-profit entity.

Nature of Funding

Entity C's equity was initially provided by shareholders.

If Entity C relies primarily on donations and grants from the general public and funding organisations, and has a predominantly volunteer workforce, this may indicate that Entity C is a PBE.

If Entity C's funding is provided primarily by shareholders and other resource providers in exchange for an entitlement to financial returns (e.g. dividends) or other economic resources, this may indicate that Entity C is a for-profit entity.

APPENDIX B

TIER 1 FOR-PROFIT ACCOUNTING REQUIREMENTS AND TIER 2 FOR-PROFIT ACCOUNTING REQUIREMENTS TO BE APPLIED BY FOR-PROFIT ENTITIES

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the Accounting Standards and Authoritative Notice that contain the Tier 1 For-profit Accounting Requirements for Tier 1 For-profit entities and the Tier 2 For-profit Accounting Requirements for Tier 2 For-profit entities.

Accounting Standards

NZ IFRS 1	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>
NZ IFRS 2	<i>Share-based Payment</i>
NZ IFRS 3	<i>Business Combinations</i>
NZ IFRS 4	<i>Insurance Contracts</i> (superseded on adoption of NZ IFRS 17)
NZ IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
NZ IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
NZ IFRS 7	<i>Financial Instruments: Disclosures</i>
NZ IFRS 8	<i>Operating Segments</i>
NZ IFRS 9 (2014)	<i>Financial Instruments</i>
NZ IFRS 10	<i>Consolidated Financial Statements</i>
NZ IFRS 11	<i>Joint Arrangements</i>
NZ IFRS 12	<i>Disclosure of Interests in Other Entities</i>
NZ IFRS 13	<i>Fair Value Measurement</i>
NZ IFRS 14	<i>Regulatory Deferral Accounts</i>
NZ IFRS 15	<i>Revenue from Contracts with Customers</i>
NZ IFRS 16	<i>Leases</i>
NZ IFRS 17	<i>Insurance Contracts</i>
NZ IAS 1	<i>Presentation of Financial Statements (revised 2007)</i>
NZ IAS 2	<i>Inventories</i>
NZ IAS 7	<i>Statement of Cash Flows</i>
NZ IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
NZ IAS 10	<i>Events after the Reporting Period</i>
NZ IAS 11	<i>Construction Contracts</i> (superseded on adoption of NZ IFRS 15)
NZ IAS 12	<i>Income Taxes</i>
NZ IAS 16	<i>Property, Plant and Equipment</i>
NZ IAS 17	<i>Leases</i> (superseded on adoption of NZ IFRS 16)
NZ IAS 18	<i>Revenue</i> (superseded on adoption of NZ IFRS 15)
NZ IAS 19	<i>Employee Benefits</i>
NZ IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24	<i>Related Party Disclosures</i>
NZ IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
NZ IAS 27	<i>Separate Financial Statements</i>
NZ IAS 28	<i>Investments in Associates and Joint Ventures</i>

NZ IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
NZ IAS 32	<i>Financial Instruments: Presentation</i>
NZ IAS 33	<i>Earnings per Share</i>
NZ IAS 34	<i>Interim Financial Reporting</i>
NZ IAS 36	<i>Impairment of Assets</i>
NZ IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
NZ IAS 38	<i>Intangible Assets</i>
NZ IAS 39	<i>Financial Instruments: Recognition and Measurement</i>
NZ IAS 40	<i>Investment Property</i>
NZ IAS 41	<i>Agriculture</i>
FRS-42	<i>Prospective Financial Statements</i>
FRS-43	<i>Summary Financial Statements</i>
FRS-44	<i>New Zealand Additional Disclosures</i>
NZ IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
NZ IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
NZ IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i> (superseded on adoption of NZ IFRS 16)
NZ IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
NZ IFRIC 6	<i>Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment</i>
NZ IFRIC 7	<i>Applying the Restatement Approach under NZ IAS 29 Financial Reporting in Hyperinflationary Economies</i>
NZ IFRIC 9	<i>Reassessment of Embedded Derivatives</i> (superseded on adoption of NZ IFRS 9 (2010) or NZ IFRS 9 (2014))
NZ IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
NZ IFRIC 12	<i>Service Concession Arrangements</i>
NZ IFRIC 13	<i>Customer Loyalty Programmes</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 14	<i>NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
NZ IFRIC 15	<i>Agreements for the Construction of Real Estate</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
NZ IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
NZ IFRIC 18	<i>Transfers of Assets from Customers</i> (superseded on adoption of NZ IFRS 15)
NZ IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
NZ IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
NZ IFRIC 21	<i>Levies</i>
NZ IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
NZ IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
NZ SIC-7	<i>Introduction of the Euro</i>
NZ SIC-10	<i>Government Assistance—No Specific Relation to Operating Activities</i>
NZ SIC-15	<i>Operating Leases—Incentives</i> (superseded on adoption of NZ IFRS 16)
NZ SIC-25	<i>Income Taxes—Changes in the Tax Status of an Entity or its Shareholders</i>
NZ SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> (superseded on adoption of NZ IFRS 16)
NZ SIC-29	<i>Service Concession Arrangements: Disclosures</i>
NZ SIC-31	<i>Revenue—Barter Transactions Involving Advertising Services</i> (superseded on adoption of NZ IFRS 15)

Authoritative Notices

New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*

New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018
(2018 NZ *Conceptual Framework*)

APPENDIX C

TIER 1 PBE ACCOUNTING REQUIREMENTS AND TIER 2 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC BENEFIT ENTITIES

This appendix forms an integral part of XRB AI Application of the Accounting Standards Framework.

This appendix lists the Accounting Standards and Authoritative Notice that contain the Tier 1 PBE Accounting Requirements for Tier 1 PBEs and the Tier 2 PBE Accounting Requirements for Tier 2 PBEs.

Accounting Standards

PBE IPSAS 1	<i>Presentation of Financial Statements</i>
PBE IPSAS 2	<i>Cash Flow Statements</i>
PBE IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
PBE IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>
PBE IPSAS 5	<i>Borrowing Costs</i>
PBE IPSAS 6 (PS)	<i>Consolidated and Separate Financial Statements (Public Sector)</i> (superseded on adoption of PBE IPSAS 34 and PBE IPSAS 35)
PBE IPSAS 6 (NFP)	<i>Consolidated and Separate Financial Statements (Not-for-profit)</i> (superseded on adoption of PBE IPSAS 34 and PBE IPSAS 35)
PBE IPSAS 7	<i>Investments in Associates</i> (superseded on adoption of PBE IPSAS 36)
PBE IPSAS 8	<i>Interests in Joint Ventures</i> (superseded on adoption of PBE IPSAS 37)
PBE IPSAS 9	<i>Revenue from Exchange Transactions</i>
PBE IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>
PBE IPSAS 11	<i>Construction Contracts</i>
PBE IPSAS 12	<i>Inventories</i>
PBE IPSAS 13	<i>Leases</i>
PBE IPSAS 14	<i>Events After the Reporting Date</i>
PBE IPSAS 16	<i>Investment Property</i>
PBE IPSAS 17	<i>Property, Plant and Equipment</i>
PBE IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
PBE IPSAS 20	<i>Related Party Disclosures</i>
PBE IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>
PBE IPSAS 22	<i>Disclosure of Information About the General Government Sector</i>
PBE IPSAS 23	<i>Revenue from Non-Exchange Transactions</i>
PBE IPSAS 25	<i>Employee Benefits</i> (superseded on adoption of PBE IPSAS 39)
PBE IPSAS 26	<i>Impairment of Cash-Generating Assets</i>
PBE IPSAS 27	<i>Agriculture</i>
PBE IPSAS 28	<i>Financial Instruments: Presentation</i>
PBE IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>
PBE IPSAS 30	<i>Financial Instruments: Disclosures</i>
PBE IPSAS 31	<i>Intangible Assets</i>
PBE IPSAS 32	<i>Service Concession Arrangements: Grantor</i>
PBE IPSAS 34	<i>Separate Financial Statements</i>
PBE IPSAS 35	<i>Consolidated Financial Statements</i>
PBE IPSAS 36	<i>Investments in Associates and Joint Ventures</i>

PBE IPSAS 37	<i>Joint Arrangements</i>
PBE IPSAS 38	<i>Disclosure of Interests in Other Entities</i>
PBE IPSAS 39	<i>Employee Benefits</i>
PBE IPSAS 41	<i>Financial Instruments</i>
PBE IFRS 3	<i>Business Combinations</i>
PBE IFRS 4	<i>Insurance Contracts</i>
PBE IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
PBE IFRS 9	<i>Financial Instruments</i>
PBE IAS 12	<i>Income Taxes</i>
PBE IAS 34	<i>Interim Financial Reporting</i>
PBE FRS 42	<i>Prospective Financial Statements</i>
PBE FRS 43	<i>Summary Financial Statements</i>
PBE FRS 45	<i>Service Concession Arrangements: Operator</i>
PBE FRS 46	<i>First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS</i>
PBE FRS 47	<i>First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS</i>
PBE FRS 48	<i>Service Performance Reporting</i>

Authoritative Notice

Public Benefit Entities' *Conceptual Framework*

APPENDIX D

TIER 3 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC SECTOR PUBLIC BENEFIT ENTITIES AND NOT-FOR-PROFIT PUBLIC BENEFIT ENTITIES

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

This appendix lists the Tier 3 Accounting Requirements for Tier 3 PBEs (public sector public benefit entities and not-for-profit public benefit entities) which are contained in the following Standards and Authoritative Notice.

Tier 3 PBE Accounting Requirements to be Applied by Public Sector Public Benefit Entities

Accounting Standard

PBE SFR–A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*

Authoritative Notice

Public Benefit Entities' *Conceptual Framework*

Tier 3 PBE Accounting Requirements to be Applied by Not-For-Profit Public Benefit Entities

Accounting Standard

PBE SFR–A (NFP) *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)*

Authoritative Notice

Public Benefit Entities' *Conceptual Framework*

APPENDIX E

TIER 4 PBE ACCOUNTING REQUIREMENTS TO BE APPLIED BY PUBLIC SECTOR PUBLIC BENEFIT ENTITIES AND NOT-FOR-PROFIT PUBLIC BENEFIT ENTITIES

This appendix forms an integral part of XRB AI Application of the Accounting Standards Framework.

This appendix lists the Tier 4 Accounting Requirements for Tier 4 PBEs (public sector public benefit entities and not-for-profit public benefit entities) which are contained in the following Standards.

Tier 4 PBE Accounting Requirements to be Applied by Public Sector Public Benefit Entities

Accounting Standard

PBE SFR–C (PS) *Public Benefit Entity Simple Format Reporting – Cash (Public Sector)*

Tier 4 PBE Accounting Requirements to be Applied by Not-For-Profit Public Benefit Entities

Accounting Standard

PBE SFR–C (NFP) *Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)*

BASIS FOR CONCLUSIONS ON STANDARD XRB A1 APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK

This Basis for Conclusions accompanies, but is not part of, XRB A1 Application of the Accounting Standards Framework.

Introduction

- BC1. This Basis for Conclusions summarises the External Reporting Board’s (the Board) considerations when it developed the Accounting Standards Framework and how that Framework would be effected through the overarching Standard XRB A1 *Application of the Accounting Standards Framework*.
- BC2. The Accounting Standards Framework was subject to consultation (including through discussion and consultation papers and different versions of XRB A1) between 2009 and 2012. The Accounting Standards Framework was approved by the Minister of Commerce in April 2012¹¹ and was rolled out in stages. This Standard, XRB A1, represents the completion of all the stages of the roll-out.
- BC3. Legislation determines which entities are required, or that may opt under an enactment, to prepare financial statements in accordance with accounting standards issued by the External Reporting Board. This Standard applies to those entities that are statutorily required, or that opt under an enactment, to prepare such financial statements.

Two-sector and multi-tier structure

- BC4. The Accounting Standards Framework is a two-sector, multi-tier structure, with different accounting standards or requirements¹² applying in each tier for each sector.
- BC5. The Board used user-needs and the cost-benefit approach as the primary basis for developing the Accounting Standards Framework. The two-sector approach was adopted to recognise the different user-needs in the for-profit and public benefit sectors. The Board considered different options to reflect different users and their information needs but decided that the two-sector distinction was the most cost-effective and reflected the distinction that had been used in New Zealand for many years. Consequently, the definitions used to differentiate a for-profit entity from a public benefit entity (PBE) remain unchanged from that used in the “old” accounting standards framework.¹³ This Standard carries forward the guidance for this purpose as Appendix A. The Board did decide to distinguish between public sector PBEs and not-for-profit PBEs (NFP PBEs), within the PBE sector, where user-needs demanded such a distinction to be made.
- BC6. To operationalise the cost-benefit aspect, the Board decided to use a multi-tiered approach in each sector. This was considered an appropriate way to balance the information needs of users and the costs of reporting for different sized entities. In general, the accounting standards that an entity is required to apply become progressively simpler as the entity moves down the tiers.
- BC7. The two-sector, multi-tiered approach also reflects the new statutory financial reporting framework. The new statutory financial reporting framework, amongst other requirements, removed the requirement for most small and medium-sized for-profit entities to prepare general purpose financial reports (GPFR) and required registered charities to prepare GPFR.

¹¹ The then proposed Accounting Standards Framework was approved by the Minister of Commerce in accordance with the requirements of the Financial Reporting Act 1993 in April 2012: <http://www.xrb.govt.nz/why-report/history/#tier-strategy>

¹² Subsequent to the issue of the initial Accounting Standards Framework, the Board decided in 2014 that entities applying Tier 1 and Tier 2 accounting requirements in each sector apply one set of standards with reduced disclosure reporting requirements within that set of standards.

¹³ The “old” accounting standards framework is a reference to the accounting standards framework that was applicable to reporting entities prior to 1 December 2012. That framework was not established formally in a single document nor was it a statutory requirement on the preceding standards-settings boards that a framework be established or documented.

For-profit sector

Tier Structure

- BC8. In the for-profit sector, there are two tiers of reporting: Tier 1 and Tier 2. Tier 1 is the default tier. However, an entity that does not have public accountability (as defined) and is not large (as defined) may elect to apply Tier 2 For-profit Accounting Requirements.
- BC9. Earlier versions of XRB A1 included two interim tiers in the for-profit sector – Tier 3 and Tier 4. These tiers (and their associated accounting standards) were designed, under the old accounting standards framework, to cater to small and medium-sized companies (or other for-profit entities).
- BC10. Under the new statutory financial reporting framework, the majority of these small and medium- entities are no longer required to prepare GPFR and therefore there was no need to specifically cater for small and medium-sized for-profit entities in the Tier Structure. Accordingly, the accounting standards in the previous for-profit Tier 3 and Tier 4 were withdrawn.

Tier Criteria

- BC11. The two criteria for determining whether a for-profit entity applies Tier 1 For-profit Accounting Requirements are “public accountability” and size. An entity that has public accountability is required to report in accordance with Tier 1 For-profit Accounting Requirements. In addition, a “large” for-profit public sector entity is also required to report in accordance with Tier 1 For-profit Accounting Requirements.

Public accountability

- BC12. The first criterion used in this Standard to determine whether an entity must apply Tier 1 For-profit Accounting Requirements uses the International Accounting Standards Board’s (IASB) definition of “public accountability”. This is to ensure that New Zealand is in line with international practice.¹⁴ The definition is used in conjunction with a deeming approach to further clarify that some specific entities are required to apply Tier 1 For-profit Accounting Requirements. The deeming approach takes into account the New Zealand context, and most notably, the requirements of the Financial Markets Conduct Act 2013. It is intended to supplement the IASB definition rather than to replace it.
- BC13. In finalising this Standard, the Board reconsidered, and confirmed, the appropriateness of the IASB definition of public accountability as a Tier 1 criterion. The Board’s reasons for using the IASB definition of public accountability as a definitional device were:
- (a) to link to the information needs of existing or potential investors;
 - (b) to align with what the IASB sees as the group of entities that operate in the capital market and for which IFRS has been developed; and
 - (c) to align with Australia which also uses the IASB’s definition, plus a deeming approach, as the Tier 1 criteria.
- BC14. Entities that have public accountability comprise those which meet the IASB definition and includes those deemed to have public accountability. The Board considered that entities not covered by the deeming provisions would need to consider whether they are captured by the IASB definition. This would require the entity to exercise judgement and interpret that definition in its own context, similar to the manner normally required for interpreting accounting standards.
- BC15. In New Zealand, legislation requires the Tier Structure to take into account an FMC reporting entity’s level of public accountability. The Board noted that FMC reporting entities include market participants that do not meet the IASB’s definition of public accountability. The deeming provisions as they relate to FMC reporting entities clarify that only FMC reporting entities considered to have a “higher level of public accountability”¹⁵

¹⁴ At the international level, entities that do not have “public accountability” (as defined by the IASB) are eligible to use the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs).

¹⁵ Under the Financial Markets Conduct Act 2013, FMC reporting entities with a “higher level of public accountability” include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.

under the Financial Markets Conduct Act 2013, or are designated as having a “higher level of public accountability” by the Financial Markets Authority (FMA), are deemed to have public accountability (as defined) and must report under Tier 1. Other for-profit FMC reporting entities considered not to have a “higher level of public accountability” may report under Tier 2. Generally, FMC reporting entities considered to have a “higher level of public accountability” also meet the IASB’s definition of public accountability and FMC reporting entities considered not to “have a higher level of public accountability” are unlikely to meet the IASB’s definition of public accountability. In most instances, the deeming approach means the law and/or the FMA will determine which FMC reporting entities have a “higher level of public accountability” and must apply Tier 1 For-profit Accounting Requirements. The Board consider that it is appropriate that all other entities that meet the IASB’s public accountability definition apply Tier 1 For-profit Accounting Requirements because this is consistent with the reporting requirements of similar entities internationally.

BC16. The Board also consider harmonisation with Australia to be a particularly important factor in establishing the for-profit tier framework given the Government’s policy¹⁶ and the number of for-profit entities with trans-Tasman reporting obligations. Therefore, the Board consider it desirable that there be a high degree of consistency between the for-profit tier structure (and the related accounting standards) in New Zealand and Australia. Use of public accountability as the primary for-profit criterion together with a deeming approach is broadly consistent with the approach used in Australia. In Australia all entities meeting the public accountability definition report under Tier 1 and certain additional entities have been deemed to be in Tier 1. The deeming approach in New Zealand in relation to FMC reporting entities that are considered to have a “higher level of public accountability”, and application of the IASB’s public accountability definition to other entities, means New Zealand for-profit entities required to be in Tier 1 are therefore broadly consistent with international entities that have public accountability and with Tier 1 entities in Australia.

BC17. The Board noted that the IASB definition of public accountability is narrower than the more generic term “publicly accountable”, particularly as it is commonly used in the PBE context. The Standard includes examples illustrating the application of public accountability (as defined) for public sector PBEs and NFP PBEs.

Size – “Large”

BC18. The second criterion used in this Standard to determine whether an entity must apply Tier 1 For-profit Accounting Requirements is a size-based criterion. It is used to determine whether a for-profit public sector entity is “large”. The size criterion is based on expenses, with \$30 million as the threshold, to define a large for-profit public sector entity. The Board has used the same threshold of \$30 million expenses that is used to determine a large PBE in the PBE sector to ensure consistency across sectors and to prevent a public sector entity arbitraging across the two sectors.

Accounting Standards

BC19. In the for-profit sector, the Board considered that facilitating entities applying Tier 1 For-profit Accounting Requirements to be able to assert compliance with International Financial Reporting Standards (IFRS) continues to be in New Zealand’s best economic interests. It results in comparable GPFR for for-profit entities, especially those operating in the global financial markets. It is important for international competitiveness for New Zealand reporting entities to be able to assert compliance with the international standards.

BC20. In order for New Zealand reporting entities to be able to assert compliance with IFRS, IFRS as issued by the IASB has to be applied. The Tier 1 For-profit Accounting Requirements are contained in the accounting standards known as NZ IFRS, which are converged with IFRS. However, they also include domestic standards appropriate for New Zealand, which do not affect a for-profit entity’s ability to assert compliance with IFRS. This approach allows entities to assert compliance with IFRS while still providing a vehicle for addressing New Zealand-specific issues.

¹⁶ The Single Economic Market Outcomes Framework agreed by the New Zealand and Australian Governments in August 2009 includes a specific section on financial reporting. The Outcomes Framework Statements are available at: <http://www.beehive.govt.nz/release/ministers-english-and-swan-progress-trans-tasman-relationship>

- BC21. Tier 1 For-profit Accounting Requirements are also harmonised, as appropriate, with Australia.
- BC22. The objective for Tier 2 is to have accounting requirements that result in reduced preparation costs to balance the costs and benefits. Tier 2 For-profit Accounting Requirements have the same recognition and measurement requirements as Tier 1 Accounting Requirements but with disclosure concessions (i.e. a reduced disclosure regime (RDR)).
- BC23. Tier 2 For-profit Accounting Requirements are also harmonised with Australia.
- BC24. The Board decided on the RDR approach because it retains the same recognition and measurement requirements as Tier 1 For-profit Accounting Requirements. The advantages of this include:
- preparers and users in the for-profit-sector 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.
- BC25. Adopting an RDR approach that is common with Australia also enhances harmonisation with Australia because it reduces compliance costs for entities with trans-Tasman reporting obligations that apply those requirements. This is an important consideration in the for-profit sector.

Moving between tiers

- BC26. Where an entity has public accountability at any time during a reporting period, it must apply Tier 1 For-profit Accounting Requirements for the reporting period during which it has public accountability. This is to ensure that users' information needs of an entity with public accountability continue to be met for the period during which the entity has public accountability. This is also consistent with financial markets conduct law.
- BC27. A for-profit public sector entity that no longer meets the Tier 1 size criterion (because it is no longer large) may apply Tier 2 For-profit Accounting Requirements for the reporting period in which it is no longer large. This is to allow the entity to take advantage of the disclosure concessions in Tier 2 For-profit Accounting Requirements as soon as it is no longer large to reduce its costs of reporting. However, a for-profit public sector entity that meets the Tier 1 size criterion (because it is now large) may continue to apply Tier 2 For-profit Accounting Requirements for the reporting period in which it becomes large. This allows the entity time to prepare to report any additional disclosures required by Tier 1 For-profit Accounting Requirements.

PBE sector tiers

Tier criteria

- BC28. In the PBE sector, there are four tiers of reporting. Tier 1 is the default tier for all PBEs. However, entities that are not large (as defined) and do not have public accountability (as defined) may elect to apply the requirements of another tier if they meet the criteria for that tier.
- BC29. In the PBE sector, the main determinant of the tiers is size, based on expenses. The Board decided on establishing four tiers in the PBE sector because there is a significant variation in the size of PBEs that are required to prepare GPFR. The use of four tiers allowed the Board to better reflect costs and benefits across different entity sizes. Moreover, Tier 4 was necessary to cater for not-for-profit entities and public sector PBEs which, under their governing legislation, are not a "specified not-for-profit entity" and are therefore permitted to prepare their GPFR using non-GAAP, cash-based standards issued by the External Reporting Board.
- BC30. The Tier 1 criteria in the PBE sector use a size threshold of \$30 million expenses. However, consistent with the for-profit sector, the Tier 1 criteria in the PBE sector also use public accountability (as defined). The Board decided that the same definition of public accountability and the same size criteria should be used across both the PBE and for-profit sectors to ensure consistency across the whole Accounting Standards Framework for determining Tier 1. This is designed to ensure that the same level of tier requirements applies to public sector entities regardless of whether they are designated as a for-profit entity or a PBE to prevent

inappropriate incentives on an entity to define itself as a for-profit entity or a PBE in order to be able to elect to report in a lower tier.

- BC31. The Board decided to use \$30 million and \$2 million as the size thresholds for Tier 2 and Tier 3 respectively after considering costs and benefits. The Board also noted that \$30 million revenue is used as the definition of large in legislation. The Board prefers expenses as the criterion to define entity size for PBEs because it is considered a more appropriate proxy for cost and benefit in the PBE context. PBE financial performance is typically driven by expenses rather than revenue. As such, expenses are considered more reflective of the underlying activity of PBEs.
- BC32. In the PBE sector, the Board considered whether expenses should include or exclude grants made by the PBE. The Board decided that expenses should include grants made by the PBE as these can represent a significant item of expense and excluding them could understate the size of the PBE.
- BC33. The Board will keep under review all size-based tier criteria and adjust the size thresholds for inflation periodically.

Accounting Standards

Tier 1

- BC34. Tier 1 PBE Accounting Requirements are contained in PBE Standards which are primarily based on International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB). The Board considered that IPSAS provide a better basis for PBE reporting than do IFRS because they are developed for PBE users, notably service recipients as well as a wider group of resource providers, whereas IFRS is developed primarily for users in capital markets.
- BC35. PBE Standards use IPSASs as their base,¹⁷ but are modified for any recognition, measurement or disclosure matters that are considered to be inappropriate in the New Zealand context or inconsistent with current New Zealand practice. The IPSASs are also modified to make them relevant, applicable and understandable to not-for-profit sector preparers and users. The Board considered that this is necessary because the IPSASB has developed IPSASs for public sector entities. Some modification is desirable to enhance their usefulness in the not-for-profit context. PBE Standards also include some standards based on IFRSs issued by the IASB and domestic standards appropriate for New Zealand to address topics not covered in any IPSAS.

Tier 2

- BC36. Tier 2 PBE Accounting Requirements have the same recognition and measurement requirements as Tier 1 PBE Accounting Requirements but with disclosure concessions. The Board considered that this approach is consistent with the Tier 2 For-profit Accounting Requirements and that the same advantages apply (see BC24).

Tier 3

- BC37. The Board decided that Tier 3 PBE Accounting Requirements should be based on a simple format reporting approach. This appropriately reflects the small size and reduced level of expertise within many entities in this tier as well as the needs of the users of these entities. In broad terms, the recognition and measurement requirements applying to the simple format reporting are similar to those applying in Tier 1 (although there are some simplifications), but there are significant presentation and disclosure simplifications.
- BC38. There are two standards in Tier 3 PBE Accounting Requirements, one for public sector PBEs and one for NFP PBEs. This is to reflect the different user-needs within these two PBE sub-sectors. Each standard comprises a single document allowing an entity to report in accordance with a simple format approach, using accrual accounting. Each standard is accompanied by an Explanatory Guide containing optional templates and guidance notes to assist entities to apply the standard.

¹⁷ The New Zealand Accounting Standards Board is required to apply the *Policy Approach to Developing PBE Standards* in issuing any PBE Standards: <http://www.xrb.govt.nz/why-report/policy-statements/>

Tier 4

- BC39. The Board decided that Tier 4 PBE Accounting Requirements should also use a simple format reporting approach, but that it should be even simpler than the Tier 3 requirements as Tier 4 entities are very small. Consistent with legislation, Tier 4 PBE Accounting Requirements comprise non-GAAP standards.
- BC40. There are two standards in the PBE Tier 4 PBE Accounting Requirements, one for public sector PBEs and one for NFP PBEs. Each standard comprises a single document allowing an entity to report in accordance with a simple format approach, using cash accounting. Each standard is accompanied by an Explanatory Guide containing optional templates and guidance notes to assist entities to apply the Standard.

Moving between Tiers

- BC41. Where an entity has public accountability at any time during a reporting period, it must apply Tier 1 PBE Accounting Requirements for the reporting period in which it has public accountability. This is to ensure that users' information needs of an entity with public accountability continue to be met for the period during which the entity has public accountability. This is also consistent with securities law.
- BC42. Where a PBE meets the relevant size criteria and is required to apply the relevant accounting standards of a higher tier, the Board decided that the entity should be permitted to continue to apply the relevant accounting standards of the lower tier for at least one more reporting period. This is to allow the PBE time to prepare to report under a higher tier. However, where an entity no longer meets the size criteria to apply the relevant accounting standards of a higher tier, it may apply the relevant accounting standards of the lower tier immediately to reduce its costs of reporting.

2019 Amendments to XRB A1

- BC43. Appendix A of XRB A1 provides guidance to assist an entity to determine whether it is a public benefit entity (PBE) or a for-profit entity for the purpose of complying with standards issued by the External Reporting Board. In December 2018 the XRB issued Exposure Draft *2018 Amendments to XRB A1 Appendix A* which proposed changes to Appendix A. The XRB noted that some of the guidance in Appendix A was based on guidance that existed prior to the New Zealand Accounting Standards Framework being issued and considered that, now the Framework had been operational for some time, it was appropriate to review the guidance in Appendix A. In addition, the XRB had received feedback that some constituents had experienced difficulties applying Appendix A.
- BC44. The proposals included:
- (a) clarifications to the guidance on the definition of a PBE. For example, the proposed amendments clarified that both parts of the definition of a PBE need to be assessed in combination when determining an entity's classification;
 - (b) two new indicators, being (i) primary beneficiaries of the benefits; and (ii) purpose and use of assets;
 - (c) the merging of the indicators dealing with (i) nature of the benefits and (ii) the quantum of the expected financial surplus; and
 - (d) revised illustrative examples and the addition of a new illustrative example.
- BC45. Respondents were broadly supportive of the proposals. The XRB agreed to proceed with the proposals and issued *2019 Amendments to XRB A1 Appendix A* in May 2019.