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Submitted Electronically through XRB Website (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>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?</p>	<ul style="list-style-type: none"> 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.
<p>2. Do you have any other comments about the Accounting Standards Framework?</p>	<ul style="list-style-type: none"> 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) 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?

Question	Our response
	<ul style="list-style-type: none"> Integrated reporting <IR> 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 <IR> in the ASF should be considered.

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"> 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. 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. 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. 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.
<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"> As noted above – yes for the public sector, but no for the public sector.
<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"> Yes, we agree there should be more flexibility. 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.

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"> 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.
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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"> 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.
<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"> As noted above, the harmonisation is very important for the Australian entities operating in New Zealand through branches or subsidiaries.
<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"> 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 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.

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"> 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
<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"> Consideration should be given to further streamlining and perhaps reducing the current tiers as it adds more complexity in the financial reporting environment.

SMC 3: Do the PBE tier size criteria need to be revisited?	
<p>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>	<ul style="list-style-type: none"> 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
<p>12. Do you have any other comments on the tier size criteria for PBEs?</p>	<ul style="list-style-type: none"> 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) or telephone (+64 21 660 610)

Yours sincerely



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