

Webinar: Targeted Review of the New Zealand Accounting Standards Framework

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Introduction



Targeted Review of New Zealand Accounting Standards Framework

XRB is undertaking a targeted review of the New Zealand Accounting Standards Framework to ensure it is **operating as intended** and is **fit for purpose** for the future.

NEW ZEALAND ACCOUNTING STANDARDS FRAMEWORK

The XRB's strategy for developing accounting standards for those entities with a statutory requirement to prepare financial statements in accordance with those standards.



MULTI-SECTOR APPROACH

Different requirements for:

- For-profit entities; and
- PBEs (NFPs and Public Sector)



MULTI-TIERED APPROACH

- For-profit entities – based on IFRS
- PBEs – based primarily on IPSAS (Tiers 1 and 2) and XRB's Simple Format Reporting Requirements (Tiers 3 and 4)



MULTI-STANDARDS APPROACH

- For-profit entities – 2 tiers
- PBEs – 4 tiers

THE FOCUS OF THIS REVIEW



A 'check-in' after the first five years



Uncovering any unintended consequences or areas of concern




Three specific matters where we need your feedback

Introduction — Consultation Documents



Discussion Paper issued in July 2019 and open for comment until November 2019


Targeted Review of the New Zealand Accounting Standards Framework



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Targeted Review of the New Zealand Accounting Standards Framework


Discussion Paper
July 2019



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework

Summary Document July 2019



This Summary Document accompanies the Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework*, issued by the External Reporting Board (XRB) for public consultation in July 2019.

The full Discussion Paper, which provides further background information and discussion, can be accessed through the link below.

[Press for access to full Discussion Paper](#)

This document summarises the information provided in the full Discussion Paper on:

- What is the New Zealand Accounting Standards Framework (ASF)?
- Where does the ASF fit within the broader New Zealand reporting environment?
- Why is the XRB undertaking the Targeted Review of the ASF?
- What is not within scope of the Targeted Review of the ASF?
- What specific areas of the ASF is the XRB seeking your feedback on?
- How to have your say
- Next steps

The closing date for submissions is 15 November 2019

[How to have your say](#)


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Targeted Review Summary

For-profit Not-for-profit Public Sector

- What is the New Zealand Accounting Standards Framework (ASF)?
- Why is the XRB undertaking the Targeted Review of the ASF?
- Specific matters for comment
- What is not within scope of the Targeted Review of the ASF?
- How to have your say
- Next steps



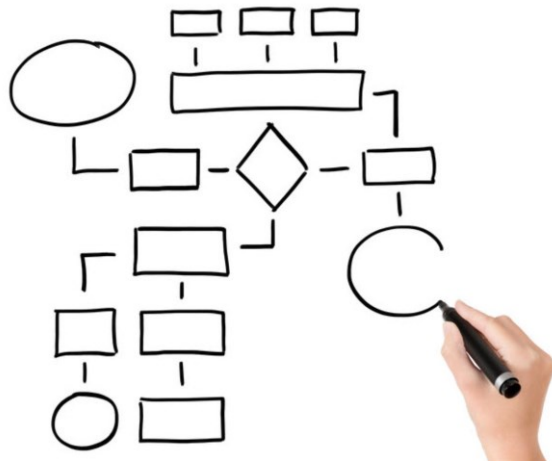
This Targeted Review Summary accompanies the Discussion Paper, *Targeted Review of the New Zealand Accounting Standards Framework*, issued by the External Reporting Board (XRB) for public consultation in July 2019.

You can read this consultation summary and then submit your feedback.

Tip: We suggest you keep this page open and maybe open the Online Feedback Form in another browser tab. This way you can read the discussion and then add your comments at the same time as you read through the document.

[Online Feedback Form](#)

Focus of webinar



- What is the New Zealand Accounting Standards Framework (ASF)?
- Application of the ASF — the story so far
- Objective and scope of the Targeted Review of the ASF
- Specific matters for comment
- How to have your say

The New Zealand financial reporting environment



Who Reports

New Zealand Government

Determined by
Legislation

What to Report



Determined by
XRB



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

**New Zealand Accounting
Standards Framework**

Incorporating the Tier Strategy approved by the Minister of Commerce on
2 April 2012 in accordance with Section 34A of the Financial Reporting
Act 1993

Originally issued: April 2012
Updated: December 2015

The New Zealand Accounting Standards Framework



NZ Accounting Standards Framework

For-profit Entities

Two Tiers

For-profit Standards based on IFRS® Standards (NZ IFRS)



Public Benefit Entities

Four Tiers

PBE Standards based on IPSAS (Tier 1 and Tier 2)



Key ASF objectives:

- Meeting user needs
- Balancing the costs and benefits of financial reporting

Key ASF elements:

- multi sector approach
- tiered approach
- multi standards approach

PBEs in Tiers 3 and 4 apply the XRB's Simple Format Reporting Requirements

Application of the ASF: The story so far



Feedback on the application of the ASF to date (4–5 years): Informal feedback and research indicates on the whole — it’s been a success story!

For-profit entities

Asserting compliance with IFRS continues to be important for for-profit entities in Tier 1 – for international competitiveness

The RDR regime for Tier 2 appears to be operating as intended


Public Sector PBEs

The move to PBE Standards based on IPSAS allowed for the development of standards that reflect the public sector context

OAG (2016): *“The new [ASF] is designed so that financial reports will better meet the needs of users”*

Not-for-profit PBEs

The tiered approach has worked well, given all registered charities are required by law to report in accordance with XRB standards.

 **But:** we have heard that some smaller charities are experiencing challenges – we are conducting a **separate review of the PBE Tier 3 and Tier 4 standards**



But, we want to “check in” on whether our understanding is complete – or are there implementation issues arising in practice where refinements to the ASF may be needed?

Poll: Checking in with you



Do you agree with our observation that, in general, the ASF is working well?

- I think the ASF is working very well
- I think the ASF is generally working well, but there is room for refinements
- I think substantial changes to the ASF are required



Why are we conducting a Targeted Review of the ASF?



- The ASF when first issued in 2012 introduced significant changes in financial reporting requirements for many entities
- Now that the ASF has been effective for 4-5 years, it is timely and important to “check-in” on whether it is functioning as anticipated and is achieving its original objectives

The ASF has two underlying objectives:

1. To **meet user needs** — by developing accounting standards that lead to high quality financial reporting that meets different user needs in the for-profit and PBE sectors
2. To **balance the cost and benefits** of reporting — by establishing appropriate accounting requirements based on the nature and size of the entity

Objective of the Targeted Review of the ASF



Overall objective is to ensure the ASF continues to remain fit-for-purpose

General feedback sought

- To “**check in**” with users on whether the ASF:
 - is **functioning as anticipated**;
 - has caused any **unintended consequences**; or
 - requires refinements due to **new developments or emerging issues**

Specific feedback sought

1. The importance of **maintaining close alignment** between **PBE Standards and IPSAS**
2. The importance of **harmonization with Australia** for **Tier 2 for-profit disclosures**
3. Whether the **PBE tier size** criteria needs to be revisited

This is your chance to provide feedback on the ASF – on the areas that are of most interest to you

Scope of the Targeted Review of the ASF



Please note:

This is not a first-principles review of the ASF

- It is **too soon** to consider changes to the key principles of the ASF
- We are **not aware** of any significant issues arising in practice
- A **comprehensive review** is expected when ASF has been effective for 10–15 years
- But, we are keen to **receive feedback** on where refinements may be required

This is a review of the ASF only – the following matters are out of scope

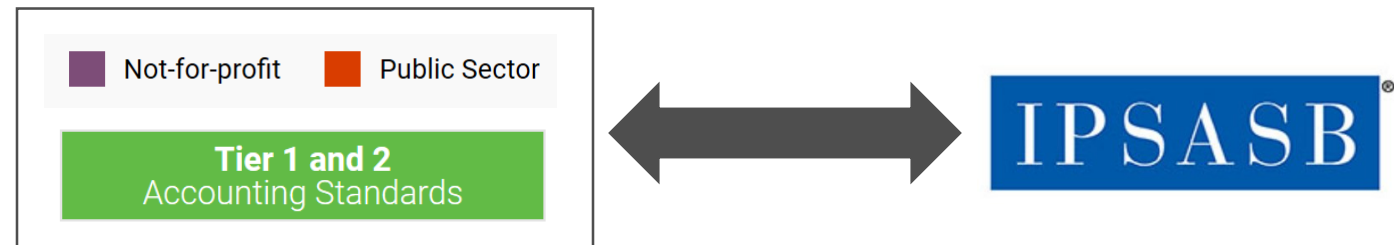
- **Who** should have a **statutory requirement to report** in accordance with accounting standards issued by the XRB
- Appropriateness of **specific requirements in accounting standards**; and
- **Auditing and assurance** requirements



XRB's current strategy for developing PBE Standards



- The XRB's strategy for developing PBE Standards (for Tier 1 and Tier 2 public sector and not-for-profit PBEs) is to **maintain close alignment between PBE Standards and IPSAS**
- This strategy includes a rebuttable presumption that the XRB will:
 - **wait for the IPSASB** to issue an IPSAS before developing a PBE Standard on the same topic (rather than developing a PBE Standard ahead of the IPSASB)
 - adopt a new/amended IPSAS into PBE Standards, with modifications to IPSAS permitted **only in specific circumstances**

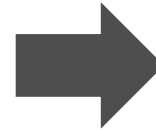


Maintaining close alignment with IPSAS — Recent challenges



Recent developments in the IPSASB's Strategy and Work Plan

- Increased focus on public sector-specific issues, leading to increased divergence between IPSAS and IFRS
- Increased focus on encouraging wider adoption of IPSAS, leading to standards being developed to meet the user-needs of a broader group of international constituents (including jurisdictions transitioning from cash reporting to accrual)
- Increased time taken by IPSASB to complete IPSAS projects based on new IFRS Standards, leading to extended periods of “unnecessary differences” between IFRS and IPSAS



Resulting in challenges maintaining close alignment between PBE Standards and IPSAS

- The needs of NZ PBEs and the users of their financial statements might not be fully or appropriately addressed by future IPSAS that address public sector-specific issues in the international environment
- Prolonged “mixed group” issues for PBEs with for-profit subsidiaries (consolidation adjustments required for “unnecessary differences”)
- PBEs cannot benefit from new thinking introduced by new IFRS Standards until years later

Is a change in approach needed?



Two broad options are available:

- Option 1: Maintain the status quo — **Maintain current strategy of maintaining close alignment between PBE Standards and IPSAS**
- Options 2: A more flexible approach — increased **focus on addressing local considerations ahead of maintaining close alignment with IPSAS**
 - More flexibility on the timing of when new or amended PBE Standards are introduced (e.g. not necessarily waiting for the IPSASB)
 - More flexibility on whether to adopt or modify the requirements of a new or amended IPSAS to reflect local considerations

The **Targeted Review** is seeking feedback on the question:

- is maintaining close alignment with IPSAS important for PBEs (Option 1)?; or
- should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are “fit for purpose” for the New Zealand environment (Option 2)?

Importance of harmonisation with Australia for Tier 2 for-profit disclosures



- **For-profit entities in Tier 2** report in accordance with **NZ IFRS with Reduced Disclosure Requirements (NZ IFRS RDR)** – disclosure requirements are currently **harmonised with Australia**
- Recent developments:
 - The Australian Accounting Standards Board is considering a new approach to developing Tier 2 for-profit disclosure requirements in Australia
 - The IASB’s recent project on “SMEs that are subsidiaries” might result in a set of accounting requirements that could eventually replace the current Tier 2 regime in both NZ and Australia
 - But: IASB’s project will not be finalised before changes are introduced in Australia
- When Australia’s approach to developing Tier 2 disclosures changes, the XRB will need to consider whether to introduce similar changes in NZ – or wait until an international solution is available

The **Targeted Review** is seeking feedback on the question:

How important is maintaining harmonisation with Australia for Tier 2 for-profit disclosure requirements?

Do the PBE tier size criteria need to be revisited?



- The ASF includes a tiered approach for developing PBE Standards – the lower the tier, the more simplified the reporting requirements

PBE tier	Tier size threshold
1	Annual expenses over \$30 million , or has “public accountability”
2	Annual expenses between \$2 million and \$30 million
3	Annual expenses less than or equal to \$2 million
4	Annual operating payments less than \$125,000 (XRB is unable to amend this threshold)

- We are not aware of significant concerns regarding the PBE tiers, but we want to check in with you

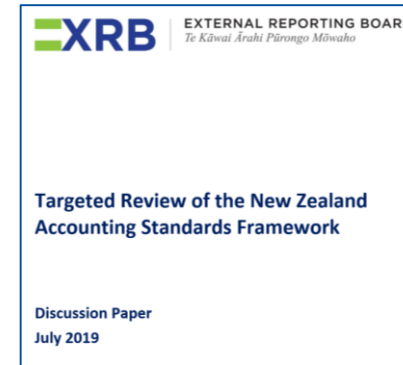
The **Targeted Review** is seeking feedback on the question:

Are there any unintended consequences or recent developments that would require changes to the PBE tier size criteria?

How to find out more



- We recommend that you read our
 - Discussion Paper and/or
 - Summary Document
- Please have a look at our website
<https://www.xrb.govt.nz/reporting-requirements/targeted-review-of-the-accounting-standards-framework/>



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Targeted Review of the Accounting Standards Framework

For-profit Not-for-profit Public Sector

- Targeted Review Summary >
- Online Feedback Form >
- Upload a document submission >
- Download the Full Discussion Paper [PDF] >
- Download the Summary Discussion Paper [PDF version] >



How to have your say



- You can submit your feedback by
 - Completing our online submission form, or
 - Uploading your submission (as a document) through our webpage

Specific Matters for Comment (SMCs)

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

3.
Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?

Please provide reasons for your response.

Question not applicable to me

Your feedback is important to us.

It will help us ensure that our strategy for developing accounting standards for New Zealand entities remains "fit for purpose" from 2021 onwards

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The colour should mirror your title slide

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