

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
General Comments	
<p>Question 1 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>Question 2 Do you have any other comments about the ASF?</p>	<p>We have no further comments.</p>
SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	
<p>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</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>Question 4 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>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 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>Question 6 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>SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures</p>	
<p>Question 7 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>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?</p>	<p>We do not see this as being important at the present time.</p>
<p>Question 9 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>SMC 3: Do the PBE tier size criteria need to be revisited?</p>	
<p>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?</p>	<p>We are not aware of any such unintended consequences.</p>
<p>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)?</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>Question 12 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.