

14 November 2019

Warren Allen FCA
Chief Executive
External Reporting Board
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By email: 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.

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 indicated¹ 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 2005² 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 Bill³ 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.

¹ http://www.aasb.gov.au/admin/file/content105/c9/ACCED295_08-19.pdf BC24

² [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

³ <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.