



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

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