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Mr Warren Allen
Chief Executive
External Reporting Board
PO Box 11250
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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.