

**Supporting Papers 14 February 2020**

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# 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](#)

## What is the New Zealand Accounting Standards Framework?

In New Zealand, certain entities are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. The Statutory Financial Reporting Framework established by the Government determines which entities are subject to this requirement (sometimes called the “**who**” question).

[Press for further information on the Statutory Financial Reporting Framework](#)

The [New Zealand Accounting Standards Framework](#) (the ASF) sets out the XRB’s strategy for developing and issuing accounting standards that are appropriate for those entities that have a statutory requirement to prepare financial statements in accordance with accounting standards issued by the XRB (sometimes called the “**what**” question).

The development of the ASF began in early 2009 in conjunction with Government reforms that led to the enactment of the Financial Reporting Act 2013 and associated amendments to other legislation.

The ASF was first issued in April 2012 after a comprehensive consultation process and updated for minor amendments in December 2015. The ASF became effective on a “rolling basis” across the three key sectors in New Zealand, as shown below:

Sector	When did the ASF become effective	Number of years the ASF has been effective
Public sector PBEs <sup>1</sup>	1 July 2014	4 – 5 years
For-profit entities <sup>2</sup>	1 April 2015	3 – 4 years
Not-for-profit PBEs <sup>3</sup>	1 April 2015	3 – 4 years

### Key objectives of the New Zealand Accounting Standards Framework

The ASF has two key underlying objectives.

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

### Key elements of the New Zealand Accounting Standards Framework

The ASF has three key elements.

<b>Multi-standards approach</b>	Different suites of accounting standards for two distinct sectors: <b>for-profit entities</b> and <b>PBEs</b>
<b>Tiered approach</b>	Different accounting requirements for each tier based on cost-benefit considerations: <ul style="list-style-type: none"> <li>• For-profit entities – <b>2 tiers</b></li> <li>• PBEs – <b>4 tiers</b></li> </ul>
<b>Basis for developing each suite of accounting standards</b>	<ul style="list-style-type: none"> <li>• For-profit entities — accounting standards are based on International Financial Reporting Standards (<b>IFRS Standards</b>).</li> <li>• PBEs — accounting standards are based primarily on International Public Sector Accounting Standards (<b>IPSAS</b>) for Tiers 1 and 2 and the <b>XRB’s Simple Format Reporting Requirements</b><sup>4</sup> for Tiers 3 and 4.</li> </ul>

[Press for further information on the ASF](#)

<sup>1</sup> **Public Benefit Entities (PBEs)** are reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders.

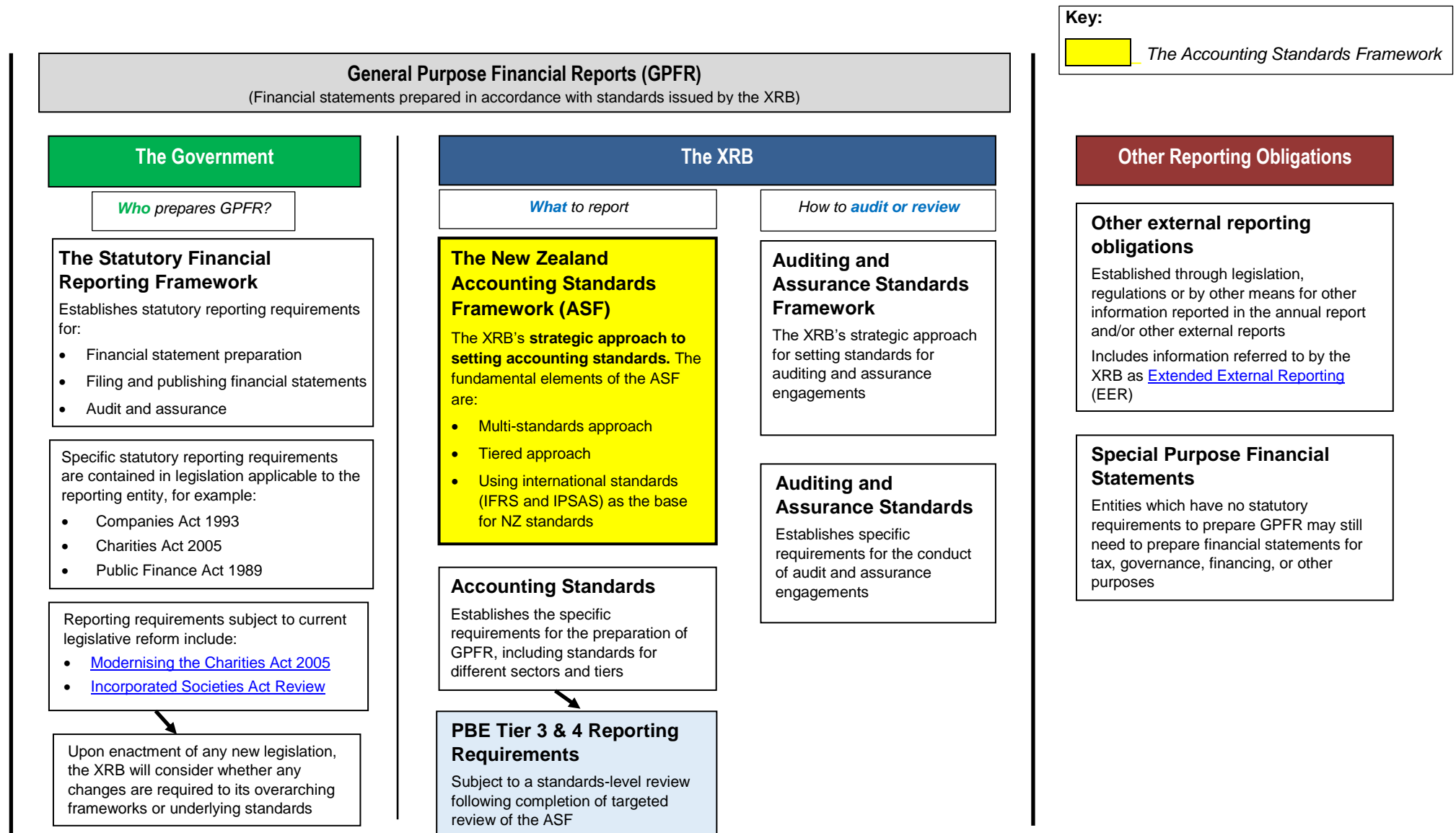
**Public sector PBEs** are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

<sup>2</sup> **For-profit entities** for financial reporting purposes are reporting entities that are not PBEs.

<sup>3</sup> **Not-for-profit (NFP) PBEs** are PBEs that are not public sector PBEs (e.g. registered charities).

<sup>4</sup> This term refers to the Tier 3 and Tier 4 PBE Accounting Requirements.

## Where does the ASF fit within the broader New Zealand reporting environment?<sup>5</sup>



<sup>5</sup> This diagram is a high-level overview of the New Zealand reporting environment and is not intended to be comprehensive.



## Why is the XRB undertaking a targeted review of the New Zealand Accounting Standards Framework?

Now that the ASF has been effective for 4–5 years for many entities, the XRB considers it timely and important to “check-in” with users of the ASF and other stakeholders to receive feedback on whether the ASF is functioning as anticipated and is achieving its original objectives.

This feedback will help the XRB Board consider whether refinements to the ASF are required to ensure it remains fit-for-purpose.

## What are the objectives and scope of the review?

### This is not a first-principles review

It is too soon to conduct a first-principles’ review of the ASF. The ASF was first issued in 2012 and introduced significant change for many entities. Also, we are not aware of significant unintended consequences arising from the implementation of the fundamental elements of the ASF. Therefore, **this review does not contemplate changing the ASF’s multi-standards, multi-tiered approach, or which international standards are used as a base for developing standards in New Zealand.**

The XRB expects to review these fundamental elements once the ASF has been effective for at least 10–15 years.

### Key objectives of the targeted review of the New Zealand Accounting Standards Framework

The key objectives are to check-in with you on whether:

- (a) the ASF is **functioning as anticipated** and achieving its desired objectives (see p.2);
- (b) there are any **unintended consequences** or concerns to date arising from the implementation of the ASF; and
- (c) any refinements to the ASF are needed because of any **new developments or emerging issues** since the ASF was first developed.

The XRB is keen to receive feedback on:

**Are you aware of any developments in the financial reporting environment or any unintended consequences that would require refinements to the ASF?**

[How to have your say](#)

### Specific matters on which we are seeking your feedback

As well as seeking general feedback from you on whether the current ASF is functioning as anticipated, the XRB has identified three specific matters where we would appreciate your comments:

- (a) The importance of maintaining **close alignment between PBE Standards** (for NFP and public sector PBEs in Tiers 1 and 2) and International Public Sector Accounting Standards (**IPSAS**);
- (b) The importance of **harmonisation with Australia for Tier 2 for-profit disclosures**, and;
- (c) Whether the **PBE tier size criteria** (for NFP and public sector PBEs) need to be revisited.

A summary of each specific matter for comment (SMC) is discussed on pages 6-7 of this Summary Document.

[Press for further summary information on each SMC](#)

## What is outside the scope of the targeted review of the New Zealand Accounting Standards Framework?

### Matters outside of scope

The scope of this targeted review is limited to the ASF itself, being the XRB's strategy for developing and issuing accounting standards.

Below are the areas outside the scope of the targeted review.

Out of scope		Comment
⊘	The determination of <b>who</b> should have a <b>statutory requirement to report</b> in accordance with accounting standards issued by the XRB.	This is determined by the Government through legislation. It is outside of the XRB's remit.
⊘	The appropriateness of specific accounting requirements in <b>accounting standards</b> .	This targeted review is limited to the ASF, being the strategic framework used to develop accounting standards in New Zealand. It is not a review of the underlying individual accounting standards, or of auditing and assurance requirements. The XRB has other means for receiving feedback on individual accounting standards and assurance requirements.
⊘	<b>Audit and assurance requirements</b>	

[Press for further information on the XRB's rationale for the scope of the targeted review](#)



### Future post-implementation review of the Tier 3 and Tier 4 PBE Accounting Requirements

The XRB is aware that some Tier 3 and Tier 4 PBEs (especially registered charities) are experiencing challenges in implementing the Simple Format Reporting Requirements introduced as a result of the ASF.

The XRB plans to conduct a separate standards-level review of the Tier 3 and Tier 4 PBE Simple Format Reporting Requirements shortly after the completion of the targeted review of the ASF.

## What specific aspects of the ASF is the XRB seeking your feedback on?

The XRB has identified three specific matters for comment (SMCs). Your feedback on these SMCs will assist the XRB in considering whether refinements to the ASF are required.

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

PBE Standards for Tier 1 and Tier 2 NFP and public sector PBEs are currently closely based on international standards – IPSAS – issued by the International Public Sector Accounting Standards Board (IPSASB). While this strategy was effective in establishing the PBE Standards and the XRB plans to continue using IPSAS when developing future changes to PBE Standards, there are some challenges in implementing the current strategy of maintaining close alignment between PBE Standards and IPSAS moving forward.

The XRB's current strategy focuses on maintaining close alignment between PBE Standards and IPSAS and, therefore, aims to avoid making changes to PBE Standards ahead of the IPSASB issuing final standards on the same topic. However, the time taken by the IPSASB to complete its projects to develop IPSAS based on recently-issued IFRS Standards<sup>6</sup> has been longer than expected. This leads to an extended period of unnecessary divergence between PBE Standards and the standards applied by for-profit entities in New Zealand (i.e. NZ IFRS). This delay is particularly problematic for “mixed groups”, which include both for-profit entities and PBEs in the same consolidated group.

Also, while the current strategy provides some flexibility to modify IPSAS requirements for New Zealand-specific considerations, there is a relatively high hurdle to jump before making such modifications. This can make it challenging to adequately reflect local considerations to ensure that PBE Standards are “fit for purpose” in New Zealand. The IPSASB's workplan now includes large public sector-specific projects. While work on these important topics is welcomed, the IPSASB is required to consider the needs of a wide range of constituents – including countries transitioning from cash accounting. Many of the IPSASB's constituents are very different to New Zealand constituents. Therefore, the needs of New Zealand constituents might not be fully or appropriately addressed by future IPSAS that address public sector-specific issues in the international environment.

Therefore, the XRB is considering whether its current strategy of maintaining close alignment between PBE Standards and IPSAS should be relaxed, to provide more flexibility in how IPSAS is used in the future when developing new or amended PBE Standards, including more flexibility on:

- the timing of when new or amended PBE Standards are introduced (e.g. not necessarily waiting for the IPSASB); and
- whether to adopt or modify the requirements of a new or amended IPSAS to reflect local considerations.

A more flexible approach is likely to result in less alignment between PBE Standards and “pure” IPSAS in the future, compared with the current strategy. Hence, the XRB is seeking feedback to help it consider whether to move to a more flexible approach.

When maintaining and enhancing the PBE Standards in the future:

**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?**

[Press for further information on this matter](#)

[How to have your say](#)

<sup>6</sup> For example, the IPSASB is currently working on projects to develop standards based on IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. Both IFRS 15 and IFRS 16 have recently become effective for for-profit entities.

## SMC 2: Importance of harmonisation with Australia for Tier 2 for-profit disclosures

For-profit entities that are required by law to prepare financial statements in accordance with standards issued by the XRB, but do not meet the criteria for Tier 1<sup>7</sup>, are in Tier 2. Under the ASF, for-profit entities in Tier 2 apply NZ IFRS with Reduced Disclosure Requirements (RDR). Currently, the disclosure requirements for Tier 2 for-profit entities are harmonised with Australia. However, the Australian Accounting Standards Board (AASB) is currently considering a new approach to setting Tier 2 disclosure requirements.

Furthermore, the International Accounting Standards Board (IASB) recently began a project on small and medium entities that are subsidiaries of entities that report under IFRS Standards (“SMEs that are subsidiaries”). This project may result in a set of accounting requirements that could be suitable as a replacement for the current Tier 2 regimes in both New Zealand and Australia. However, the IASB is unlikely to complete this project before the new approach to Tier 2 disclosures is introduced in Australia.

If the developments in Australia result in some loss of trans-Tasman harmonisation for Tier 2 for-profit disclosures, the XRB will need to consider introducing similar changes in New Zealand. Another matter to consider is whether it is more cost-effective for New Zealand to delay changes until an international solution becomes available, to avoid two rounds of changes.

To inform the XRB’s approach to maintaining and enhancing Tier 2 for-profit disclosure requirements within the environment described above, the XRB is keen to receive feedback on:

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

[Press for further information on this matter](#)

[How to have your say](#)

## SMC 3: Do the PBE tier size criteria need to be revisited?

The PBE tier size criteria have not changed since the ASF was first introduced. The XRB is therefore taking this opportunity to check-in with constituents on whether there are any unintended consequences or recent developments that would require the PBE tier size thresholds to be revisited.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has public accountability <sup>8</sup>
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 (the XRB is unable to amend this)

It is important to note that the **XRB is unable to change the \$125,000 threshold for Tier 4, as this is determined by the Government in legislation.**

To allow the XRB to consider whether any refinements are required to the PBE tier size criteria, the XRB is keen to receive feedback on:

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

[Press for further information on this matter](#)

[How to have your say](#)

<sup>7</sup> Tier 1 includes for-profit entities that are publicly accountable (defined in footnote 8 below) and public sector for-profit entities with expenses over \$30 million.

<sup>8</sup> In general, an entity is considered to have public accountability if it has issued debt or equity instruments in a public market or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses – please refer to XRB A1 [Application of the Accounting Standards Framework](#) for the full definition.

## How to have your say

The closing date for submissions is **15 November 2019**.

The XRB Board is seeking feedback on the **Questions for Respondents** raised in the Discussion Paper. You may choose to comment on all questions or select the questions which are of most interest to you.

We encourage submissions to be made by:

- completing the online submission form; or

[Press for online submission form](#)

- uploading your submission through our secure webpage at <https://www.xrb.govt.nz/reporting-requirements/targeted-review-of-the-accounting-standards-framework>

Please refer to the Discussion Paper for other methods to make a submission and further information on the submission process.

## Next steps

At the end of the public consultation period, the XRB Board will analyse the submissions received and consider whether certain aspects of the ASF require refinement.

Any refinements to the ASF would be issued for public consultation as a separate exposure draft. The XRB would also need to seek approval from the Minister of Commerce and Consumer Affairs for any amendments to the ASF.

[Press for further information on the next steps](#)

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14 November 2019

April MacKenzie  
Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142

Dear April

**Auckland Council's submission to Targeted Review of New Zealand Accounting Standards Framework**

Thank you for the opportunity to comment on the discussion paper on the Targeted Review of New Zealand Accounting Standards Framework.

Auckland Council is Australasia's largest local government entity and is made up of the council and six substantive council-controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations.

We have provided our responses to the specific questions for the respondents in Appendix 1 to this letter, along with our additional comments for the XRB's consideration.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang using the details provided below.

Yours sincerely



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## Section A: Questions for Respondents

### General Comments

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1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?

We are not aware of any additional developments in the financial reporting environment or any unintended consequences requiring refinements to the Accounting Standards Framework.

2. Do you have any other comments about the Accounting Standards Framework?

We do not have any other comments about the Accounting Standards Framework.

### Specific Matters for Comment (SMCs)

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

**Question 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.

From Auckland Council Group's point of view, we are in favour of prioritising local consideration to ensure that PBE Standards are "fit for purpose" for the New Zealand environment. This is because Auckland Council Group is a mixed group with a subsidiary reporting under IFRS and debt instruments listed in New Zealand, Singapore and Switzerland. We believe it is important for the accounting of transactions of the same substance for there to be close alignment between PBE standards and NZ IFRS (transaction neutrality); unless the NZASB believe there is a clear public sector reason to deviate. This eliminates the need to account for differences between NZ IFRS and PBE IPSAS upon consolidation while providing investors with financial information prepared using accounting standards that are not significantly different from IFRS.

Compliance costs are also a factor in considering whether a PBE standard is “fit for purpose”. Public benefit entities, including not-for-profit entities are mainly funded by monies collected from taxpayers, ratepayers and donors. This places a duty on these organisations to ensure prudent management of public funds, with minimal waste or unnecessary costs. When considering whether to require a change in accounting treatment the benefits to public sector stakeholders must outweigh the cost of implementation.

Where a new IPSAS proposes an accounting treatment which differs from an existing IFRS standard, the benefits to the user must outweigh the costs of deviating. A current example is the proposed fair valuation of concessionary leases under ED64, where the compliance costs to implement the standard will be significant, with little benefit to users. Alternative narrative disclosures may provide useful information to users in a cost-effective way, ensuring better use of public funding. Compliance costs should always be considered where the “theoretical” approach on paper may not be the most suitable approach in practice.

We note IPSAS are developed to suit a wide range of jurisdictions around the world, and as such is not at the stage where all local considerations can be considered. New Zealand PBEs are relatively advanced compared to many other constituents in IPSASB, for example the preparation of New Zealand general purpose financial reports (GPFR) on an accrual basis. There is a risk that IPSASB may develop standards which are not suitable for the advanced minority such as New Zealand. “Fit for purpose” should be a key indicator of whether an IPSAS standard, or parts of, should be adopted. As adoption of IPSAS increases, the risk of IPSAS not being relevant for New Zealand decreases, because more of the standard setters will be the standard users.

**Question 4:** If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

We do not think that close alignment is more important than prioritising local considerations.

**Question 5:** If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under [Option 2 in Chapter 4 of the Discussion Paper](#)?

### **Flexibility to consider whether to incorporate IPSAS into PBE Standards rather than maintaining close alignment with IPSAS**

We agree with the proposed Option 2 in Chapter 4 of the Discussion Paper. In this situation, the NZASB will be the PBE standard setters, and the key considerations when setting PBE standards will be what works for New Zealand, rather than what modifications should be made to IPSAS to fit New Zealand.

Where a new IPSAS is issued, NZASB has the option to incorporate as much of IPSAS as possible, where the outcomes benefit NZ PBEs, such as improving the quality of financial reporting. Key situations which can be avoided are:



- 1) incurring costs to comply with IPSAS without any financial reporting benefit to users of NZ PBEs
- 2) NZ PBEs fundamentally disagreeing with accounting treatments proposed by IPSAS
- 3) newly issued IPSAS which are not relevant to the NZ Public Benefit Entity.

**Developing IFRS equivalent standard for PBE sector ahead of IPSAS rather than waiting for IPSASB to complete an alignment project**

We agree with this suggestion as this helps to eliminate the need of preparing consolidation adjustments to account for difference between IFRS and IPSAS for a mixed-group entity like Auckland Council.

With IPSASB lagging in this aspect, New Zealand can contribute by taking a proactive role in developing an IFRS equivalent standard to address public sector needs. Should IPSASB decide to develop a similar standard in future, New Zealand would be in a good position to provide useful recommendation to refine the requirement of standard after going through the thought process and implementation stage.

**Question 6:** Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

We do not have further comments.

**SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

**Question 7:** How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

**Question 8:** If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

Please provide reasons for your response.

Australia is one of New Zealand's largest trading partner. We believe aligning New Zealand's accounting standards with Australia is very important for comparability purposes.

More than 90% of New Zealand companies are small medium enterprises and there are companies that report using Tier-2 for-profit regime with operations in both Australia and New Zealand. These entities would benefit from retaining harmonisation with Australia.

**Question 9:** Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

We do not have further comments.

**SMC 3: Do the PBE tier size criteria need to be revisited?**

**Question 10:** Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We are not aware of any.

**Question 11:** If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

We believe the current PBE tier size is still fit for purpose.

**Question 12:** Do you have any other comments on the tier size criteria for PBEs?

We do not have further comments.

*Text to be input into online submission form.*

Approved by:



Nicola Mills  
**GM Financial and Business Performance**

Date: 13 /11/2019



Matthew Walker  
**Group Chief Financial Officer**

Date: 13 /11/2019

12 November 2019

Mr Warren Allen  
The Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington  
6142

Dear Sir

**Requests to comment on Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework***

Thank you for the opportunity to comment on the above Discussion Paper.

We are making this submission to you to assist the External Reporting Board (XRB) with the above Discussion Paper. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

Overall we are supportive of the proposals contained in the Discussion Paper.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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## Appendix 1 - Response to questions

Question	Response
<b>General Comments</b>	
<p><b>Question 1</b> Are you aware of any other developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?</p>	<p>We are not aware of any such other developments.</p>
<p><b>Question 2</b> Do you have any other comments about the ASF?</p>	<p>We have no further comments.</p>
<b>SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS</b>	
<p><b>Question 3</b> 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</p>	<p>Yes, we agree that the XRB should prioritise local New Zealand considerations when developing PBE standards, to ensure these are “fit for purpose”.</p> <p>The time lag in the IPSASB addressing accounting issues that have been addressed in the IFRS standards by the IASB can lead to significant divergence in accounting between for-profit and public benefit entities, which can lead to significant consolidation issues in mixed groups. This is not ideal and can add significantly to consolidation costs and efforts.</p> <p>In addition, as there is a lack of guidance for IPSAS standards, the current default position for any unusual or complex transactions is to revert back to IFRS guidance. Thus any major divergence between IPSAS standards and IFRS standards is problematic, and could lead to significant divergence in practice between PBE entities, which is not desirable.</p>
<p><b>Question 4</b> If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?</p>	<p>N/A</p>

<p><b>Question 5</b> If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?</p>	<p>Yes, we agree that prioritising local considerations is more important.</p> <p>We are firmly of the view that PBE standards should be aligned as closely as possible to NZ IFRS standards.</p>
<p><b>Question 6</b> Do you have any other comments on the way IPSAS are used as the base for PBE Standards?</p>	<p>IPSAS standards are written for the public sector and are not aimed at not-for-profit entities.</p> <p>The requirements in the NZ IFRS standards may make more sense for not-for-profit entities in certain scenarios compared to IPSAS requirements.</p> <p>Thus it would be beneficial for the NZASB to have more flexibility in moving away from IPSAS standards (where applicable) in setting PBE standard requirements for not-for-profit entities.</p>
<p><b>SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures</b></p>	
<p><b>Question 7</b> How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements? Please provide reasons for your response.</p>	<p>We do not believe that it is vitally important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements.</p> <p>In our experience, there is very little overlap between Tier 2 entities in New Zealand and Australia in relation to group reporting requirements. In addition, if there are Trans-Tasman reporting requirements, entities tend to issue group reporting packages which detail the required disclosures for the parent entity, which often exceed what is required by Tier 2 entities.</p> <p>We are aware that Australia is in the process of reforming its Tier 2 disclosure requirements. We are also aware that the IASB is investigating a new small entity disclosure regime for entities that are subsidiaries and it is likely that both New Zealand and Australia could adopt this framework in the future.</p>



	<p>We would be very hesitant in requiring entities to harmonise with the (to be) updated Australian requirements in a few years and then requiring them to change again in a few years after that to comply with the (future) IASB requirements (if these are considered suitable).</p> <p>It is our experience that the Tier 2 framework as it currently stands works well and is fit-for-purpose for the vast majority of entities that report thereunder.</p>
<p><b>Question 8</b> If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?</p>	<p>We do not see this as being important at the present time.</p>
<p><b>Question 9</b> Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?</p>	<p>We have no further comments.</p>
<p><b>SMC 3: Do the PBE tier size criteria need to be revisited?</b></p>	
<p><b>Question 10</b> Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?</p>	<p>We are not aware of any such unintended consequences.</p>
<p><b>Question 11</b> If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?</p> <p>Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.</p>	<p>We do not believe the PBE tier size criteria should be revisited.</p>
<p><b>Question 12</b> Do you have any other comments on the tier size criteria for PBEs?</p>	<p>We have no further comments.</p>

## **Appendix 2 - Information on BDO**

1. BDO New Zealand is a network of ten independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency supporting over 28,000 SME, mid-market and corporate clients.
3. BDO in New Zealand has 88 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 70,000 people in over 1,500 offices across over 162 countries and territories.

14 November 2019

Warren Allen FCA  
Chief Executive  
External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142

By email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

Dear Warren

### **Submission on Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework**

We appreciate the opportunity to provide feedback on the above Discussion Paper (“the DP”). We agree it is a good time to ‘check in’ with constituents on whether the Accounting Standards Framework (ASF) is functioning as anticipated and is achieving its original objectives.

Our feedback indicates that the framework is generally working well, although we consider that the board should do whatever is procedurally necessary to ensure that it is able to promptly address local issues. It also needs to consider legislative moves around introducing asset thresholds to avoid the framework and legislation becoming inconsistent.

Appendix A contains our responses to the specific questions raised in the DP. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ).

We would be pleased to provide further information or assist in any way that may be helpful as you continue work on this important review. If you have any questions about our submission, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at [Zowie.Pateman@charteredaccountantsanz.com](mailto:Zowie.Pateman@charteredaccountantsanz.com).

Yours sincerely

**Amir Ghandar CA**  
Leader, Reporting and Assurance

**Simon Grant FCA**  
Group Executive, Advocacy and Professional Standing



# Appendix A

## Responses to specific questions

### General comments

- 1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?**

We believe the DP sufficiently covers the developments in the financial reporting environment.

- 2. Do you have any other comments about the ASF?**

The feedback we have received indicates that the ASF is generally working well.

### 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.**

In our view prioritising local considerations is of more benefit to the New Zealand framework than maintaining close alignment with IPSAS. The challenges of the current approach, which are discussed in Section 4C of the DP (e.g. time lag between IFRS projects and IPSASB projects), are producing issues locally which stakeholders wish to have addressed in a timely manner. Also, we are not hearing a demand to move *towards* adoption of 'pure' IPSAS.

- 4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?**

Not applicable.

- 5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?**

We agree the 'bar' is currently too high to permit the prioritisation of local considerations with relative ease, so we support a change to the XRB's policy to allow for more flexibility in this regard.

On this basis we support amending the PBE Policy Approach to allow the NZASB more flexibility to (i) modify IPSAS when developing PBE Standards; and (ii) develop PBE Standards ahead of the IPSASB, as suggested under Option 2 in Section 4D of the DP.

In the case of (ii) however, the timing of any two-step approach to change needs to be carefully considered to ensure that going ahead of the IPSASB, rather than waiting is the more cost-effective option for both standard setters and preparers.

**6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?**

No further comments.

**SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

**7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements? Please provide reasons for your response.**

We consider that maintaining harmonisation with Australia remains as important to constituents now as it was in the original ASF consultation. However, we do not believe the NZASB should immediately respond to the pending changes to the Tier 2 regime in Australia.

CA ANZ and CPA Australia's joint submission to the AASB on ED 295 will be recommending a two-year delay to the mandatory adoption of these reforms, allowing time to address several identified challenges. One of these is our concern about Australian Tier 2 for-profit entities with New Zealand reporting obligations. A delay will allow the IASB time to progress or conclude its 'Subsidiaries that are SMEs' project before the NZASB (and the AASB) addresses this issue further. Our aim is to avoid existing Tier 2 entities in either country needing to make multiple structural changes to their disclosure framework.

**8. If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?**

The implementation of the Tier 2 for-profit reporting framework in both Australia and New Zealand was designed to increase the ease with which both businesses and people can operate across the Tasman for this group of entities. This is in keeping with the [Single Economic Market \(SEM\) agenda](#) - which builds on the foundation of the [Closer Economic Relations \(CER\) agreement](#) - to create a seamless trans-Tasman business environment.

The AASB's 'special purpose reforms' that will mandate the application of the recognition and measurement requirements for all Australian Tier 2 for-profit entities further this original objective by enforcing a framework that is consistent with the New Zealand requirements. We are therefore supporting these reforms in Australia.

However, the planned amendments to the Australian Reduced Disclosure Regime that support these special purpose reforms pose a challenge for Australian Tier 2 for-profit entities with New Zealand reporting obligations. These entities do not need to make recognition and measurement changes but would have their dual reporting obligations complicated by differing disclosures in the short term. This concern is one of the reasons that supports our call for a delay to the mandatory adoption of the AASB's ED 295. Such delay will allow the opportunity for these disclosures to be more closely realigned as discussed in Question 7.

## 9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

Given the demand for a new Tier 2 disclosure regime in Australia, the AASB has indicated<sup>1</sup> it does not see the IASB's research project on 'Subsidiaries that are SMEs' as its short-term solution. Instead it expects that its work will inform the IASB project and that only in the longer term will its outcomes replace the AASB's current Tier 2 proposals in the interests of international harmonisation. Therefore, we do not consider that the benefits of following the AASB in the interim then adopting the IASB solution will exceed that of waiting for the IASB solution for existing Tier 2 entities.

### SMC 3: Do the PBE tier size criteria need to be revisited?

## 10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We believe introducing an asset-based threshold to the PBE size criteria should be considered to avoid additional complexity in the financial reporting framework that may arise if potential asset-based changes to relevant legislative thresholds proceed.

We note that the review of the Charities Act 2005<sup>2</sup> includes consideration of the introduction of a new 'micro-entity' tier for registered charities with \$10,000 or less operating expenditure (which we believe was meant to be payments) whereby entities would not have to prepare a general purpose financial report (GPFR). We understand a number of submitters raised the possibility of a dual-test that includes an asset-based measure. This is because there are a few entities that have very low levels of operating payments but own assets of significant value, and there is a view that using cash accounting does not provide adequate information to users on the stewardship around such assets.

In addition, the forthcoming Incorporated Societies Bill<sup>3</sup> proposes GPFR be required for entities who satisfy one or more of the following criteria:

- Annual payments of \$10,000 or more
- Assets of \$30,000 or more
- "Donee status" under the Income Tax Act 2007.

Given about one third of all incorporated societies are also registered charities, we consider it important to ensure there is conceptual alignment between the legislative thresholds for the requirement to prepare GPFR for charities and incorporated societies. Our views on alignment also extend to the PBE tier criteria in the ASF.

<sup>1</sup> [http://www.aasb.gov.au/admin/file/content105/c9/ACCED295\\_08-19.pdf](http://www.aasb.gov.au/admin/file/content105/c9/ACCED295_08-19.pdf) BC24

<sup>2</sup> [https://www.dia.govt.nz/diawebsite.nsf/Files/Charities-Modernising-the-Charities-Act-Discussion-Document-April2019/\\$file/Charities-Modernising-the-Charities-Act-Discussion-Document-April2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Charities-Modernising-the-Charities-Act-Discussion-Document-April2019/$file/Charities-Modernising-the-Charities-Act-Discussion-Document-April2019.pdf) page 20

<sup>3</sup> <https://www.mbie.govt.nz/assets/57bb1d328b/reform-of-the-incorporated-societies-act-1908.pdf> page 12

**11. If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)? Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.**

If an asset-based threshold is introduced to determine which charities and/or incorporated societies need to prepare GPFR, then we recommend that, in the interests of consistency and simplicity, the same approach be taken for the PBE tier criteria in the ASF. This would of course mean that the definition of 'specified not-for-profit entity' (i.e. the Tier 4 PBE criteria) would need to follow suit when it is next reviewed by the MBIE.

We believe the tier thresholds should be designed with research and consideration of the number of entities affected and the appropriate level of risk.

**12. Do you have any other comments on the tier size criteria for PBEs?**

No further comments.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

15 November 2019

Warren Allen  
Chief Executive  
External Reporting Board  
P O Box 11250  
Manners St Central  
Wellington 6142

Dear Warren

**Submission on Targeted Review of the New Zealand Accounting Standards Framework**

Thank you for the opportunity to make a submission on the above Review. I have answered the questions below:

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

*Q3. 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.*

My response is driven by a reflection on the period between 2002 and 2007 when IFRS was imposed upon the public sector and public sector-specific guidance was lost (Cordery & Simpkins, 2016). At that time, and since, there has been a push to meet the needs of users of public sector (and now also charities – private sector) PBEs. The close tie to IPSAS was agreed with the longer term goal of adopting the majority of these standards in order to meet user needs (Cordery & Simpkins, 2016) and to draw on and be part of international efforts to harmonise accounting that meets those user needs. Since then, the IPSASB Conceptual Framework has been developed and many more standards promulgated which raised the attractiveness of the IPSASB suite.

The XRB states the Targeted Review has arisen due to a need to assess when it should 'get ahead of the IPSASB' by following IFRS. Such action involves standard setting effort in New Zealand that is focused on New Zealand (rather than international effort). This effort is a scarce resource wherever it is undertaken and therefore must be used wisely. Where we push domestic issues solely, we run the risk that in 'getting ahead of the IPSASB' New Zealand standards would evolve quite differently from those later developed by IPSASB. If this occurred, a clash could result in standards being changed more frequently than preparers and users would

like and/or moving away from the central strategy of the XRB towards alignment with IFRS for PBE preparers and users. Therefore, I would be concerned that changing the current strategy/policy approach to attempt resolution of issues with domestically-focused standards would result in decisions that are contrary to the intent of the Framework that prioritises users' needs. This could result in not realising the full benefits of this Framework.

Therefore I believe that the 'high hurdle' for changing in the PBE Policy Approach should be maintained.

*Q4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?*

Please see above, the reasoning behind the alignment has been fully discussed since 2009 as being important to meet users' needs across a wide range of entities in both the public and not-for-profit sectors. I do not believe that the environment has changed so radically as to suggest there is a need to change this position.

*SMC 3: Do the PBE tier size criteria need to be revisited?*

*Q10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?*

No. In respect of charity reporting, the international comparators (e.g. the levels for application of the SORP used by all UK regulators and the filing requirements in the US) have remained unchanged. Further, while I am unaware of specific percentages, anecdotal evidence suggests that a number of charities choose to use higher tiers of reporting than they are required to.

While recognising that this consultation is not about the \$125,000 expenditure break between Tier 3 and 4, this was set at a high level so that current preparers were not required to change much. Research showed that a very small number of charities (7.1% of a stratified sample) were reporting using the cash basis above the \$125,000 expenditure level (Cordery & Sim, 2014), therefore they were the most affected, but at this level of expenditure should be able to follow simple accrual accounting (Tier 3). Further, while other countries use revenue as a basis to define tiers/requirements, Cordery and Sim (2014) showed that when revenues were more private (i.e. investment returns), charities were more likely to use cash reporting. This suggests a further reason (on top of revenue volatility) not to select revenue as an underlying basis to segregate reporting levels. Because investment revenue can be both volatile and private, the use of expenditure as a basis for the tiers appears to be the best way forward.

In addition, using two sets of data from different XRB projects, Cordery, Sim and van Zijl (2017) found that charities with up to \$2 million in expenditure could be segmented into different types based on both their revenues and expenditures. In other words, in general, charities' reliance on certain types of revenues results in certain patterns of expenditures, suggesting that the use of expenditure as a basis for the tiers may not only reduce the dysfunction of revenue volatility, but also that users can expect regular patterns of expenditure and reporting standards to meet those.

Therefore I continue to support expenditure as the factor for segmenting the tiers and have not found evidence to suggest that the \$2 million and \$30 million levels are inappropriate at this stage.

*Q12. Do you have any other comments on the tier size criteria for PBEs? Do you have any other comments on the ED?*

No.

I trust these comments are helpful.

Yours sincerely,



Professor Carolyn Cordery,  
Aston Business School

**References:**

- Cordery, C. J., & Sim, D. (2014). Cash or accrual: What basis for small and medium-sized charities' accounting? *Third Sector Review*, 20(2), 79–105.
- Cordery, C. J., Sim, D., & van Zijl, T. (2017). Differentiated regulation: The case of charities. *Accounting and Finance*, 57(1), 131–164.
- Cordery, C. J., & Simpkins, K. (2016). Financial reporting standards for the public sector: New Zealand's 21st-century experience. *Public Money & Management*, 36(3), 209–218.





19 November 2019

External Reporting Board

### **Targeted review of the accounting standards framework**

I am pleased to provide a submission to the External Reporting Board (“the XRB”) on the Targeted Review of the New Zealand Accounting Standards. Charities Services’ functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to prepare financial statements that comply with generally accepted accounting practice.

Our vision is that our work contributes to a well-governed, transparent, and thriving charitable sector with strong public support. We strongly support any changes to the Framework that make it easier for charities to comply, and that promote public trust and confidence in the charities sector. Now that the not-for-profit financial reporting standards have been in place for four years, we support this review as an opportunity to assess whether the Framework is functioning well for charities and the public. It also represents timely consideration of the process by which the financial reporting standards are set to ensure they remain relevant and appropriate for registered charities.

### **Summary of key points of our submission (more detail is in the appendix)**

- We are not aware of any developments in financial reporting by registered charities that would suggest the fundamental features of the Framework are inappropriate.
- In our experience it is more important to registered charities that the financial reporting standards appropriately reflect the environment in which they operate, rather than that they closely align to international standards. We support formalisation of a more flexible approach to setting not-for-profit financial reporting standards to allow for this.
- We do not consider that the benefits of introducing an asset-based threshold to the reporting tier criteria would outweigh the costs to the charitable sector. Given the increase over time in the number of entities that are required to move from Tier 3 to Tier 2 reporting we recommend considering adjustments to the thresholds on a regular basis to reflect the growth of the sector.

While I am aware that this consultation is not considering the specific reporting requirements that apply to small charities, we are keen to engage with you about this. From our experience these charities struggle to meet current reporting requirements. We look forward to discussing how to make it easier for these charities when you start the next phase of the review.

If you have any questions about the matters discussed in this submission or would like to discuss further, please contact Jamie Cattell via email at [Jamie.Cattell@dia.govt.nz](mailto:Jamie.Cattell@dia.govt.nz) or via phone at 04 382 3503.

Yours sincerely

**Natasha Weight**

General Manager – Charities Services Ngā Ratonga Kaupapa Atawhai  
Department of Internal Affairs Te Tari Taiwhenua



## Appendix A

### General Comments: Accounting standards framework

1. As the New Zealand Accounting Standards Framework (“the Framework”) currently stands, Charities Services is not aware of any specific developments in financial reporting by registered charities that would require any changes to its fundamental features.
2. We consider that the split of the Framework into for-profit and Public Benefit Entity (“PBE”) standards is appropriate and allows for it to adequately address the unique circumstances that apply to PBEs, including registered charities. While an argument could be made that not-for-profits represent a third sector requiring an individual set of standards different than that which applies to public sector entities, we do not believe the costs of such an approach would outweigh the benefits. This is particularly true considering the flexibility the XRB has already demonstrated by allowing for differences between the way not-for-profit and public sector entities apply the PBE standards.
3. We also consider that the multi-tier approach is generally appropriate in ensuring the reporting requirements for PBEs reflect their size and nature. While several issues have been raised with us about the specific content of the Tier 3 and Tier 4 standards, none of them have been about use of the multi-tier approach in general. Further, we understand that the content of the Tier 3 and Tier 4 standards will be addressed in a separate review following this targeted review of the framework.

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

4. Most of the comments we receive on the standards relate to disagreement with specific elements of the PBE standards which is true across all reporting tiers. It has not been raised with us that registered charities or their advisors consider it important that PBE standards are closely aligned with IPSAS.
5. However, the feedback we have received on the elements of the standards has indicated that some are concerned they may not have been sufficiently tailored for New Zealand charities. We acknowledge that the XRB has already demonstrated flexibility in its approach to adopting IPSAS and we suggest that formalising this more flexible approach and lowering the threshold at which modifications may be made could help address some of these concerns in the future.
6. In cases where comments have been made which could apply to the Framework directly, they often reflect either:
  - a. Dissatisfaction with the length of time it may take to address any concerns raised. For example, difficulties in applying PBE IPSAS 23; or
  - b. The basis on which standards were adopted. In particular, why IPSAS was used.
7. We also consider that adopting a more flexible approach, which allows for early development of new PBE standards ahead of a related IPSAS, will make it easier to address any concerns in a timely manner.



**SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

8. We have no comments on this SMC. As it relates to the for-profit standards, the relevance to registered charities in NZ is limited. While some registered charities control for-profit entities, these are often based and operate entirely in NZ.

**SMC 3: Do the PBE tier size criteria need to be revisited?**

9. We consider there are two key issues to discuss under this matter. First whether the operating expenditure thresholds need to be altered, and second, whether introduction of an asset-based threshold would be appropriate.
10. Given that the Tier 4 threshold cannot be altered by the XRB, the threshold with the largest potential impact being considered is the Tier 3 threshold of \$2m operating expenditure. Based on our data, moving the threshold would not have a significant impact on the number of entities which are eligible for Tier 3. For example, based on 2018 annual returns, moving the expenditure threshold from \$2m to \$10m would increase the percentage of entities which qualify for Tier 3 by approximately 3%.
11. Despite this, we also note that between 2013 and 2018 there has been a slight upward drift in terms of the number of entities reporting at Tier 3 and Tier 2 from 3% to 4%. This is to be expected while static thresholds are in place. If it is assumed that the Tier distribution as it stands is appropriate, then it would be reasonable to introduce adjustments considered on a regular basis to reflect the growth of the sector over time.
12. While some concerns have been raised with us about entities with large assets being eligible to report under Tier 4 due to its focus solely on operating expenditure, we agree with the preliminary view that introducing an asset-based threshold is not appropriate.
13. The rationale presented in the discussion paper that supports this view is persuasive. In particular, we agree that due to the nature of the assets held by these entities (generally endowment funds and heritage assets), introduction of an asset-based threshold would not present a useful benchmark for the size of an entity's operations. We also do not consider that the benefits of additional transparency by these entities reporting under a higher Tier outweighs the costs to the charitable sector of the additional complexity and compliance burden it would introduce. An asset-based threshold could force small entities with significant but passive assets into preparing Tier 2 financial statements in situations that would be overly burdensome.
14. Beyond the complexity of measuring against two thresholds, one of the most common challenges faced by registered charities is determining the value of heritage assets or specialised assets such as church buildings. Having an asset threshold would either require them to estimate the value, use rateable value which may not be appropriate, or obtain an independent valuation which is often costly.

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15 November 2019

Warren Allen  
Chief Executive  
External Reporting Board  
PO Box 11250  
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New Zealand

Email: [submissions@xrb.gov.nz](mailto:submissions@xrb.gov.nz)

Dear Warren

### **Targeted Review of the New Zealand Accounting Standards Framework**

CPA Australia represents the diverse interests of 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide feedback to the New Zealand External Reporting Board (XRB) on its targeted review of the New Zealand Accounting Standards Framework (ASF). We note and support the XRB's approach to conduct a targeted review rather than a comprehensive first-principles review as the ASF has only been operational for the last 4 to 5 years. Our comments in this letter and **attachment** are provided in this context.

CPA Australia is of the view that the multi-standard, multi-tiered ASF adopted by the XRB is complex but functioning as anticipated. Many of the issues and concerns that we have identified have already been identified by the XRB and discussed in the Discussion Paper. These include;

- The delay in development and issue of International Public Sector Accounting Standards (IPSAS) that are aligned with new International Financial Reporting Standards (IFRS). There is a cost involved with the ongoing efforts by the XRB to ensure timely development of Public Benefit Entity (PBE) accounting standards and timely resolution of PBE-specific reporting issues that may not yet be addressed through IPSAS. There are also costs incurred by constituents in applying the IFRS/IPSAS based ASF (e.g. IFRS or IPSAS specific training needs, potential non-transferability of accounting professionals between the for-profit and PBE sectors).

The XRB should consider undertaking a study to determine whether the costs of maintaining a dedicated PBE reporting framework is justified by the benefits arising from a tailored approach to meet the specific user-needs of PBEs. Such a study may better inform the future direction the XRB wishes to take when it undertakes a fundamental review of the ASF after 10 to 15 years of its operation.

- In relation to considerations around continuing Trans-Tasman harmonisation for financial reporting by for-profit entities, we note and agree with the comment made in the Discussion Paper that the original reasons for Trans-Tasman harmonisation are still applicable today. Although the XRB is not proposing any changes to its Tier 2 financial reporting framework, the Australian Accounting Standards Board (AASB) is proposing to make changes to the Australian Tier 2 financial reporting framework as part of its project to remove special purpose financial reporting from the Australian financial reporting framework. If the AASB's proposed changes to the Australian Tier 2 framework are implemented, the Australian and New Zealand Tier 2 frameworks are no longer likely to be harmonised in line with the Trans-Tasman harmonisation objective.

Anecdotal evidence indicates that there will be some for-profit entities that may be affected by the changes being proposed by the AASB to its Tier 2 reporting framework. In order to obtain a better understanding of the impact of the AASB's proposed changes on for-profit entities that undertake Trans-Tasman economic activities, we are proposing to recommend (in a joint submission with Chartered Accountants Australia and New Zealand (CA ANZ)) to the AASB that it delays the proposed implementation date of 1 July 2020 for its proposed Tier 2 reporting framework by two years. During this time, we suggest the XRB should work with the AASB to establish specific details around the number of entities that are likely to be affected by, and the extent of the impact arising from, the AASB's proposed change.

In the **attachment** to this letter, we provide responses to specific questions raised in the Discussion Paper. If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Your sincerely



**Dr. Gary Pflugrath**  
**Executive General Manager, Policy and Advocacy**

## Attachment

### General comments

1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?
2. Do you have any other comments about the ASF?

Please refer to our overall comments provided in the cover letter to this submission.

### 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.
4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?
6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

It is our view that the XRB is already adopting a policy of developing PBE Standards that prioritise local considerations, as reflected, for example, in the Tier 3 and 4 PBE Standards developed for reporting by private sector PBEs. We believe this approach remains appropriate.

The Discussion Paper highlights the "time lag" between IFRS and IPSAS which requires the XRB to consider whether it needs to develop and publish a New Zealand specific Standard in response to a new IFRS that has not yet been addressed in an IPSAS. Consideration also needs to be given to differences between IFRS Standards and their IPSAS "equivalents". For example, the proposals for developing an IPSAS aligned with IFRS 16 *Leases* are considering a fundamentally different approach to lessor accounting. When the AASB consulted on its approach to IPSAS in 2018, we suggested<sup>1</sup> that the AASB continues with its current approach of using IFRS as the basis for setting standards for the public sector, with reference to IPSAS Standards where relevant. Many of the reasons for our recommendation to the AASB in 2018 resonate with the challenges and issues identified by the XRB in this Discussion Paper.

We appreciate that the XRB has already adopted an approach of using IPSAS as the basis for setting standards for the PBE sector and has invested significant effort and resources in incorporating IPSAS within its PBE reporting framework. Given this consultation is a targeted review that is not seeking to make fundamental changes to the XRB's standard-setting approach, we suggest the XRB revisit this matter when it undertakes a fundamental review after 10 to 15 years of operation of its current reporting framework.

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<sup>1</sup> <https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/media/submissions/reporting/aasb-approach-to-ipsas.pdf?la=en&rev=073e990d9a2d42818fcd3a259fe15c83>

## **SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

**7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?**

**Please provide reasons for your response.**

**8. If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?**

**9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?**

As stated in our cover letter, we note and agree with the comment made in the Discussion Paper that the original reasons for Trans-Tasman harmonisation are still applicable today. Anecdotal evidence indicates that there will be some for-profit entities reporting under the Tier 2 reporting framework who may be affected if harmonisation between Australia and New Zealand is no longer retained. Consideration also needs to be given to the possible adoption of any Tier 2 Standard that may be issued by the International Accounting Standards Board (IASB) through its “Subsidiaries that are SMEs” project. The AASB has indicated in its Tier 2 consultation that any Tier 2 Standard that it develops and issues through its current consultation may ultimately be replaced by any Tier 2 Standard issued by the IASB. The XRB may adopt a similar approach to the AASB in relation to any future IASB Tier 2 Standard that is issued.

For the above reasons, it is our intention to recommend (in a joint submission with CA ANZ) to the AASB to delay the implementation date for its proposed Tier 2 framework by two years. This delay will allow the AASB and the XRB to obtain a better understanding of the impact of the AASB’s proposed changes on for-profit entities that undertake Trans-Tasman economic activities. Although we do not know exactly when the IASB is likely to complete its “Subsidiaries that are SMEs” project and issue a pronouncement, a two-year delay to the AASB Tier 2 proposals is likely to provide better insight into the direction that is likely to be taken in this regard.

We note the comment in paragraph 5.28 of the Discussion Paper that both the AASB’s and IASB’s project are at early stages. Whilst this may be the case for the IASB project, the AASB has indicated that it intends to finalise its proposals and issue a Tier 2 Standard to be applicable to annual reporting periods beginning on or after 1 July 2020.

## **SMC 3: Do the PBE tier size criteria need to be revisited?**

**10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?**

**11. If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?**

**Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.**

**12. Do you have any other comments on the tier size criteria for PBEs?**

In the analysis provided in Appendix E to the Discussion Paper using registered charities as a proxy for the not-for-profit PBE sector, we note that there has not been a significant change in the distribution of charities between the tiers between 2013 and 2018 (figure E2). Table E2 in Appendix E provides a “what-if” analysis of changing the thresholds between Tiers 2 and 3, demonstrating that the difference in the number of charities moving tiers under the different scenarios presented is marginal. Based on the analysis presented in Appendix E to the Discussion Paper, we are of the view that there is no current need for an adjustment to the current tier size criteria.

However, in our submission<sup>2</sup> in response to the Department of Internal Affairs (DIA) Discussion Paper on the review of the Charities Act 2005, we suggested that the Tier 3 and 4 Standards and associated guidance could be simplified to reflect the level of transparency and accountability required from these segments of the charities sector. We suggested a review of the Tier 3 and 4 Standards that could be undertaken as part of the XRB's post implementation review (this targeted review) of the ASF. Accordingly, we suggest the XRB considers undertaking a project to review the Tier 3 and 4 Standards with a view to simplifying the Standards and associated guidance.

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<sup>2</sup> <https://www.cpaustralia.com.au/-/media/corporate/allfiles/document/media/submissions/not-for-profit/nz-charities-act-review.pdf?la=en&rev=eb39374d5ebd4242b6106920287dd500>



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25<sup>th</sup> November 2019

Submitted Electronically through XRB Website ([www.xrb.govt.nz](http://www.xrb.govt.nz))

## Invitation to Submission: Targeted Review of the Accounting Standards Framework (“ASF”)

### Opening remarks

Grant Thornton New Zealand Limited (GTNZ) is pleased to comment on the discussion issued by the External Reporting Board (XRB) on the targeted review of the ASF. We welcome the invitation by the XRB to seek feedback from the users of the ASF and other stakeholders on whether the ASF is functioning as intended and in line with the original objectives.

As requested, we have briefly responded to each of the questions asked to seek the feedback on:

### General comments

Question	Our response
<p><b>1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?</b></p>	<ul style="list-style-type: none"> <li>The revision of Incorporated Societies Act is currently in progress and it was good to see this development being recognised in the Discussion Paper. Our view is that release of any changes to the ASF should be delayed until this legislation has been passed because there are many entities that potentially will be affected. Our view is that it would be good to see this consequence being reflected in the updated ASF.</li> </ul>
<p><b>2. Do you have any other comments about the Accounting Standards Framework?</b></p>	<ul style="list-style-type: none"> <li>ASF says a for profit entity is anything that is not a PBE. When working with clients on determining whether or not they are a PBE or not, the observation has been made that it would be really helpful for the ASF to also provide direction on what a for profit entity is (ie a “positive” definition saying what a for profit entity is, rather than what it is not)</li> <li>More guidance of what to do when the status of the entity changes from NFP to for profit or vice versa would be helpful. Should the status of a reporting entity always be at the commencement of reporting entity or could it be at some other time during the year? We also raise the point, that if known at the time of signing, should there be a disclosure that an entity’s reporting category is likely to change during its next annual reporting period?</li> </ul>

Question	Our response
	<ul style="list-style-type: none"> <li>Integrated reporting &lt;IR&gt; is recognised in the Financial Reporting Act 2013 so should its relationship to financial reporting now be made more explicit in the ASF? There may be a great deal of development work to be done here (i.e. the mandate is there, but nothing yet has been delivered) but in looking to future proof financial reporting, our view is that some reference to &lt;IR&gt; in the ASF should be considered.</li> </ul>

### Specific matters to comments (“SMC”)

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	
<p>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?</p>	<ul style="list-style-type: none"> <li>Our view is that New Zealand does not need to be a “standard taker” for NFPs and therefore PBE IPSAS can and should be modified, as and when necessary to meet the financial reporting requirements of NFPs in NZ. We support “divergence” from IPSAS in the NFP sector because we are not aware of any significant NFPs that are based in New Zealand have significant international operations that are funded from offshore.</li> <li>We do have a concern about the route AASB is taking to develop and issue standards for NFPs – not having alignment of standards in this sector of the economy means that maintenance and updating of standards may end up being more costly, that if we were harmonised with Australia.</li> <li>However, the financial reporting in the public sector here in New Zealand is well developed and its working well. Our view is that our public sector accounting standards should be closely aligned to IPSAS and released soon after they have been approved by the IPSASB.</li> <li>New Zealand and XRB should encourage sharing of resources between New Zealand and IPSAS Board in Canada – to assist IPSAS Board with the wealth of knowledge but to also benefit from the collaboration of knowledge. This could be done through either short secondment (3-9 months) or two years rotation.</li> </ul>
<p>4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?</p>	<ul style="list-style-type: none"> <li>As noted above – yes for the public sector, but no for the public sector.</li> </ul>
<p>5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?</p>	<ul style="list-style-type: none"> <li>Yes, we agree there should be more flexibility.</li> <li>The time lag between generating IPSAS standards from IFRS standards will always be a “problem” for mixed groups. The temporary in-fill process created by XRB makes sense ... even though it is a “two stage process”. We are concerned at lack of progress currently being made on issuing a standard on leases for application by PBEs – particularly for New Zealand’s public sector.</li> </ul>

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

<p>6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?</p>	<ul style="list-style-type: none"> <li>There is currently no guidance on trusts, yet we understand there are more than 300,000 trusts currently operating in New Zealand. Failing to bring clarity as to whether settlement of a trust is a capital or revenue transaction should be addressed and considered for inclusion in the ASF because the diversity of accounting treatment that currently exists, in our opinion, does not reflect well on the accounting profession in New Zealand.</li> </ul>
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**SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

<p>7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?</p>	<ul style="list-style-type: none"> <li>New Zealand and Australia alignment is very important for for-profit because of “CER” and because Australia consumes approx. 30% of our GDP. Let’s also not forget that Australian banks making up more than 80% of the NZ retail market, and so alignment of our for-profit standards with those being used in Australia, in our opinion, is compelling.</li> </ul>
<p>8. If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?</p>	<ul style="list-style-type: none"> <li>As noted above, the harmonisation is very important for the Australian entities operating in New Zealand through branches or subsidiaries.</li> </ul>
<p>9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?</p>	<ul style="list-style-type: none"> <li>The ASF does not currently recognise the presence of digital currencies (ie cryptocurrencies). We would like to see some direction of this being included in the ASF as well as in any specific standards that are subsequently issued on this phenomenon</li> <li>Would not like to see RDR guidance published in a separate volume. The current asterisk approach provides context to RDR process and our view is that the XRB should continue its current practice.</li> </ul>

**SMC 3: Do the PBE tier size criteria need to be revisited?**

<p>10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?</p>	<ul style="list-style-type: none"> <li>We have found in practice that entities reporting under the Tier 3 and Tier 4 PBE NFP requirements include non-financial information in their performance reports that is frequently of little use or relevance to users. Most of the time the information provided in these statements of service performance is the minimum amount that is required to comply with the guidance that has been issued by the XRB. Therefore, the XRB may want to conduct further research on why this situation exists so that it can take proactive steps to counter the “minimalist” disclosures we, and others, are currently observing from entities that fall into these Tiers</li> </ul>
<p>11. If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size</p>	<ul style="list-style-type: none"> <li>Consideration should be given to further streamlining and perhaps reducing the current tiers as it adds more complexity in the financial reporting environment.</li> </ul>

**SMC 3: Do the PBE tier size criteria need to be revisited?**

threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

- We suggest considering introducing a two-tier measure which included (a) A profit and loss-based measure such as “Expenditure” and (b) a statement of financial position measure such as “Assets”. The reason for this is that from research we have independently undertaken on Tier 4, the “top 100 entities” in this category control more than \$810m of assets which is not what one would expect when a “small” expenditure threshold is the only basis for assessment

12. Do you have any other comments on the tier size criteria for PBEs?

- Our recommendations is to keep the current dollar thresholds. In our opinion inflation has not been sufficient since the introduction of the ASF to warrant a change.

**Closing remarks**

The date for the fundamental revisit of the entire Framework (currently out of scope of this Targeted Review) should be announced when the outcomes of this review are known. We believe that exercise should take place no later than 2025, but earlier than this if, in the opinion of the XRB, there has been a fundamental change to underlying legislation affecting with PBEs or for-profit entities.

If you have any questions, or wish us to elaborate on our comments, please contact me by email ([Kerry.price@nz.gt.com](mailto:Kerry.price@nz.gt.com)) or telephone (+64 21 660 610)

Yours sincerely



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Mr Warren Allen  
Chief Executive  
External Reporting Board  
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Wellington 6142

15 November 2019

Dear Warren

**Targeted Review of the New Zealand Accounting Standards Framework**

We are pleased to provide our responses to the questions posed in the XRB's Targeted Review of the New Zealand Accounting Standards Framework. We support this timely review and look forward to participating in a more detailed review of the Framework as a whole in the future. Our responses are detailed in the appendix to this letter.

Yours sincerely

A handwritten signature in blue ink that reads 'Simon Lee'.

**Simon Lee**  
National Technical Director

## Appendix

### General Comments

- 1 Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?

*We do not have any further comments to those we have made in response to the specific matters for comment. We observe that the Accounting Standards Framework is arguably very complex for a country with an economy and population the size of New Zealand's. It has taken significant time for practitioners and clients to absorb and apply the Framework.*

- 2 Do you have any other comments about the ASF?

*No.*

### 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?

*In our view it is important that the PBE Standards continue to be closely aligned with IPSAS as promulgated by the IPSASB. The IPSASB drafts standards specifically for use by governments and public sector entities and as PBE IPSAS is currently closely aligned to IPSAS, the PBE Standards should be "fit for purpose" by the New Zealand Government and other public sector entities.*

*We acknowledge that "pure IPSAS" may not be wholly suitable for other public benefit entities, particularly not-for-profit entities that have been required to move from Tier 3 to Tier 2.*

*It is unfortunate, particularly for mixed groups, that the IPSASB's timetable is somewhat behind that of the IASB and therefore IPSASs on topical issues such as revenue and leases are published significantly later than IFRSs promulgated by the IASB. However, in our view this is not such a significant issue so as to require the PBE Standards to depart from IPSAS or to change our approach to alignment with IPSAS.*

*The XRB's current policy provides some ability to develop standards ahead of the IPSASB. While there is a relatively high hurdle to be able to do this, our view is that this appropriate.*

*We also note that lowering the hurdle could sever the link with IPSAS altogether or could result in other difficulties, e.g. multiple changes of*

*standards for PBE entities where a standard based on IFRS is issued for PBEs, only to be replaced a few years later by a new PBE standard based on IPSAS.*

- 4 If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

*We believe close alignment between PBE Standards and IPSAS is important for the following reasons:*

- *It is important that New Zealand supports international standard setting efforts as this will ultimately lead to stronger and more robust standards globally which are globally accepted and adopted;*
- *Consistency/comparability between governments may be less important than for for-profit entities – but it is still important to some degree.*
  - *Governments' financial positions are compared to some extent – for example by government analysts and statisticians, credit rating agencies, media, financial advisors, public interest and lobby groups and other international organisations;*
  - *Governments also make announcements which include information about their financial performance or position,–*

*and it is important that any financial information is prepared on a robust and understood basis.*

- 5 If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in 4 Chapter 4 of this DP?

*It appears that the most pressing local issue as regards the application of IPSAS as the base to PBE Standards is that mixed groups have to apply different accounting standards depending on the nature of the entity, and consolidation into the parent entity can be rendered unnecessarily complex.*

*In our view the time lag between IASB and IPSASB issued standards which causes the New Zealand mixed group situation is not significant enough to justify New Zealand moving away from IPSAS. Nor do we think it would be appropriate to develop different streams of PBE Standards. For example, we may continue to apply PBE Standards based on IPSAS to the New Zealand Government and other public sector entities, but then apply localised PBE Standards to not-for-profit entities. This would result in further complexity to an already complex Accounting Standards Framework, which we do not think is in the reporting community's best interests.*



*If the XRB decides to adopt a more flexible approach in how IPSAS is used as the basis for PBE Standards, clear criteria will need to be developed as to how the local considerations are catered for. For example, we would expect that IFRS would be used as the basis for adaptation, rather than developing PBE standards with reporting requirements that differ from IFRS and IPSAS.*

- 6 Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

*We support the current policy applied by the XRB to develop PBE Standards based on IPSAS.*

## **SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

- 7 How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Please provide reasons for your response.

*In our view it is important for NZ IFRS RDR (Tier 2) to continue to be harmonised with Australian Reduced Disclosure Regime. A significant number of New Zealand for-profit entities applying Tier 2 accounting standards are subsidiaries of Australian parent entities.*

*Divergence from harmonisation with the Australian Reduced Disclosure Regime will likely result in New Zealand subsidiaries having to comply with two separate sets of reporting requirements– one to meet New Zealand requirements, and a second to provide the necessary information to their Australian parent entity to enable compliance with Australian reporting requirements. This will result in increased costs and preparation time with no discernible return to New Zealand entities.*

*We are aware of the IASB research project on SMEs that are subsidiaries of entities that apply IFRS Standards. While we are interested in the project and ultimately the possibility of incorporating an IFRS for SMEs Standard into the New Zealand Accounting Standards Framework, we think that such a standard is several years away in development. Therefore, we support continuing to harmonise with the Australian Regime for the foreseeable future.*

- 8 If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

*As noted above, we consider continued harmonisation with the Australian Reduced Disclosure Regime to be important for New Zealand entities that are Australian subsidiary entities currently reporting under Tier 2.*



- 9 Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

*As we believe it is preferable for New Zealand to harmonise with Australian RDR, we suggest the NZASB closely monitors and seeks involvement with the AASB project so New Zealand will be in a position to implement amendments to current Tier 2 disclosure requirements in a timely manner.*

**SMC 3: Do the PBE tier size criteria need to be revisited?**

- 10 Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

*We are not aware of any unintended consequences stemming from the application of the current PBE tier size criteria. However, we are aware that many PBE entities believe that the \$2 million annual expenses threshold from Tier 3 to Tier 2 is too low. Based on the informal feedback received, we believe that the PBE tier size criteria should be reviewed.*

- 11 If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

*In our view the annual expenses threshold should be lifted significantly (for example from \$2 million to \$10 million) to reduce compliance costs. The current threshold captures a significant number of charitable entities which exist for a specific cause and do not necessarily have the capacity or resources to comply with Tier 2 reporting requirements. Such entities become encumbered with a regulatory reporting burden and their resources are diverted in order to achieve compliance. Furthermore we believe Tier 3 reporting requirements are likely to satisfy the information needs of users of these financial statements.*

- 12 Do you have any other comments on the tier size criteria for PBEs?

*No.*



15 November 2019

Michele Embling  
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External Reporting Board  
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Tēnā koe Michele

### **Targeted Review of the New Zealand Accounting Standards Framework - Discussion Paper**

1. We appreciate the opportunity to comment on the External Reporting Board's (XRB's) Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework*.
2. We note below our high-level comments on alignment between PBE Standards and IPSAS. Our responses to the Questions for Respondents are attached to this letter and should be read in conjunction with this letter.

### **Alignment between PBE Standards and IPSAS**

3. It is important for New Zealand to have accounting standards that meet user needs and that serve the best interests of New Zealand, subject to cost-benefit considerations. The XRB's strategy in its Accounting Standards Framework (ASF) is to base New Zealand accounting standards on international standards, and to this end:
  - adopt International Financial Reporting Standards (IFRS) without modification for for-profit entities; and
  - use International Public Sector Accounting Standards (IPSAS) as a base for PBE Standards for public benefit entities (PBEs).
4. We continue to support using IPSAS as a base for PBE Standards in the multi-standards strategy, and support maintaining a close alignment between them, to the extent it results in relevant PBE Standards for New Zealand, both for the public sector and the not-for-profit sector.
5. We think it is important to be able to state that PBE Standards are based on IPSAS, which is an internationally recognised suite of standards that is inherently suitable for PBEs. We think it is right to have a presumption or expectation that an IPSAS will be adopted in New Zealand (with appropriate modifications made for PBEs), and believe there needs to continue to be a high hurdle in place to override such a presumption or expectation.

6. We understand that the recent developments set out in the Discussion Paper were anticipated when the XRB decided to base PBE Standards on IPSAS. They formed the basis of the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach). The PBE Policy Approach sets out the approach for the NZASB to modify IPSAS or further develop PBE Standards where this is appropriate to ensure a relevant and high quality suite of PBE Standards in New Zealand.
7. We think there is already flexibility in the current PBE Policy Approach for the NZASB to use its best judgement to modify IPSAS or further develop PBE Standards, where necessary, and to develop standards ahead of the IPSASB, where appropriate, to address timing issues. However, we acknowledge that the degree of flexibility is not particularly clear. We think it would be helpful to set out clearly the circumstances in which it is appropriate to make modifications to an IPSAS, or not to adopt an IPSAS.
8. A PBE Policy Approach that was clearer would ensure a transparent and robust process for NZASB's decisions and provide a framework for interested stakeholders to understand how, and why, particular PBE Standards have been developed. We are of the view that it is essential for the NZASB to continue to apply a PBE Policy Approach that contains a presumption or expectation that IPSAS will be adopted when issued, with appropriate modifications for New Zealand PBEs.
9. It is important to us that the outcome of the Targeted Review is a coherent and conceptually-consistent suite of IPSAS-based PBE Standards that is fit for purpose for users of PBE financial reports.
10. If you have any questions about our submission, please phone Todd Beardsworth, Assistant Auditor-General, Accounting and Auditing Policy on +64 21 244 0727 or email him at [todd.beardsworth@oag.govt.nz](mailto:todd.beardsworth@oag.govt.nz).

Nāku noa, nā



Greg Schollum  
Deputy Auditor-General

## Questions for Respondents

### General comments

*Q 1 Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?*

No, we are not aware of any developments in the financial reporting environment or any unintended consequences that would require a change to the ASF. We do not think that circumstances have changed fundamentally to warrant changing the appropriateness of IPSAS as a base for PBE Standards.

The strategy of aligning PBE Standards with IPSAS results in PBE Standards that best meet the objectives and needs of users of PBE financial reports. We support the ASF, in conjunction with the PBE Policy Approach, for setting PBE Standards. This is in line with the XRB's strategy for multi-standards and for New Zealand standards to be based on international standards, that is, IFRS for for-profit entities and IPSAS for PBEs.

In our view, the recent developments raised in the Discussion Paper as the basis for re-considering the close alignment of PBE Standards with IPSAS are not fundamental. The possibility of such matters arising was anticipated, and was one of the reasons the XRB developed the PBE Policy Approach. The PBE Policy Approach provides the NZASB with a framework for developing PBE Standards based on IPSAS, and that is consistent with the ASF.

We think it is right to have a presumption or expectation that an IPSAS will be adopted for use by PBEs in New Zealand (subject to appropriate modifications). In our view, there needs to continue to be a high hurdle to rebut this presumption or expectation. The issue is then how to operationalise the rebuttable presumption or expectation. We think it is useful for the Policy Approach to set out clear circumstances that would need to be considered to rebut the presumption not to adopt an IPSAS as the base for a PBE Standard.

It is important for New Zealand PBEs to have relevant and high quality PBE Standards. As such, it is essential for the Policy Approach to set out the circumstances in which it is appropriate for the NZASB to make modifications to an IPSAS. There are likely to be different views about what those circumstances should be. In our view, it is just a matter of the Policy Approach being clearer on when modifications to an IPSAS are considered appropriate.

We note that there are positive developments in the PBE financial reporting environment. The XRB's historical concerns about IPSAS included the lack of a conceptual framework and independent governance arrangements for IPSASB. When the ASF was first developed, the XRB decided that it was premature to adopt "pure" IPSAS because, among other matters, IPSAS are developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. In addition, IPSAS did not represent a complete set of standards. Since the decision to base PBE Standards on IPSAS, the positive developments include:

- IPSASB issued its Conceptual Framework in 2014;
- IPSASB's governance has improved with the setting up of its oversight body, the Public Interest Committee (PIC), in 2015;
- IPSASB is focused on developing standards aimed at specific public sector issues and working towards a more complete and conceptually consistent suite of standards;
- IPSASB continues to work on aligning its standards with IFRS, where appropriate. IPSASB's Strategy and Work Plan 2019–2023 includes a Strategic Theme of *Maintaining IFRS alignment*. This should result in most transactions that are common between the PBE sector and the for-profit sector being accounted for similarly; and
- More countries are now adopting accrual accounting and IPSAS, with adoption of IPSAS expected to further increase in the next few years.

Q 2 Do you have any other comments about the ASF?

The Auditor-General's 2009 report to Parliament *The Auditor-General's views on setting financial reporting standards for the public sector* set out concerns about public sector standard setting in New Zealand, and in particular, about basing standards for PBEs on IFRS<sup>1</sup>. The 2009 report, and the XRB's subsequent multi-standards strategy, determined that IPSAS is a credible (and the best alternative) set of international standards to use as a base for PBE Standards. Developed specifically for public sector entities, IPSAS are inherently more suitable for PBEs (than IFRS), ensuring that transactions and events are accounted for appropriately. The current ASF and the approach taken to set PBE Standards were endorsed in the Auditor-General's 2016 report *Improving financial reporting in the public sector* as being positive and setting a better foundation for future reporting by PBEs.

We would not want to see a move away from alignment with IPSAS as a base for PBE Standards, and believe there needs to continue to be a high hurdle in place to override a presumption or expectation that an IPSAS will be adopted with appropriate modifications for New Zealand PBEs. In our view, to do otherwise would require a fundamental first principles review.

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

Q 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.

The XRB's policy for developing, or adopting, standards should always consider local considerations to ensure standards are fit for purpose for the New Zealand environment. This applies to the adoption of IFRS standards as well as developing PBE Standards. A coherent and conceptually consistent suite of IPSAS-based PBE Standards that is fit for purpose for users of PBE financial reports is, in our view, important.

In developing PBE Standards, whether local considerations should be taken into account depends on whether the standards produce financial reports that readers understand, and that can be used to properly hold PBEs to account. Local considerations include New Zealand legislative requirements, New Zealand PBE-specific issues (including issues relating to not-for-profit entities), or significant mixed group issues.

Adoption of an IFRS and its application at an earlier point in time for for-profit entities (in the absence of an equivalent IPSAS), in our view, does not necessarily create "local considerations" that would need to be prioritised over an IPSAS, or preclude its subsequent adoption. Furthermore, we do not think there should be a presumption that IFRS is always "better" than IPSAS, or that IPSAS must be aligned with IFRS.

Q 4 If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

Close alignment between PBE Standards and IPSAS that results in relevant PBE Standards is important for, and benefits, users of PBE financial reports, New Zealand as a country, and the XRB as a national standard setter.

For users, the benefits include:

- Users have access to PBE financial reports that are relevant and targeted to their needs. Users can have confidence that the PBE financial reports are based on internationally accepted reporting requirements that are relevant and appropriate to non-commercial entities. For public sector entities, whose primary users include Parliament and the public of New Zealand, the resulting financial

<sup>1</sup> IFRS were considered an inappropriate base for standards for PBEs as they are designed for commercial companies listed on stock exchanges.

statements provide information for public sector financial management, accountability and decision-making.

For New Zealand as a country, the benefits include:

- New Zealand benefits from reputational advantages attached to the ability to state that its standards (whether in the for-profit sector or in the PBE sector) are based on international standards. The financial statements of PBEs will have credibility and currency internationally. New Zealand is often highly ranked by international researchers and analysts: for example, the World Economic Forum's Global Competitiveness Report<sup>2</sup> uses, among other indicators, budget transparency, strength of auditing and reporting standards and incidence of corruption to rank New Zealand first out of 140 countries for Pillar 1 *Institutions*.
- Internationally-based standards result in PBEs having internationally comparable financial reports. Locally developed standards that result in different accounting for PBEs from IPSAS, can adversely affect the ability of international users to understand the Government's financial reports. This could ultimately lead those users to question the reliability and usefulness of the Government's financial reports. Similar to the for-profit sector and the benefits attributed to the adoption of IFRS, PBE Standards that are based on IPSAS enhance the comparability and transparency of the financial statements of the Government and other New Zealand PBEs. This, in turn may lead to economic benefits for the country in the form of lower cost of capital and attracting further international capital investment into New Zealand.

For the XRB as a national standard setter, the benefits include:

- Developing IPSAS-based PBE Standards is more cost-effective than modifying IFRS or developing local standards. This was one of the reasons for the decision to base PBE Standards on IPSAS in the XRB's ASF and multi-standards strategy.
- Aligning PBE Standards with IPSAS ensures a comprehensive, coherent suite of PBE Standards, not just across the individual standards but also with the PBE Conceptual Framework.
- New Zealand has significant skills and expertise in public sector and PBE accounting. Continuing to align PBE Standards with IPSAS provides a pathway for the XRB to continue to participate, contribute to, influence and support good quality public sector and PBE accounting internationally and help raise the standard and quality of those global standards. This allows the XRB to continue to maintain and further enhance New Zealand's leadership, influence and reputation.

*Q 5 If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?*

We do not support amending the PBE Policy Approach to provide unfettered flexibility in how IPSAS is used or in allowing a move away from IPSAS as a base for PBE Standards. Option 2, as expressed in the Discussion Paper, gives the NZASB a level of flexibility that we consider to be unwarranted.

We are also concerned that providing too much flexibility to modify underlying IPSAS could lead to significant and unnecessary delays in introducing a new or amended IPSAS into the PBE Standards. For example, the NZASB issued PBE IPSAS 40 *Public Benefit Entity Combinations* two and half years after the IPSASB issued IPSAS 40 *Public Sector Combinations*. This means the mandatory effective date of PBE IPSAS 40 was two years later than the mandatory effective date for the underlying IPSAS 40. We question whether the delay in developing PBE IPSAS 40 was necessary as many of the changes made were not of significance to the effective operation of that standard in practice.

As explained in our cover letter, we broadly support PBE Standards continuing to be based on IPSAS and applying the PBE Policy Approach where necessary. The PBE Policy Approach should continue to have a high hurdle for the NZASB to override the presumption or expectation that IPSAS will be adopted when

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<sup>2</sup> For example, New Zealand was ranked best performer out of 140 countries for Pillar 1 *Institutions* in the World Economic Forum's Global Competitiveness Report 2018. Pillar 1 ranked New Zealand on a number of factors including budget transparency, strength of auditing and reporting standards and incidence of corruption.

issued. The current PBE Policy Approach has flexibility within the framework to enable the NZASB to develop relevant PBE Standards for New Zealand PBEs. However, we agree that the degree of flexibility could be made clearer in the PBE Policy Approach, to include the circumstances in which it is appropriate to make modifications to an IPSAS, or to rebut the presumption or expectation not to adopt an IPSAS.

*Q 6 Do you have any other comments on the way IPSAS are used as the base for PBE Standards?*

We note that the Discussion Paper raises the following as a recent development for considering whether to continue to maintain close alignment with IPSAS:

- The issuing of several new IFRS Standards, with IPSAS projects lagging behind.

We note that timeliness in setting standards is not an IPSASB-specific issue. Many international standard setters, including the IASB, suffer from the same criticism. For example, the IASB's standard on insurance contracts took about 18 years (1999-2017) to develop, the standards on leases took about 10 years (2006-2016) and the standard on revenue took about 12 years (2002-2014). In this context, we think that the IPSASB is generally performing well in terms of timeliness in issuing IPSASs. Even if an IFRS represents IASB's latest thinking, it might not be appropriate for PBEs. The IPSASB should be given an opportunity (and sufficient time) to consider all relevant issues relating to standards to ensure any subsequent IPSAS is appropriate and of high quality.

While the time lag issue has implications for mixed groups, we are not aware of significant issues being raised in the context of mixed groups. Most public sector entities cope with making the necessary adjustments on consolidation. Moreover, other than financial instruments which permeated and affected most entities, the impact of other standards (for example, leases and insurance contracts) are limited to selected entities. In such instances, a time lag difference between the for-profit sector and the PBE sector is unlikely to cause a fundamental disruption.

There appears to be an underlying presumption in the Discussion Paper that the IPSASB and IPSAS have to continue to align and/or "keep up" with the IASB and IFRS. Most international standards that attempt to cater to international constituents contain compromises. New Zealand's adoption of IFRS without modification should not be used as a "benchmark" for IPSAS. IPSAS, similar to IFRS, will not be ideal for New Zealand in every instance but, in our view, IPSAS are still the most credible and appropriate base for PBE Standards.

In basing PBE Standards on IPSAS, we are of the view that modifications should be made only where the issue is considered to be substantive. It would also be useful for the Basis for Conclusions to clearly identify any changes to IPSAS.

## **SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures**

*Q 7 How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?*

*Please provide reasons for your response.*

*Q 8 If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?*

*Q 9 Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?*

We agree it would be useful to have Tier 2 for-profit requirements aligned with Australia where possible. However, in the public sector, we do not see a need to do so. Further, PBE Tier 2 requirements should not be driven by New Zealand-Australian harmonisation in the for-profit sector.

We note that there is no separate framework for determining reduced disclosure requirements for Tier 2 PBEs. We consider it desirable to have a separate framework for Tier 2 PBEs that is de-coupled from the for-profit sector, focused on what are appropriate reduced disclosures for users of PBE financial statements. It is also important that RDR disclosures are aligned across public sector entities and not for-profit entities for consistency and simplicity.

**SMC 3: Do the PBE tier size criteria need to be revisited?**

*Q 10 Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?*

*Q 11 If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?*

*Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.*

*Q 12 Do you have any other comments on the tier size criteria for PBEs?*

We agree that size criteria in the ASF should be reviewed at regular intervals. In our view, any change to the size criteria in the ASF needs to be carried out in conjunction with the statutory review of size criteria for reporting and assurance requirements. We consider it important to ensure that the tier structure is consistent across both for-profit entities and PBEs to avoid complexity and potential reporting arbitrage.

The current tier structure in the ASF together with legislative size criteria for financial statement preparation and assurance presents a complex picture. We encourage the XRB not to make any modifications to the ASF tier structure without considering the legislative framework for reporting and assurance.

We note that the Financial Reporting Act 2013 allows for the size criteria to be reviewed in 2022. We encourage the XRB to work with policy makers at the Ministry of Business, Innovation and Employment (MBIE) to promote a sensible and simpler legislative framework that takes into account any size criteria arising from the Charities Act review and requirements for reporting by incorporated societies.





Warren Allen  
Chief Executive Officer  
External Reporting Board  
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4 September 2019

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

Dear Warren

The External Reporting Board has sought comments on aspects of the New Zealand Accounting Standards Framework (ASF). PwC New Zealand is pleased to present its comment letter.

Our comments below are provided in the context that this is a limited scope review of the ASF and the fundamental elements of the ASF are not being reconsidered at this time.

### ***General comments***

We consider that the ASF is functioning as intended.

We are not aware of any significant unintended consequences arising from the ASF.

We are not aware of any refinements required to the ASF to address emerging issues that have arisen since the ASF was established.

### ***The importance of maintaining close alignment between PBE Standards and IPSAS***

In the context of the multi-standard approach which is not under review at this time, we consider that alignment with International Public Sector Accounting Standards (IPSAS) is important as it (i) helps maintain an international reference point or base for New Zealand's financial reporting requirements; (ii) derives benefits from the international due process followed by the International Public Sector Accounting Standards Board (IPSASB); (iii) avoids unnecessary cost to New Zealand of developing requirements locally by leveraging off work done internationally where possible; and (iv) avoids the risk of having to align with international standards in the future should there become a demand for alignment of public sector reporting internationally.

However, we consider that it is also essential that PBE Standards be fit for purpose in New Zealand and, therefore, that the XRB retains a degree of flexibility to allow for local standards to be developed or amendments to IPSAS to be made where there is not expected to be an international solution to a New Zealand issue proposed within an acceptable timeframe.

We consider that the current application of the XRB's PBE Policy Approach provides sufficient flexibility to consider the appropriateness of IPSAS for the New Zealand environment and whether to develop a PBE Standard ahead of, or in addition to, those developed by the IPSASB.

For example, we consider that suitable application of the PBE Policy Approach was demonstrated with the issue of PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting*.



***The importance of retaining harmonisation with Australia for Tier 2 for-profit disclosure requirements***

We consider that alignment of disclosure requirements between Tier 2 for-profit entities in New Zealand and Australia is not essential. Alignment of recognition and measurement requirements, however, is essential to ensure that the primary accounting for like transactions and balances remains the same across the Tasman and to avoid the need for consolidation adjustments when consolidating Tier 2 for-profit entities with larger, publicly accountable entities that apply International Financial Reporting Standards (IFRS).

We consider that it would be beneficial to await the outcome of the International Accounting Standard Board's (IASB's) research project on SMEs that are subsidiaries of entities that apply IFRS standards and decide at that time whether it is more beneficial to align with the Australian requirements or the IASB requirements.

In the meantime, we consider that there is unlikely to be any significant disadvantages arising if Tier 2 for-profit disclosure requirements in New Zealand are not aligned with those in Australia. This will also avoid the undesirable possible outcome of making changes to the current Tier 2 requirements to align with changes made by Australia and then a subsequent change to align with IASB SME requirements when issued.

***Whether the PBE tier size criteria need to be revisited***

We are not aware of any need to reconsider the size criteria for determining the tier of PBE Standards applicable to a PBE.

Given the proposals for Incorporated Societies to apply accounting standards issued by the XRB and the difficulties Registered Charities appeared to experience in adopting PBE Standards, it may be necessary to consider whether the size criteria give rise to an appropriate outcome for Incorporated Societies.

Should you wish to discuss the above, please do not hesitate to contact me on 021 734 021.

Yours sincerely

Stephen Hogg  
Partner  
Accounting Advisory Services



TE TAI ŌHANGA  
THE TREASURY

29 November 2019

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Dear Warren

**Invitation to Comment: Targeted Review of the New Zealand Accounting Standards Framework**

The New Zealand Treasury welcomes the opportunity to provide comments to the External Reporting Board (XRB) on the Targeted Review. We apologise for this submission being late.

We have limited our responses to Specific Matter for Comment (SMC) 1: *Importance of maintaining close alignment between PBE Standards and IPSAS.*

We do not have any experience or views to offer in relation to SMC 2 (whether the PBE tier size under the framework needs to be reconsidered) nor SMC 3 (the extent of harmonisation with Australia for Tier 2 for-profit disclosure requirements, also known as the reduced disclosure regime). As a result, we have not answered the related questions in the Targeted Review.

We have attached our responses to the specified questions for comment under SMC 1.

Yours sincerely

A handwritten signature in blue ink that reads 'Jayne Winfield'.

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*Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?*

No.

**Specific Matters for Comment (SMC) 1: Importance of maintaining close alignment between PBE Standards and IPSAS**

*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?*

We find it difficult to respond categorically to this "either/or" question without knowing the consequences of the answer on specific standard setting projects.

The Targeted Review discusses in detail the challenges of developing the PBE suite of standards in the multi-sector environment and the history behind XRB's policy to setting PBE standards, including the "development principle". We note the development principle requires the XRB to consider a number of factors when considering changes to the PBE Standards suite, such as

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



IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).

We think the development principles in the policy reflect a comprehensive set of appropriate factors that the XRB should consider when amending the PBE standards suite. They could be summarised as a public interest principle, a cost-benefit principle and a risk management principle.

We also note that to apply the development principles, the XRB developed in the PBE policy, a number of rebuttable presumptions as a structured way for the Board to work through the multiple factors requiring consideration.

In response to the challenges identified in the Targeted Review, the XRB has proposed two approaches to using IPSAS that the XRB could take when developing future PBE standards:

**Option 1:** Continuing with the **current policy of maintaining relatively close alignment with IPSAS** (i.e. the “status quo”); or

**Option 2:** A **more flexible approach** to using IPSAS as the base for developing PBE Standards.

It is difficult to understand the difference between “maintaining relatively close alignment with IPSAS” and “using IPSAS as a base”, without seeing the details of the policy under Option 2 and understanding the consequence on specific standard setting projects if Option 2 was applied. Both approaches use IPSAS as a base, so the differences in the options seem subtle to us.

We had assumed the current XRB policy for developing PBE standards was designed to provide both the XRB with a structure to debate the development principle factors, and the flexibility to address domestic issues on a project-by-project basis. This seemed sensible to us, given the XRB’s concerns about adopting “pure IPSAS” and mixed group reporting issues arising (due to unnecessary differences in the suites of standards (temporary or permanent) because of the IASB and the IPSASB different priorities, work programmes and constituencies).

The main tool in the XRB policy is working through a set of rebuttable presumptions for each standard setting project. How much, and how often the XRB rebuts a presumption is the decision of the XRB on a case-by-case basis. To that extent, the rebuttable presumption tool is a self-imposed discipline. The XRB may feel stymied by the way it has “operationalised” the development principle, but we are not sure why it should be. If the XRB can make a credible case to rebut presumptions in considering a project, that case should be made and presented to the New Zealand constituency as the PBE project is being developed. Therefore, we do not necessarily see Option 1 and Option 2 as such distinct alternatives, but rather variations of how to operationalise the same underlying development principles.

We acknowledge that the XRB has a challenging job developing a set of coherent PBE accounting given the multi-sector framework and drawing from the work of two different

international standard setters (IPSASB and IASB) who serve different constituent groups. Since 2011, we observe the XRB has been juggling projects where the IPSAS and IFRS have different international accounting requirements for like transactions and other events in similar circumstances (whether temporarily, due to IPSASB's time lag in convergence projects, or permanently, if the IPSASB and IASB reach different conclusions for similar transactions and events). As the XRB has pointed out, this can give rise to significant mixed-group financial reporting issues in the New Zealand economy. As the preparer of the Financial Statements of the Government, which is a mixed-group, we are also very concerned about the volume of unnecessary differences between the sectors growing.

We looked back at our response to ASRB and MED on the initial *Multi-sector Framework Consultation* in 2009 and have included an extract of our response in *Appendix One* as some of our comments are still relevant to this consultation. In particular, in 2009 we were concerned about whether the IPSASB would have sufficient resources to cope with an ambitious work programme for a broad range of constituents. In our view at the time, without a step change in resourcing, it would be difficult to see how the IPSASB could address both IFRS convergence projects, while addressing significant public-sector specific issues, in a reasonable timeframe. From the discussion in the current Targeted Review, it appears this risk still exists, or may even have increased.

We can see that dealing with an increasing number of mixed group reporting issues in New Zealand, if the differences between IPSAS and IFRS persist, or continue to grow, would have a significant impact on the XRB's resources when developing PBE standards locally, and note that this may not have been anticipated when the multi-sector framework was implemented.

Given this challenging context, we believe that the XRB policy approach should ensure that on a project-by-project basis, there is enough flexibility to determine on balance, whether local considerations are prioritised over the importance of IPSAS alignment.

We do not support locking into the XRB policy a bias one way or another in respect of these two factors.

*If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?*

Maintaining close alignment with international best practice is critical in a small economy New Zealand that has limited resources to develop its own independent accounting standards. This means we support a strategy of close alignment as possible with IPSAS and PBE standards, where it is appropriate. However, as we noted above, it may be more appropriate in a specific project to prioritise addressing a mixed-group reporting issue, by using IFRS as the starting point of best practice (reflected in NZ IFRS) in the PBE suite.



If the XRB decide to introduce more flexibility in their policy (Option 2) we encourage the XRB to guard against developing "special" New Zealand financial accounting for the PBE suite that does not align with any international best practice, either IPSAS or IFRS. We find it difficult to envisage any financial transactions or events that would be so unique in the New Zealand public sector, to warrant "special" domestic accounting rules, different to those in international standards. In our view, following international best practice provides additional credibility for the Government's Financial Statements, because those statements cannot be criticised as being prepared with New Zealand special preferences.

*If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?*

In considering individual projects, we envisaged that the XRB may consider, on balance, that prioritising local considerations is more important, rather than aligning closely with the IPSAS.

As discussed above, we doubt that the XRB policy needs to change but are open to the XRB being more willing to rebut its own presumptions in the policy, on a case by case basis to achieve those development principles. We think the factors in the development principle are the correct ones to consider, and acknowledge that balancing of them in individual projects, given the international standard setting context, is challenging.

The important output for us as constituents is that when the XRB are consulting on a specific PBE standard project, the XRB is able to clearly articulate the factors in the development principle that were given more weight in developing proposals.

*Do you have any other comments on the way IPSAS are used as the base for PBE Standards?*

No.



## **Appendix One: Extract of the Treasury's 2009 submission**

### **MED/ASRB discussion document 2009: *Proposed application of accounting and assurance standards under the proposed new statutory framework for financial reporting***

... the Treasury supports the adoption of IPSASs for the public sector in New Zealand in principle where we are satisfied with the legitimacy and independence of the IPSASB. However, the Treasury believes there are significant risks with converging with IPSASs, particularly in the short term.

One of the significant questions for the Treasury is whether the IPSASB's conceptual framework would be appropriate for the New Zealand public sector and as a basis for the not-for profit sector in New Zealand. As the IPSASB has not yet developed their conceptual framework, the Treasury strongly encourages the ASRB not to make any decision to adopt IPSASs until the ASRB or the proposed XRB has had an opportunity to assess the suitability of the IPSASB conceptual framework in New Zealand.

The Treasury also believes there are risks around IPSASB's having sufficient resources for the current work programme. We are aware that the current IPSASB programme is shifting focus from the IFRS convergence project to developing a separate conceptual framework and advancing specific public sector issues. At the same time IPSASB will have to deal with the continual stream of IFRSs released by the IASB and juggle between a convergence programme and advancing separate projects. In the Treasury's view, this is an ambitious work programme and the Treasury questions if it can be achieved without significant injection of resources and funds in IPSASB. Even with a step change in resources and funding the IPSASB must serve a broad range of constituents, from those who prepare cash accounts right through to constituents, like Australia and New Zealand who have developed more sophisticated public sector accounting frameworks. The breadth of constituents to serve may also have an impact on IPSASB's priorities and where their resources can be directed.

The Treasury is very encouraged by the shift of work programme in 2010 of the IPSASB in tackling some of the more challenging public sector issues such as long-term sustainability and developing a conceptual framework specifically designed for the public sector. In our view, it's hard to imagine that New Zealand would ever have the resources to tackle these types of projects on its own. It may even be unrealistic to share the costs of such significant public sector projects jointly with Australia.

The Treasury thinks that any move to adopt IPSASs in New Zealand for the public sector must be predicated on satisfactory resolution of governance and funding issues of IPSASB, the development of an appropriate conceptual framework for adoption in New Zealand and how well IPSASB can demonstrate real progress on their ambitious work programme.



## Targeted Review of the New Zealand Accounting Standards Framework – combined feedback from formal submissions and online feedback form

The information below has been copied directly from the online feedback forms received through our website. The seven respondents who submitted online feedback forms are numbered R13–R19. As previously noted, we have treated all responses provided via the online feedback forms as confidential. Therefore, any personal information identifying the respondents or their organisations has been excluded.

### **General comments:**

- 1) **Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?**

R13	No
R14	N/A
R15	No
R16	I wonder how or if proposed amendments to the Public Finance Act to provide for an increased focus on wellbeing and inter-generational sustainability may impact accounting standards development and financial reporting requirements for PBEs.
R17	N/A
R18	Not aware of any developments.
R19	N/A

- 2) **Do you have any other comments about the Accounting Standards Framework?**

R13	I think it is fit for purpose for the bigger PBE's and Not for Profit PBEs but smaller charities still struggle with the Tiered approach. I support the idea of a standards-level review of especially tier 3 and 4.
R14	N/A
R15	I support the review of the framework as a "check-in". The framework works well ensuring that large entities are compliant with reporting and providing a sound basis for other entities to remain compliant and protecting public interest and confidence in the reporting of a wide range of entities in NZ.
R16	No
R17	The issue we have concerns the definition of what constitutes "Public Accountability". The definition from the IASB and XRB A1 appears aimed at specific organisations or institutions. Our Trust does not easily fall under any definition easily. Therefore I had to state a case to our the Trustees to be a Tier 1 PBE. i.e. that we were did have public accountability as we held assets in a fiduciary capacity for a broad group of outsiders. The definition was a bit scant however and should have been clearer for Trustees to rely on.
R18	No other comments.
R19	N/A

**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.**

<b>R13</b>	Yes I think it is important to have close alignment between PBE Standards and IPSAS. Because <i>[Name of organisation]</i> is part of a bigger movement maintaining a close alignment with IPSAS makes international comparability easier, ensures transparency and strengthens accountability.
<b>R14</b>	Local considerations should be taken into account where there would be significant financial and/or logistical hardship to organisations in complying strictly with IPSAS requirements.
<b>R15</b>	<p>Maintaining close alignment with a recognized International Accounting Standards is important to attracting investment into a country. Where financial reporting is understood and clear it is easier to attract foreign investment. This is particularly important for mixed groups looking to raise capital and attract investment outside of NZ.</p> <p>With the above being said, the end goal of user understanding and balance between compliance cost and reporting outcomes play a significant role as well. As mentioned in the discussion document, the IPSAS standards consider many different scenarios that are not always relevant to New Zealand ("NZ") which in turn could lead to resulting accounting treatment that does not support user understanding of the accounts.</p> <p>In addition to this, the costs of compliance need to be considered. Obtaining Fair Values can be costly and time-consuming. If NFP organisations are having to incur additional costs for accounting compliance with no benefit to the users of the financial statements, it removes the ability of the organisation to spend these funds towards furthering their charitable causes and meeting their objectives.</p> <p>Having a set of accounts that are "fit for purpose" in the NZ context would be more beneficial to the users of these financial statements, if they are NZ based. If users of financial statements are in fact overseas based, it might be more difficult to have to explain different accounting treatments. In supporting the approach for a more bespoke NZ financial reporting standards, it would remain critical that sound principles for recognition and measurement are retained where-ever it adds to the end user understanding.</p>
<b>R16</b>	The status quo setting severely reduces opportunities for innovation and limits the ability of the XRB to respond to local conditions. Taking a global perspective, this is also disadvantageous. New Zealand has experience with developing and implementing new approaches and this has allowed it to contribute effectively to work at the international level. From a first principles perspective I am also a proponent of local responsiveness as this assists with relevance, engagement, uptake. It is a matter of integrity that New Zealand user's needs are given due consideration.
<b>R17</b>	We should prioritise local reporting needs ahead of the IPSASB's glacial progress. I believe we can co-ordinate effectively with the Australians to reduce costs in this regard.
<b>R18</b>	<i>[Name of organisation]</i> favours the first option: XRB adopting a more flexible approach to developing PBE Standards based on IPSAS, to prioritise local conditions.
<b>R19</b>	N/A

4) If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

R13	<p>I think close alignment between PBE Standards and IPSAS is more important for Tier1 entities and bigger organisations that have an international connection.</p> <p>I think it might be less important for Tier4 organisations as it might add a level of complexity for which these organisations does not have the money or expertise to properly manage. Simpler format Standards might work better in these areas.</p>
R14	N/A
R15	<p>While a close alignment between IPSAS and PBE ensures compliance with an international benchmark, it is more important to ensure that the PBE standards meet the user's requirements of those financial statements. This might mean that departure from IPSAS is of greater benefit to the users than compliance.</p> <p>NZ has a strong financial reporting framework in place that is bench-marked against its international peers. Any departure from IPSAS needs to be documented so that prepares can explain why this departure has been implemented. In doing so the premises for departure should always be to improve the reporting in the local environment and to better engage with users.</p>
R16	N/A
R17	<p>The alignment is very important for many reasons. On a larger scale, NZ is increasingly regarded as 'NZ Inc' with returns in Government investments coming more under scrutiny, Government decisions on 'Wellness' needing increased reporting and measurement, and international comparisons for overseas investors. Proper valuations and accurate holding costs of assets are paramount, including risk analysis. On a more granular scale, there is an increasing trend for public-private joint ventures. This requires consistent reporting standards for proper accountability.</p> <p>So, for whom? Voters, business, analysts, overseas investors.</p> <p><i>[Note: While the answer above explains why and for whom close alignment with IPSAS is important, this respondent's answer to Q3 is that prioritising local considerations is more important, and the respondent's answer to Q5 is that flexibility should be increased].</i></p>
R18	N/A
R19	N/A

5) **If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?**

<b>R13</b>	At current there is some flexibility to modify IPSAS requirements for New Zealand specific considerations. I feel that rather than moving away from close alignment with IPSAS as a starting point look at how to streamline the process for enabling the modifications if needed.
<b>R14</b>	Option 2 appears to be more sensible and workable, especially for smaller organisations. If there is a specific reason for aligning with IPSAS then that is sensible, however aligning with IPSAS just for the sake of doing so is not.
<b>R15</b>	<p>Yes. The end focus should be on the users of the financial statements and balancing the increase compliance costs with the additional benefit to the user of the financial statements. In addition, addressing the timing gap on critical standards could be beneficial, provided that these are not going to result in changes later when the IPSAS standard is released for issues not originally considered.</p> <p>PBE Standards should address the requirements of our local NZ environment. As stated, the IPSAS would provide guidance on international thinking to ensure that the NZ reporting remains world class, but not be the definitive voice of the local requirements.</p>
<b>R16</b>	<p>Yes.</p> <p>And I don't think a change to introduce more flexibility compromises the strength of NZ's support for the IPSASB's programme of change.</p>
<b>R17</b>	Yes, increased flexibility should apply. This should be more 'leading edge' than 'bleeding edge', with a strong collaboration with our cousins across the ditch. This would be where IFRS has been established or is in final draft, there should be, if applicable, a corresponding draft in play for PBEs. I am unsure of the strength of the communications from NZ XRB to the IPSASB, but the history is that we 'punch above our weight' in terms of international standard setting opinion. This should be fostered and continued, IMHO.



5) (Continued) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?

<p><b>R18</b></p>	<p><b>COMPARABILITY OF PBE STANDARDS</b>          Contrasting PBE Standards to Standards for other types of entities, the need for comparability is significantly less. We see the main needs being in selling NZ Government Bonds, and in setting NZ's credit rating.</p> <p>Our assumption is that introducing flexibility will not result in a major deviation from IPSAS – we don't believe differences will be material enough to impact the main needs.</p> <p>Also, the financial statements of the NZ Government are relatively transparent. This generates a certain amount of understanding and confidence that would likely over-ride differences in reporting Standards.</p> <p><b>FLEXIBILITY OF TIMING</b>          As noted in the presentation to the CFO forum, the XRB could have flexibility around the timing of changes. If a change to a Standard has been identified as beneficial it seems counter-productive to delay the change because of events outside NZ.</p> <p><b>RELEVANCE / SUITABILITY OF CHANGES</b>          Changes to Standards that are important to other countries may not be relevant to NZ. If the XRB adopt a more flexible approach to developing PBE Standards, those changes need not be adopted in NZ. If we don't adopt such changes, it eliminates the costs of adoption and reduces compliance costs moving forward.</p> <p><b>REMOVES UNWANTED CONSEQUENCES</b>          The interplay between the Standards and other legislation could mean that changes to Standards result in unwanted consequences – more so if NZ adopts unmodified IPSAS changes.</p> <p>(As a hypothetical – changes to the Standard for Leases could result in all Leases effectively becoming 'Finance leases', which would mean the Minister of Finance having to approve all of them).</p> <p>If the XRB adopt a more flexible approach to developing PBE Standards, such consequences could be mitigated.</p>
<p><b>R19</b></p>	<p>N/A</p>

6) Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

<b>R13</b>	No
<b>R14</b>	N/A
<b>R15</b>	The most common issue is the alignment for specific NZ reporting requirements. While the IPSAS does provide an initial guidance in the PBE and NPF space we support that prior to the adoption there should be consideration given to the outcomes that will result in adoption and the resulting additional compliance and administrative costs, and whether these will be balanced by the value of the additional information to the users.
<b>R16</b>	No
<b>R17</b>	IPSAS needs to form the foundation of our PBE standards. This, however, should not hold NZ standard setters back if we need to be up to date with latest standards, e.g. crypto currency valuations, and disclosures for cybercrime risks.
<b>R18</b>	No other comments.
<b>R19</b>	N/A

**SMC 2: Importance of harmonisation with Australia for Tier 2 for-profit disclosures**

**7) How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?**

<b>R13</b>	<p>Our company do not report on Tier2 or for-profit but I would think it would be important to retain harmonisation as I imagine there would be a fair amount of companies with expenses of &lt;\$30m that operates across the border between New Zealand and Australia. It would be cheaper and easier for these companies if harmonisation is there.</p>
<b>R14</b>	<p>Important where the organisaiton is operating in both countries to have harmonisation of requirements so that the organisaiton only has to produce one set of accounts. Otherwise wasting resources.</p>
<b>R15</b>	<p>New Zealand ("NZ") and Australia ("AU") have always held close trading ties, with many AU and NZ entities trading in both spaces. This is particularly important with for profit entities where investments and funding are based off consolidated reporting.</p> <p>Disclosure reporting is still be important to the extent that it provides users information about the choices prepares have made for accounting policies. These may influence the recognition and measurement. User will need to understand the policy choices, assumptions and judgments applied to be able to understand the different accounting outcomes.</p> <p>So provided the disclosure departures do not impede the ability to understand that recognition and measurement applied, and therefore companies remain comparable to investors, then some miss-alignment could be tolerable.</p>
<b>R16</b>	<p>N/A</p>
<b>R17</b>	<p>This is very important due to the intertwined economic reality that is NZ and Australia. In some respects we have different currencies, different Governments, better rugby players, but constitute one economic block.</p> <p>Performance measures are mostly consolidated. USA enterprises group us as 'Asia Pacific'. The closer the accounting standards are with Australia, the more efficient and accurate those consolidations will be.</p> <p>Our regional considerations are the most important aspect of this argument I can assure you.</p>
<b>R18</b>	<p>N/A</p>
<b>R19</b>	<p>N/A</p>

**8) If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?**

<b>R13</b>	I think it is important for companies operating in both countries as well as for accounting professionals training and working in both countries. If it becomes too hard or expensive to maintain different disclosure formats for different entities it might become a barrier to trade.
<b>R14</b>	Important for stakeholders in being able to compare entities and for entities themselves so only having to produce one set of accounts.
<b>R15</b>	<p>Due to the close ties between NZ and AU it would be important to keep the reporting requirements for recognition and measurement aligned. Disclosure reporting is important to the extent that it provides users information about the choices prepares have made for accounting policies. These may influence the recognition and measurement. User will need to understand the policy choices, assumptions and judgments applied to be able to understand the different accounting outcomes.</p> <p>So provided the disclosure departures do not impede the ability to understand that recognition and measurement applied, and therefore companies remain comparable to investors, then some miss-alignment could be.</p> <p>It is important that the users of financial statements are protected. If the proposed harmonization is detrimental to the user's understanding of the financial reporting, then it may be necessary to depart from the harmonization. This should be balanced against the costs incurred for compliance. If AU is departing from certain disclosures over cost, that are not be believed to add value to users, this should be considered, as it will add undue burden on companies to maintain compliance, thereby making it unable to complete for investment or funding.</p> <p>While harmonization is important from a trading and investment point, NZ should have the flexibility to depart from some concepts that it believed would not be beneficial to users.</p>
<b>R16</b>	N/A
<b>R17</b>	For businesses that require trans-tasman consolidations. Overseas owned corporates. Many large organisations are not listed on NZX.
<b>R18</b>	N/A
<b>R19</b>	N/A

**9) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?**

<b>R13</b>	No
<b>R14</b>	N/A
<b>R15</b>	For comparability it is essentially that the recognition and measurement remain the same and aligned with this is that the size criteria for reporting is the same. This will allow comparability. Having the same disclosure would be advantageous as it makes it easier to compare entities of a similar size and nature.
<b>R16</b>	N/A
<b>R17</b>	This should also be aligned as CAANZ is cross Tasman and our standards should be as interchangeable as is practicable.
<b>R18</b>	N/A
<b>R19</b>	N/A

**SMC 3: Do the PBE tier size criteria need to be revisited?**

**10) Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?**

<b>R13</b>	No
<b>R14</b>	No, the majority of entities are compliant and allows comparison.
<b>R15</b>	<p>Tier sizes should always be regularly reviewed considering growing inflation and changes in the regulatory and operating environment. This would mean that entities that previously in one tier automatically grow into the next tier from an accounting perspective.</p> <p>The tier sizes should have due consideration to the users of the financial statements and the nature of the organisation. The key is who are the users and what are they using the financial statement for. If the users are largely members of the public and widespread, then you may require more defined accounting principles. If the users are a few members contributing to a cause, there may not be significant public scrutiny. So perhaps there is a \$value to be attributed to expenses, alongside the public interest in the organisation when it comes to determining a cut-off for tier 2 and tier 3.</p> <p>The application of new accounting standards, depending on the requirements might inadvertently see entities jumping tiers as well, placing additional scrutiny and compliance costs without any change to the scale of the operations. An example of this could be if the ED64 was implemented. The increase in expenses for ROU assets previously show as operating expenses, now being fair value and depreciated would increase the costs of an organisation.</p>
<b>R16</b>	<p>I am not familiar enough with this area to provide useful feedback.</p> <p>In general, I support more rather than less disclosure and reporting.</p>
<b>R17</b>	I am not aware of any specific examples, however movements in expenditure quantum need to be regularly revisited. This will assess the stats to reflect the intentions of the reporting regimes accurately over time. In theory, reports available under the reporting standards since 2012 should make this task easier than the first time it was undertaken.
<b>R18</b>	I'm not aware of any of those things.
<b>R19</b>	Too many organisations are having to prepare Tier 2 due to the operating expenditure of their group being \$2m.

**11) If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?**

<b>R13</b>	I think when looking at the Charities Services Compliance review results it showed that 100% of Tier1 and 2 is compliant with the new standard. Tier 4 cannot change because it is determined by Government. Tier 3 is the only one that would be a candidate for change. Maybe increase the reporting limit for this Tier from Under \$2 million of annual expenses to under \$5million of annual expenses to acknowledge some smaller charities that might be struggling with compliance cost in the Tier 2 category.
<b>R14</b>	No need to revisit Tier thresholds. Working well for most, However more education and support for small entities would be helpful in increasing the compliance levels. Those organisations having compliance issues generally have wider systemic issues within their organisations - this could be an indication for Charities Services that assistance is needed by those organisations on a wider basis than just reporting compliance.
<b>R15</b>	The Tier 2 and Tier 3 minimum expense of \$2m may need to be reviewed from time to time to see if this is still applicable. It may be necessary to increase this with the affects of inflation and consequences of applying new accounting standards.
<b>R16</b>	See response to question 10.  That is, in general, I support more rather than less disclosure and reporting. Compliance costs are important - but reducing compliance costs on the account provider imposes other costs on account users.
<b>R17</b>	N/A
<b>R18</b>	No strong opinions about tier size.
<b>R19</b>	Tier 2 threshold needs changing. \$2m operating expenses is not of a significance size in today's terms and the complexity and compliance costs of meeting these standards far outweigh the benefits to readers. We have a number of Maori organisations that are required to prepare financial statements in accordance with generally accepted accounting practices (due to legislation) and have to report under Tier 2 for the group and Tier 3 for all of the individual entities. It is unnecessarily complicated and confuses the readers with terminology, disclosures and measurements. I suggest the Tier 2 operating expenditure range should be increased to \$4m - \$30m.

**12) Do you have any other comments on the tier size criteria for PBEs?**

<b>R13</b>	No
<b>R14</b>	Some entities that are technically Tier 4 are having (or choosing) to report at Tier 3 level due to depreciation of fixed assets. If there were an allowance for Tier 4 (cash) entities to depreciate but still report at Tier 4 then this might simplify things for many small entities.
<b>R15</b>	None
<b>R16</b>	No
<b>R17</b>	N/A
<b>R18</b>	No further comment.
<b>R19</b>	N/A

**Online feedback forms – Respondent information (personal information excluded)**

**1. What type of entity is your organisation?**

<b>R13</b>	A Not-for-profit PBE
<b>R14</b>	A Not-for-profit PBE
<b>R15</b>	A For-profit entity in the private sector
<b>R16</b>	A Public sector PBE
<b>R17</b>	A Not-for-profit PBE
<b>R18</b>	A Public sector PBE
<b>R19</b>	N/A

**2. Is your organisation part of a “mixed group” (i.e. a PBE whose subsidiaries or parent are for-profit, or a for-profit entity whose subsidiaries or parent are PBEs)?**

<b>R13</b>	No
<b>R14</b>	No
<b>R15</b>	No
<b>R16</b>	No
<b>R17</b>	No
<b>R18</b>	No
<b>R19</b>	N/A

**3. Under which standards do you prepare financial statements?**

<b>R13</b>	PBE Tier 1 (PBE Standards)
<b>R14</b>	PBE Tier 3 (PBE Simple Format Reporting – Accrual)
<b>R15</b>	For-profit Tier 2 (NZ IFRS RDR)
<b>R16</b>	PBE Tier 1 (PBE Standards)
<b>R17</b>	PBE Tier 1 (PBE Standards), PBE Tier 2 (PBE Standards RDR)
<b>R18</b>	PBE Tier 2 (PBE Standards RDR)
<b>R19</b>	N/A

**4. Does your organisation have any of the following: (a) Australian parent, (b) Australian Subsidiary, (c) Financial reporting obligations in Australia?**

<b>R13</b>	N/A
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<b>R14</b>	N/A
<b>R15</b>	Australian subsidiary/subsidiaries
<b>R16</b>	N/A
<b>R17</b>	N/A
<b>R18</b>	N/A
<b>R19</b>	N/A

**5. Which of the following best describes you, or the organisations you represent?**

<b>R13</b>	Individual donor or member of a not-for-profit organisation
<b>R14</b>	Other (Accountant working in non-profit and preparing accounts for audit for a number of non-profits at Tier 3 level.)
<b>R15</b>	Lender
<b>R16</b>	Other (I am an accountant working in the public sector.)
<b>R17</b>	Other (Funder to Maori organisations who negotiate Waitangi Tribunal claims with the Government. We operate two trusts which are Tier 1 and Tier 2 respectively.)
<b>R18</b>	Other (Government Ministry)
<b>R19</b>	Other (Chartered Accountant)

**6. Which entities' financial statements are you most interested in? (FP private, FP public, PS PBEs, NFP PBEs)**

<b>R13</b>	Large for-profit entities in the private sector, medium for-profit entities in the public sector, large and medium public sector PBEs, large NFP PBEs
<b>R14</b>	Medium and small NFP PBEs
<b>R15</b>	Large and medium for-profit entities in the private sector and public sector, large and medium public sector PBEs, large NFP PBEs
<b>R16</b>	Large and medium for-profit entities in the public sector, large and medium public sector PBEs, large and medium NFP PBEs
<b>R17</b>	Large and medium NFP PBEs
<b>R18</b>	Large, medium and small public sector PBEs
<b>R19</b>	Medium for-profit entities in the private sector, medium and small NFP PBEs