



BOARD MEETING PUBLIC AGENDA

Tuesday, 14 July, 2020, Virtual Meeting

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PUBLIC SESSION					
2:00PM		Accounting:			
	14.0	Targeted Review Feedback Statement			
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		14.2 Draft Targeted Review Feedback Statement	Approval	Paper	12
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Next Meeting: Thursday 6 August 2020 – Virtual meeting



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 3 July 2020
TO: Members of the External Reporting Board
FROM: Anthony Heffernan and Gali Slyuzberg
SUBJECT: Targeted Review of the ASF: Cover Memo

Purpose and introduction¹

1. The purpose of this agenda item is to finalise the resolution of matters raised by respondents to the XRB Discussion Paper (DP) on the Targeted Review of the New Zealand Accounting Standards Framework (ASF).
2. Specifically, at this meeting we are seeking the Board's:
 - (a) AGREEMENT with the following proposals in relation to matters identified for further consideration as part of the Targeted Review project:
 - proposal *not* to add an asset-based tier size threshold for PBEs; and
 - proposal to re-affirm the XRB's intention of conducting a comprehensive, first-principles review once the ASF has been effective for at least 10–15 years, without specifying an exact time period; and
 - (b) APPROVAL of the draft Feedback Statement, to publicly communicate the outcomes of the Targeted Review of the ASF (agenda item 14.2).

Background

3. A key outcome from analysing the submissions on the DP was that in general, respondents did not identify any unintended consequences that required significant amendments to the ASF, and most respondents were not aware of any new developments that would require refinements to the ASF (other than the developments highlighted in the DP and subject to separate NZASB projects).
4. However, some respondents had recommended considering refinements to the ASF and related documents. In March 2020, the Board agreed that the three matters listed in Table 1 below should be considered further as part of the Targeted Review project.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Table 1: Matters for further consideration as part of the Targeted Review

	Relevant DP section	Matter for further consideration
1	SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	Consider the extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards), in response to feedback received
2	SMC 3: Do the PBE tier size criteria need to be revisited?	Consider whether an asset-based tier threshold(s) should be added to the ASF
3	General comments on the ASF	Consider the date of a future comprehensive review of the ASF and related communication to constituents

5. The Board asked staff to develop proposals to advance the resolution of the above matters, and to bring these proposals to the Board for consideration and approval.
6. At its May 2020 meeting, the Board considered staff's proposals on the first matter identified above, i.e. the extent to which refinements are required to the PBE Policy Approach in response to DP feedback received. In summary, staff proposed relatively minor refinements to the text of the PBE Policy Approach – to clarify the existing level of flexibility to prioritise local considerations over close alignment with IPSAS when appropriate. Staff have also taken the opportunity to generally clarify the wording in certain areas of the PBE Policy Approach, where we thought clarification could be beneficial.
7. The Board approved the amended PBE Policy Approach, subject to additional amendments identified by a Board member and subject to checking in with certain key stakeholders as requested, to update them on the amendments. The PBE Policy Approach has been updated for the abovementioned amendments. We will provide a verbal update to the Board on our discussion with the abovementioned stakeholders.
8. At this meeting, we are seeking the Board's approval of the staff's proposed resolution for the remaining two matters in Table 1 above. In summary, staff propose the following.
 - (a) Not to add an asset-based threshold to the PBE tier size criteria, but to consider whether the NZASB should develop guidance and/or standard-level requirements for charities with large asset balances; and
 - (b) To reiterate the XRB's intention to perform a comprehensive review of the ASF once it has been effective for at least 10–15 years, but to explain that the exact timing of the review cannot be estimated with certainty due to other major projects that may affect the ASF.
9. We are also seeking the Board's approval of the draft Feedback Statement developed by staff, which summarises the feedback received on the DP and the XRB's response.

Proposal *not* to add an asset-based threshold to the PBE tier size criteria

Background: DP questions and feedback received

10. One of the SMCs in the DP was SMC 3: *Do the PBE tier size criteria need to be revisited?* Under this SMC, respondents were asked the following questions.

- (a) *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?*
- (b) *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)?*
- (c) *Do you have any other comments on the tier size criteria for PBEs?*

11. The majority of respondents did not identify specific unintended consequences or new developments that would require changes to the PBE tier size thresholds at this stage. Three respondents thought that the \$2 million expenses threshold between Tier 3 and Tier 2 should be increased. However, at its March meeting the Board agreed with staff's recommendation not to change this threshold, given that the percentage of charities in Tier 2 has remained relatively stable since the introduction of the ASF, and the suggested increase in this threshold is unlikely to significantly increase the number of charities that will qualify for Tier 3 instead of Tier 2.
12. While the questions on SMC 3 focused on the current expenditure-based PBE tier size thresholds, three respondents (who did not recommend changes to these expenditure-based threshold) suggested adding an asset-based threshold to the PBE tier size criteria. The main reason for this recommendation is the concern that some charities with large asset holdings are able to report in the lower tiers of the ASF (in some cases Tier 4, i.e. cash accounting), due to having low operating expenditure. However, Charities Services did not recommend adding such an asset-based threshold due to cost/benefit considerations. We also note that the topic of asset-based threshold has been raised by attendees at a number of outreach events.
13. The Board agreed that as part of the Targeted Review project, staff should consider further the recommendation to add an asset-based threshold to the PBE tier size criteria.

Comparison of reasons for and against an asset-based threshold

14. The DP explains why the ASF was designed without asset-based thresholds, and why the XRB's preliminary view was not to reconsider whether to add such thresholds. The table below compares the reasons for not adding an asset-based threshold, as explained in the DP and as expressed by Charities Services, against the reasons provided by the abovementioned three respondents who recommended introducing an asset-based threshold.

Table 2: Reasons for and against introducing an asset-based threshold

Arguments against an asset-based threshold	Arguments in favour of an asset-based threshold
<p><u>Targeted Review DP (paragraph 6.11)</u></p> <ul style="list-style-type: none"> • When the ASF was developed, the XRB decided not to use asset-based tier size thresholds because PBEs with high levels of asset holding would typically hold “endowment or heritage-type assets rather than productive ones”, and basing tier size thresholds on this type of assets was not considered useful. Also, using both assets and expenses as tier size thresholds would introduce additional complexity into the ASF. • The XRB is aware of concerns that some entities with large asset holdings are able to report in Tier 4 under cash accounting, due to having low operating expenses. However, the Tier 4 size criterion is determined in legislation. Therefore, if the XRB adds an asset size criterion into the Tier 4 eligibility criteria, this would conflict with the legislation-based size criterion for Tier 4. <p><u>Charities Services’ submissions:</u></p> <ul style="list-style-type: none"> • The rationale presented in the DP for not including an asset-based threshold in the ASF is persuasive. In particular, due to the nature of the assets held by entities with large asset holdings (generally endowment funds and heritage assets), introduction of an asset-based threshold would not present a useful benchmark for the size of an entity’s operations. • The benefits of introducing an asset-based threshold are unlikely to outweigh the costs. An asset-based threshold could force small entities with significant but passive assets into preparing Tier 2 financial statements in situations that would be overly burdensome. • One of the most common challenges faced by registered charities is determining the value of heritage assets or specialised assets such as church buildings. Having an asset-based threshold would either require charities to obtain an independent valuation for such assets, which can be costly, or it may result in entities using inappropriate valuation estimates. 	<p><u>Submission from respondent “R7”</u></p> <ul style="list-style-type: none"> • The current expenditure-based PBE tier size criteria enable some entities with large asset holdings to report in the lower tiers of the ASF. There is a responsibility for entities that have control over large asset positions to report on their management of these assets. Therefore, an asset-based threshold should be considered. • Adding an asset-based threshold would not increase complexity. Introducing such a threshold need not necessarily impact Tier 4 entities (whose tier size threshold is based on legislation). The asset-based threshold could ensure that any entity with expenditure over \$125,000 (i.e. Tier 3 and over) would be required to prepare Tier 2 financial statements if assets were over a certain threshold. • The asset-based threshold be aligned with the statutory reporting requirement for companies (\$60m assets). <p><u>Grant Thornton’s submission</u></p> <ul style="list-style-type: none"> • Grant Thornton’s research on Tier 4 indicated that “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><u>CA ANZ’s submission</u></p> <ul style="list-style-type: none"> • If an asset-based threshold is introduced to determine which charities and/or incorporated societies need to prepare general purpose financial reports, then in the interests of consistency and simplicity, the same approach should be taken for the PBE tier criteria in the ASF. • The Government’s recent review of the Charities Act 2005 included consideration of a new “micro-entity” tier for charities with operating payments below \$10,000, whereby such charities would be exempt from preparing general purpose financial reports. Some submitters suggested a dual test that would include 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”.

Staff analysis of charities in Tiers 3 and 4 with large asset holdings

15. As noted above, a key reason for recommending an asset-based threshold is the concern that entities with large asset holdings are able to report in the lower tiers of the ASF. To understand the extent of this concern, staff obtained the list of all registered charities from the Charities Register (publicly available on the Charities Services website) and analysed this data to identify the percentage of charities in Tiers 3 and 4 respectively that have large asset balances.
16. In performing this analysis, staff noted the following.
 - (a) Charities eligible for Tier 4 (expenditure below than \$125,000):
 - Only about 3% have assets above \$2 million.
 - Of the charities with assets above \$2 million, the majority opted up to a higher tier (mostly to Tier 3, but some opted up to Tier 2).
 - Looking at the top 20 charities by asset size, the most commonly held high-value assets were investments (units in managed funds, bonds, shares, etc.) and land and buildings (either held for own use or as investment property). Other high-value assets included loans (including to related entities), and library/museum/art collections.
 - (b) Charities eligible for Tier 3 (expenses lower than or equal to \$2 million, but greater than \$125,000):
 - About 27% have assets above \$2 million.
 - Of the charities with assets above \$2 million, most did not opt to a higher tier, but about 12% did (mostly to Tier 2).
 - Also, some entities that did not opt up chose to apply Tier 2 standards to specific types of assets, such as investments.
 - Looking at the top 20 charities by asset size, the most commonly held high-value assets were similar to Tier 4, i.e. investments and land and buildings. Other high-value assets included loans (including to related entities), forestry assets, fishing quota, investments in associates and cash.

Recommendation not to introduce an asset-based PBE tier size threshold at this stage

17. From a cost-benefit perspective, considering the above analysis and respondents' arguments for and against introducing an asset-based threshold, we do not think that there is a compelling case for introducing such a threshold into the ASF.
18. We note that the percentage of charities eligible to Tier 4 that have assets above \$2 million is small. While this percentage is higher among charities eligible for Tier 3, it does not appear excessively high, and while most of these charities did not opt up to a higher tier, some have applied Tier 2 requirements to certain assets.

19. However, we acknowledge the importance of providing information to users about high-value assets – so that users can assess charities’ (and other PBEs’) management of, and stewardship over, these assets.
20. Therefore, we propose that staff take to the NZASB a recommendation to consider the following, as a separate project.
 - (a) To develop some form of non-authoritative guidance, encouraging entities with assets over \$2 million to consider opting up to a higher tier; and/or
 - (b) As part of the NZASB’s Tier 3 and Tier 4 Post-implementation Review, to develop proposals for additional disclosure requirements around significant asset holdings – including disclosure on the nature of the assets held, the measurement basis, the purpose for which the asset is held, how the asset is managed, and disclosure on the risks associated with the assets.

Proposal on the communication of the timing of the future comprehensive review of the ASF

Background: feedback received

21. The DP explained that the Targeted Review is not a comprehensive, first-principles review and does not contemplate changes to the fundamental aspects of the ASF. The DP noted that the XRB intend to carry out a comprehensive review of the ASF once it has been effective for 10–15 years.
22. In providing general feedback on the ASF, a respondent (Grant Thornton) recommended to announce the date of the future comprehensive review of the ASF. Grant Thornton’s submission said the following.

“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 PBEs or for-profit entities”.

23. The Board agreed that staff should consider what messages (if any) should be provided to constituents in relation to the future comprehensive review of the ASF – and that such a message can be provided in the Feedback Statement of the Targeted Review.

Proposal to reiterate the intention to conduct a comprehensive review without indicating a date

24. As discussed with the Board in March 2020, we think communications regarding the future comprehensive review of the ASF should not commit the XRB to a fixed time period. We think it is important that the current ASF be allowed time to become sufficiently ‘bedded in’ before a full comprehensive review is conducted.
25. Therefore, in the Feedback Statement, we propose to:

- (a) reiterate the XRB's intention to conduct a comprehensive review of the ASF in the future, when the ASF has been effective for at least 10–15 years; and
 - (b) explain that the exact timing of the review cannot be estimated with certainty, as it would depend on future developments.
26. We have included this message on page 12 of the draft Feedback Statement (at the bottom of the table) and reiterated it on page 13 (under "Closing Comments").

Feedback Statement

27. At its March meeting, the Board agreed that staff should draft a Feedback Statement to publicly communicate to constituents the outcomes of the Targeted Review. The draft Feedback Statement is attached as agenda item 14.2.
28. The format and type of content included in the Feedback Statement is largely based on the IASB's feedback statements on post-implementation reviews of standards. In summary, the Feedback Statement includes the following.
- (a) Brief background information on the ASF;
 - (b) Explanation of the purpose of the Targeted Review
 - (c) Overview of our consultation process;
 - (d) For each SMC and the general questions of the ASF in the DP, a summary of the feedback from submissions received and the XRB's response (we have also included brief background information on each SMC, to remind participants why we sought feedback on these matters); and
 - (e) Concluding comments to thank respondents for their input and to reiterate that a comprehensive review of the ASF will be carried out in the future (with the exact timing yet to be determined).
29. The summary of constituents' feedback and the XRB's response is largely based on the analysis of submissions presented to the Board at its March meeting, albeit in a more summarised form, and updated for the outcomes resulting from further consideration of the three matters listed in Table 1 of this memo.
30. We are seeking the Board's feedback on, and approval of, the Feedback Statement. In particular, we welcome the Board's feedback on whether we have achieved an appropriate level of detail in discussing submissions received and the XRB's responses in relation to SMCs 1, 2 and 3 and the comments labelled "other comments". In drafting this part of the Feedback Statement, we wanted to include enough detail to show respondents that all of their comments have been considered, but we were also conscious that too much detail might make the Feedback Statement difficult to engage with.
31. Appendix 1 contains additional details on the responses received on SMCs 1 and 2 of the DP, which we have not included in the draft Feedback Statement in the interests of brevity.

Questions for the Board

1. Does the Board agree not to introduce an asset-based PBE tier size threshold into the ASF?
2. Does the Board agree with staff's proposed message in the Feedback Statement on the timing of a future first-principles comprehensive review of the ASF?
3. Does the Board have any comments on the draft Feedback Statement?
Specifically:
 - (a) Is the Board comfortable with the level of detail in the draft Feedback Statement, particularly in relation to the analysis of feedback received on the SMCs? Or, would the Board prefer to include some, or all, of the more detailed analysis provided in Appendix 1?
 - (b) Does the Board have any other comments on the draft Feedback Statement?
4. Does the Board approve the Feedback Statement?
5. Does the Board have any other comments on the Targeted Review of the ASF?

Next steps

32. If approved by the Board, we will upload the Feedback Statement to the XRB website. If any additional amendments are required as a result of this meeting, we propose that staff work with the Chair of the XRB Board to approve any final amendments.
33. At the same time, we will also upload the updated PBE Policy Approach to the XRB website.
34. We will include a link to the Feedback Statement in the next edition of the XRB Update, and will consider communication through other channels, such as LinkedIn.

Attachments

Agenda item 14.2 Draft Feedback Statement on the Targeted Review of the ASF

Appendix 1: Additional detail on SMC 1 and SMC 2

This appendix provides additional detail on the feedback received on SMC 1 and SMC 2 of the DP. In the interests of brevity, we have not included this detail in the current version of the draft Feedback Statement.

SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS

What we heard	
The key points raised by respondents to support their respective views are summarised below.	
Arguments for a more flexible approach to developing PBE Standards, to prioritise local considerations	Arguments for maintaining close alignment between PBE Standards and IPSAS
<ul style="list-style-type: none"> Enhanced ability to address “mixed group” issues in a timely manner and to ensure that transactions of the same nature are accounted for in the same way across all sectors Improved timeliness of addressing local issues Enhanced relevance of PBE Standards to the New Zealand environment – given IPSAS are developed for a wide range of jurisdictions, some of which are different to New Zealand in terms of preparers’ and users’ needs Enhanced ability to decrease compliance costs where appropriate and achieve a better cost/benefit balance Enhanced ability to innovate and provide leadership in international standard setting Many New Zealand charities have a local focus – more flexibility in developing PBE Standards will help meet their needs better IPSAS are aimed at the public sector, not NFPs – more flexibility in developing PBE Standards will help meet the needs of NFPs better IPSAS will still be part of the standard-setting process, therefore the benefits of using IPSAS will continue 	<ul style="list-style-type: none"> The existing level of flexibility in the PBE Policy Approach for developing standards ahead of the IPSASB and for departing from the requirements of an IPSAS is appropriate and sufficient Recent developments and challenges in relation to maintaining close alignment with IPSAS are not so significant as to warrant a change in approach IPSAS are targeted to public sector user needs Close alignment with IPSAS means that New Zealand benefits from international due process Enhanced international comparability, understandability and transparency of PBEs’ financial statements Enhanced international reputation and credibility for New Zealand and its PBEs It is important to support the IPSASB as an international standard setter Risk of overly frequent changes in PBE Standards under more flexibility Close alignment with IPSAS is cost-effective from a standard-setting resource perspective Timeliness is not necessarily a problem, IPSAS do not always need to keep up with IFRS Close alignment with IPSAS enhances the coherence of PBE Standards More flexibility may in fact worsen timeliness of PBE Standards development

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

What we heard

Responses to SMC 2 can be categorised as follows.

Harmonisation with Australia for Tier 2 for-profit disclosures is important

- Harmonisation leads to efficiency and cost savings for entities operating across the Tasman. It is also helpful to users of financial statements and accounting professionals operating across the Tasman.
- The original reasons for harmonisation still stand.
- The IASB's project on reduced disclosures is several years away from completion.

However, one of the respondents thought some divergence in disclosures is acceptable if it does not impede users' understanding of recognition and measurement policies applied.

Harmonisation with Australia for Tier 2 for-profit disclosures is important, but short-term divergence from Australia's RDR reforms may be acceptable

Based on cost/benefit considerations, these respondents preferred to wait for the IASB to finish its project on reduced disclosure requirements, to avoid two rounds of changes for Tier 2 for-profit entities.

Harmonisation with Australia for Tier 2 for-profit disclosures is not important

These respondents felt that harmonisation for recognition and measurement requirements is important, but not for disclosures. They also wished to avoid two rounds of changes for Tier 2 for-profit entities.

Targeted Review of the New Zealand Accounting Standards Framework

FEEDBACK STATEMENT

July 2020



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Introduction

In July 2019, the External Reporting Board (XRB) issued for public consultation the [Discussion Paper Targeted Review of the New Zealand Accounting Standards Framework](#) (the DP).

The main purpose of the DP was to “check-in” with constituents on whether the New Zealand Accounting Standards Framework (ASF) is functioning as anticipated and is achieving its original objectives, and whether any refinements to the ASF are required. The DP also sought feedback on certain specific matters relating to the ASF.

This Feedback Statement outlines the main matters raised by respondents in submissions on the DP, and the main decisions made by the XRB Board in response to those submissions.

Summary of key findings and next steps

Respondents did not identify significant unintended consequences or new developments that would require changes to the ASF at this stage. Therefore, the XRB is not proposing any changes to the ASF.

What is the New Zealand Accounting Standards Framework?

In New Zealand, some entities (including public sector entities, registered charities and some companies) are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. **The [New Zealand Accounting Standards Framework \(ASF\)](#) sets out the XRB’s strategy for developing and issuing accounting standards** that are appropriate for such entities. The current ASF was first introduced in 2012 and last updated in 2015.

The objectives of the ASF are to:

- **meet users’ needs**, by recognising the different information needs of users in the for-profit and public benefit entity (PBE) sectors; and
- **balance the costs and benefits of reporting**, by establishing appropriate accounting requirements based on the nature and size of the entity.



The ASF is built around a **multi-sector, multi-tiered, multi-standards approach**. This means that accounting standards are developed and applied as follows.

Sectors	Tiers and applicable standards	Standards based on
For-profit entities	Tier 1: NZ IFRS Tier 2: NZ IFRS RDR (Reduced Disclosure Regime)	IFRS Standards (International Financial Reporting Standards)
PBEs in the public and not-for-profit (NFP) sectors	Tier 1: PBE Standards Tier 2: PBE Standards RDR	IPSAS (International Public Sector Accounting Standards)
	Tier 3: PBE Simple Format Reporting – Accrual Tier 4: PBE Simple Format Reporting – Cash	XRB’s Simple Format Reporting Requirements

Purpose of the Discussion Paper

For many entities, the ASF has been effective for four or five years. This is too soon for a comprehensive first-principles review of the ASF.

However, the XRB considered it timely and important to **“check-in” with constituents on whether the ASF is functioning as anticipated and is achieving its original objectives.** This is the main purpose of the Targeted Review of the ASF.

The DP sought general feedback on the application of the ASF. Respondents were asked **whether they are aware of any unintended consequences of recent developments in the financial reporting environment that would require refinements to the ASF.**

The DP also sought feedback on the following three specific matters for comment (SMCs).

- (a) SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS
- (b) SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures
- (c) SMC 3: Do the PBE tier size criteria need to be revisited?

Background information on each of the SMCs, including why the DP sought feedback on these matters, is provided under each of the relevant SMCs in the section [Summary of Feedback Received and XRB Responses](#).

Public consultation

The DP was issued in July 2019, accompanied by a [Summary Document](#). Respondents had the option of providing a written submission or completing an online submission (answering any or all of the DP questions).

The DP was open for comment for three and a half months. During that time, XRB staff conducted various outreach activities including: [webinar](#) and in-person presentations, discussions with the XRB’s consultative advisory groups, roundtable meetings with key stakeholder groups, publishing articles and postings on social media.

The DP comment period closed on 15 November 2019. Nineteen submissions were received. Non-confidential submissions can be accessed on the [XRB website](#).

Summary of feedback received and the XRB’s response

This section summarises the feedback received from respondents on the DP questions, and the XRB’s response to this feedback.

General feedback on the ASF

DP Questions:

- (a) 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?
- (b) Do you have any other comments about the ASF?

What we heard	Our response
<p>Overall, the ASF appears to be operating as intended</p> <p>No significant unintended consequences identified. Some respondents specifically noted that the ASF is working well/as intended.</p> <p>Most respondents did not identify new developments (other than those noted in the DP) that would require refinements to the ASF.</p>	<p>No amendments to the ASF are required at this time</p> <p>The responses indicate that in general, application of the ASF has not resulted in significant unintended consequences, and that the ASF is operating as intended.</p> <p>Therefore, based on the responses received, the XRB concluded no changes to the ASF are required at this time.</p>
<p>New development — Increased focus on wellbeing and integrated reporting</p> <p>One respondent wondered whether the recent amendments to the Public Finance Act 1989 to focus on wellbeing would affect the future development of accounting standards for PBEs.</p> <p>On a somewhat related note, another respondent recommended referring to integrated reporting in the ASF, to future proof financial reporting.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB acknowledges the recent increased focus on environmental, social, and governance accountability reporting, both in the private and public sectors. These matters are closely linked to the XRB’s ongoing project on Extended External Reporting (EER).</p> <p>Matter will be considered further under a separate project</p>
<p>New development — Legislative reforms for incorporated societies</p> <p>One respondent mentioned the forthcoming legislative reforms for incorporated societies (which would require certain incorporated societies to report in accordance with accounting standards issued by the XRB). The respondent noted that the new legislation would affect many entities and preferred to delay any changes to the ASF until the new legislation has been passed.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is currently monitoring the development of new legislation for incorporated societies.</p> <p>However, once any new legislation has been enacted, the XRB will assess whether additional guidance for incorporated societies is required in the PBE accounting standards, and/or amendments to the ASF is required</p> <p>Matter will be considered further under a separate project</p>

<p>Support for review of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards</p> <p>Respondents noted that smaller charities are struggling with their financial reporting obligations and expressed support for the XRB’s Post-implementation Review (PIR) of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>Respondents also suggested that more education and support for small charities will help increase the level of compliance with accounting standards.</p> <p>There were also specific suggestions in relation to the Tier 3 and Tier 4 standards and reporting by entities in Tier 3 and Tier 4.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is aware that some smaller charities are struggling with their financial reporting obligations. As discussed in the DP, this matter will be specifically considered as part of a standards-level PIR of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>The first step of this project will be the issuance of a <i>Request for Information</i>, which is expected to be issued for public consultation later in the year.</p> <p>Matter will be considered further under a separate project</p>
<p>Other general comments on the ASF</p> <ul style="list-style-type: none"> • The ASF is complex (but is working as intended). • Recommendation for research on the costs and benefits of the multi-sector approach, to support a future comprehensive review of the ASF 	<p>No amendments to the ASF are required at this time</p> <ul style="list-style-type: none"> • Those respondents who noted the complexity of the ASF did not identify significant unintended consequences and did not recommend changes at this stage. • The XRB will consider whether to undertake the suggested research closer to the time of the future comprehensive review of the ASF.

SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS

Background

SMC 1 relates to the XRB’s strategy for developing PBE Standards for Tier 1 and Tier 2 PBEs based on IPSAS. That strategy is documented in the [Policy Approach to Developing the Suite of PBE Standards](#) (PBE Policy Approach).

Generally, the application of the PBE Policy Approach results in the XRB maintaining close alignment between PBE Standards and IPSAS. That is, in applying the PBE Policy Approach, the XRB generally would:

- wait for the IPSASB to complete its project, rather than developing a PBE standard ahead of the IPSASB; and
- once the IPSASB’s project is complete, adopt the IPSAS into PBE Standards, with domestic changes permitted only in specific circumstances.

The DP sought feedback on the importance of maintaining close alignment between PBE Standards and IPSAS, compared with the importance of addressing local considerations.

DP Questions:

- (a) 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?
- (b) If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
- (c) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS are used as the base for PBE Standards?
- (d) Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

What we heard

We received feedback on SMC 1 that supported both the importance of alignment with IPSAS and also the importance of allowing the flexibility for consideration of New Zealand specific issues.

- The majority of respondents considered the prioritisation of local considerations to be more important than maintaining close alignment between PBE Standards and IPSAS, and supported a more flexible approach to the development of PBE Standards.
- However, there was some support for maintaining the current strategy of close alignment between PBE Standards and IPSAS.

It is also important to note the following.

- Some respondents who supported a more flexible approach also noted the importance of alignment with IPSAS in general and where appropriate.

What we heard

- Some respondents that preferred close alignment with IPSAS (or thought the current PBE Policy Approach is appropriate as it is) acknowledged the challenges arising from the current strategy of close alignment with IPSAS and suggested the following to address these challenges.
 - A respondent noted that the existing development principle and rebuttable presumptions in the PBE Policy Approach should be considered on a case-by-case basis; and
 - Another respondent recommended to clarify the current level of flexibility, particularly the circumstances in which it would be appropriate to modify or not adopt an IPSAS.

Our response

In response to the mixed feedback received, the XRB Board decided to introduce some **refinements to the wording of the PBE Policy Approach**.

In developing these refinements, the XRB Board took into account the following key considerations.

- While the majority of respondents supported more flexibility to prioritise local considerations over close alignment with IPSAS when developing PBE Standards, the feedback was mixed in nature.
- The current wording of the PBE Policy Approach already provides some flexibility to prioritise local consideration over close alignment with IPSAS when appropriate – although this could be made clearer.



As a result, we have not made significant changes to the factors that are taken into account when considering a change in PBE Standards, or the rebuttable presumptions in the PBE Policy Approach. Rather, some clarifications have been made.

Ultimately the Board reaffirmed the position in the current ASF, that it is appropriate to develop PBE Standards based primarily on standards issued by the IPSASB.

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

Background

Under the ASF, Tier 2 reporting requirements for for-profit entities are based on NZ IFRS with reduced disclosures (RDR). Since the ASF was introduced, the disclosure requirements for Tier 2 for-profit entities have been harmonised with Australia.

The Australian Accounting Standards Board (AASB) recently changed its approach for developing for-profit Tier 2 disclosure requirements. Furthermore, the IASB has recently commenced a project to develop a set of reduced disclosure requirements that could eventually replace the Tier 2 regime in both New Zealand and Australia (the IASB's project is called *Disclosure Initiative: Subsidiaries that are SMEs*).

To inform the XRB's approach to maintaining and enhancing Tier 2 for-profit disclosure requirements in light of these developments, the DP sought feedback on the importance of maintaining harmonisation with Australia for Tier 2 for-profit disclosures.

DP Questions:

- (a) How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?
- (b) 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?
- (c) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

What we heard

While the majority of respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important, responses to this SMC were mixed.

Respondents who thought harmonisation with Australia for Tier 2 for-profit disclosures noted that such harmonisation leads to efficiency and cost savings for the many entities that operate across the Tasman, among other reasons. However, some respondents thought that based on cost/benefit considerations, it may be preferable to wait for the IASB to finish its project on reduced disclosure requirements, rather than changing NZ IFRS RDR now to harmonise with the Australian Tier 2 reforms and then changing NZ IFRS RDR again when the IASB finalises its project. There were also some respondents who thought that harmonisation with Australia was important for measurement and recognition requirements, but not for disclosures.

Our response**No amendments to the ASF are required at this time**

The XRB Board decided that the responses to SMC 2 did not require an immediate change to the ASF as part of the Targeted Review project.

The AASB issued its new Tier 2 disclosure standard (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*) in March 2020. It is effective for periods beginning on or after 1 July 2021.

In July 2020 the XRB confirmed its decision to defer making any changes to NZ IFRS RDR following the introduction of AASB 1060 in Australia, and instead wait for the International Accounting Standards Board (IASB) project on disclosures for subsidiaries that are SMEs, as that might provide a solution for both countries.

Key reasons for this decision include the following.

- Many Tier 2 entities will not be affected by the Tier 2 reforms in Australia, such as entities that are not part of a trans-Tasman group.
- Waiting for the IASB avoids the possibility of two rounds of changes: the first to harmonise with Australia and the second to harmonise with the IASB.
- Although the majority of respondents to the Targeted Review supported harmonisation of disclosures for Tier 2 for-profit entities in Australia and New Zealand, and thought harmonisation is important, some were of the view that we should await the outcome of the IASB's project.
- There will continue to be no recognition and measurement differences for entities that operate in both Australia and New Zealand.

Matter will be considered further under a separate project

SMC 3: Do the PBE tier size criteria need to be revisited?

Background

Under the ASF's tiered approach, lower tiers have more simplified accounting requirements. The tier that applies to a PBE depends on whether the PBE has "public accountability" (as defined in the standard XRB A1) and the PBE's size, based on expenses.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has 'public accountability'
2	Annual expenses between \$2 million and \$30 million*
3	Annual expenses less than or equal to \$2 million*
4	Annual operating payments less than \$125,000 (the XRB is unable to amend this)*

* to qualify for this tier, the PBE must also not have public accountability (as defined)

The DP sought feedback on whether there are any unintended consequences or recent developments that would require changes to the PBE tier size criteria.

DP Questions:

- (a) 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?
- (b) 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's limitations in amending PBE Tier 4, which is determined by the Government)?
- (c) Do you have any other comments on the tier size criteria for PBEs?

What we heard	Our response
<p>Overarching comments</p> <p>Most respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.</p>	<p>No amendments to the ASF are required at this time</p>

What we heard	Our response
<p>The \$2 million threshold between Tier 3 and Tier 2 should be increased</p> <p>Three respondents thought the \$2 million threshold between Tier 3 and Tier 2 should be increased, as it results in too many organisations having to report in Tier 2, including ones for whom the costs of reporting outweigh the benefits to users.</p> <p>Suggestions for what this tier threshold should be ranged from \$4 million to \$10 million.</p>	<p>No amendments to the ASF are required at this time</p> <p>We did not change to the \$2 million threshold between Tier 3 and Tier 2 for the following reasons.</p> <p>As noted, in the DP, only about 4% of registered charities currently qualify for Tier 2 based on expenditure. This proportion has remained stable since the ASF was introduced. From this perspective it appears the \$2 million threshold remains appropriate.</p> <p>Also, based on our analysis in the DP, the quantum of increase in the \$2 million threshold recommended by the respondents seems unlikely to significantly increase the percentage of charities that would qualify for Tier 3 instead of Tier 2.</p>
<p>Recommendation to consider adding an asset-based threshold</p> <p>Three respondents did not recommend changing the current expenditure-based PBE tier size threshold, but recommended adding an asset-based threshold.</p> <p>Reasons included the view that entities that control large asset balances have a responsibility to report on the management of these assets, and that some entities that report in the lower tiers of the ASF (including Tier 4) have large asset holdings.</p> <p>However, Charities Services did not recommend adding an asset-based threshold. One reason was that although an asset-based threshold would lead to higher transparency due to entities with large asset holdings having to report in higher tiers, this benefit is unlikely to outweigh the costs to the charitable sector of the additional complexity and compliance burden that such a threshold would introduce.</p>	<p>No amendments to the ASF are required at this time</p> <p>However, staff will consider other actions to promote better reporting of significant asset balances held by Tier 3 and Tier 4 PBEs.</p> <p>XRB staff have analysed data available from the Charities Register to understand what percentage of charities eligible to report in Tier 3 and Tier 4 have large asset holdings.</p> <p>Based on this analysis and considering respondents' arguments for and against introducing an asset-based threshold, the XRB Board agreed that on balance there is not a compelling case for introducing an asset-based threshold at this time.</p>

What we heard	Our response
<p>Adjusting the PBE tier size criteria for inflation movements and other factors</p> <p>Some respondents noted the importance of regularly reviewing the PBE tier size thresholds to consider whether adjustments are required as a result of inflation or other factors (including changes to statutory reporting thresholds).</p>	<p>No amendments to the ASF are required at this time</p> <p>Staff will continue to monitor on a periodic basis whether inflation movements or other factors have arisen that require the PBE tier size criteria to be amended.</p> <p>When new statutory reporting requirements are introduced, staff will consider whether any amendments are required to the ASF (and/or the underlying accounting standards), including the PBE tier size criteria.</p>
<p>Consideration of ‘public interest’ in a PBE</p> <p>One respondent suggested that the level of public interest in an PBE should be considered when determining whether a PBE is in Tier 2 or Tier 3 – in addition to considering the expense-based size criteria.</p>	<p>No amendments to the ASF are required at this time</p> <p>We consider that public accountability and the tier size criteria remain appropriate for assessing the public interest in an entity and the nature and needs of the entity’s users.</p>
<p>Reducing the number of PBE tiers</p> <p>One respondent proposed to streamline the current tier structure and perhaps reduce the number of tiers.</p>	<p>No amendments to the ASF are required at this time</p> <p>Decreasing the number of tiers could worsen the ASF’s ability to balance the costs and benefits of reporting in a way that accommodates the significant size variability among PBEs</p>

Other comments

Other comments received that do not directly relate to DP questions are noted below.

What we heard	Our response
<p>Proposal to develop a specific framework for PBE Tier 2 disclosures</p> <p>The respondent who made this recommendation noted that PBE Tier 2 requirements should not be driven by trans-Tasman harmonisation as in the for-profit sector.</p>	<p>No amendments to the ASF are required at this time</p> <p>A decision on when to recommence the PBE RDR project will be made in the future.</p> <p>Matter will be considered further under a separate project</p>

What we heard	Our response
<p>Proposals relating to XRB A1 Application of the Accounting Standards Framework</p> <p>Proposals included the following.</p> <ul style="list-style-type: none"> • To develop a positive definition of ‘for-profit entity’ • To provide additional guidance on accounting for a change in an entity’s classification from PBE to for-profit and vice versa • To improve the definition of ‘public accountability’ (for the purpose of determining whether an entity is in Tier 1) 	<p>No amendments to the ASF are required at this time</p> <p>We have not proposed amendments to the ASF at the present time, for the following key reasons.</p> <ul style="list-style-type: none"> • A for-profit entity is deliberately defined as “any entity that is not a PBE”, to ensure that the respective definitions of for-profit entity and PBE are exhaustive and mutually exclusive. Also, recent amendments to Appendix 1 of XRB A1 clarified the guidance on the definition of a PBE • Regarding situations where an entity’s classification changes from PBE to for-profit or vice versa, accounting standards already include some guidance in relation to this matter. • While we acknowledge that some entities may need to apply more judgement than others when determining whether they have public accountability, we believe that the current guidance on the meaning of ‘public accountability’ is sufficient, and reflects both the IASB’s internationally accepted definition of public accountability and New Zealand legislation.
<p>Proposals to add guidance on topics not addressed in existing standards</p> <p>Proposal included:</p> <ul style="list-style-type: none"> • To develop specific accounting guidance for trusts, to reduce the current diversity in trust accounting. • To develop accounting guidance on cryptocurrency. 	<p>No amendments to the ASF are required at this time</p> <p>These comments relate to the development of specific accounting standards/guidance for a specific topic/transaction, which would require consideration of changes at the standards level (not at the ASF level).</p> <p>Staff will continue to monitor developments in the reporting of cryptocurrency and any changes in the statutory reporting requirements for trusts, and consider what further actions should be taken.</p>
<p>Timing of the comprehensive review of the ASF</p> <p>A respondent recommended announcing the timing of the future comprehensive first-principles review of the ASF, given the targeted nature of this review.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB intends to carry out a comprehensive first-principles review of the ASF in 10 – 15 years from now. It would not be appropriate to lock-in the date of the review at this time.</p>

Closing comments

The ASF is an important framework that underpins how the XRB goes about developing and issuing accounting standards that meet the needs of all financial statements users across all sectors, while also maintaining an appropriate cost-benefit balance.

The XRB Board appreciates the time and effort constituents have put in to considering the DP on the Targeted Review of the ASF. The feedback received has been very useful in confirming that the ASF is generally operating as intended, which helped the XRB Board conclude that the ASF does not need to be refined at the present time. The feedback also helped with identifying refinements to the PBE Policy Approach and other projects for future consideration.

As noted above, the XRB intends to carry out a comprehensive first-principles review of the ASF at a future date. The XRB expect to carry out this review once the ASF has been operating for at least 10–15 years. The timing will depend on future developments.

Any questions or comments on this Feedback Statement can be directed to enquiries@xrb.govt.nz.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

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EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 1 July 2020
TO: Members of the External Reporting Board
FROM: Kimberley Crook
SUBJECT: **For-profit RDR harmonisation strategy**

Purpose and introduction

1. The purpose of this agenda item is to outline the background to the NZASB's decision in May 2020 to defer making any changes to NZ IFRS RDR following the introduction in Australia of a new Tier 2 disclosure standard, and instead wait for the International Accounting Standards Board (IASB) project on disclosures for SMEs that are subsidiaries, as that might provide a solution for both countries.
2. As a result of this decision the NZASB agreed not to harmonise the disclosure requirements for New Zealand Tier 2 for-profit entities (NZ IFRS RDR) with the requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) issued in March 2020.
3. The NZASB's decision was subject to getting confirmation from the XRB Board that this approach was not inconsistent with the New Zealand Accounting Standards Framework. I reported this decision verbally to the XRB in May but agreed to bring a memo for the Board's formal approval at this meeting.
4. This memo provides:
 - (a) a brief history of NZ IFRS RDR and the review of RDR undertaken jointly with the AASB over the period 2015–2017;
 - (b) an outline of the International Accounting Standards Board (IASB) project on disclosures for subsidiaries that are SMEs (small and medium-sized entities);
 - (c) a summary of the relevant feedback on the Targeted Review of the Accounting Standards Framework (Targeted Review); and
 - (d) the reasons for not harmonising NZ IFRS RDR with the disclosure requirements in Australia in the short to medium term.

Brief history of NZ IFRS RDR

5. NZ IFRS RDR was introduced in November 2012 as part of the new Accounting Standards Framework. The disclosure concessions were harmonised with the Reduced Disclosure Requirements (RDR) developed by the AASB in 2010 for application by Tier 2 entities in Australia. A driver of this harmonised project was to achieve an objective of the Joint Statement of Intent: Single Economic Market Outcomes signed by the Prime Ministers of Australia and New Zealand (August 2009) that for-profit entities operating in both jurisdictions need to prepare only one set of financial statements.

6. In March 2015 AASB staff and NZASB staff started a project to jointly review the disclosure requirements for Tier 2 for-profit entities. This project was started because the uptake of RDR in Australia was not as high as originally anticipated.
7. In January 2017 the AASB and the NZASB issued a joint Australian and New Zealand Policy Statement for Determining RDR for Tier 2 Entities together with exposure drafts (EDs) containing proposed disclosures for Tier 2 entities.
8. Comments received on the EDs indicated support for the proposed joint policy statement. However, respondents were concerned that the application of the proposed RDR framework did not result in significant reductions to the disclosures that Tier 2 entities were required to make at that time.
9. Although it was intended that this project would progress, further work was put on hold by the AASB following (AASB 1060.BC22):
 - (a) the issue of the IASB's revised *Conceptual Framework for Financial Reporting* in May 2018; and
 - (b) the AASB's decision to reform the Australian Financial Reporting Framework and propose removing the ability for entities to prepare special purpose financial statements (SPFS) when required to comply with Australian Accounting Standards by legislation or otherwise.
10. AASB 1060 was issued by the AASB in March 2020 and is effective for annual periods beginning on or after 1 July 2021, with earlier application permitted. The requirements in AASB 1060 are based on the disclosure requirements in the IASB's *IFRS for SMEs* Standard.
11. The AASB acknowledges in the Basis for Conclusions that accompanies AASB 1060 that adopting the standard will result in a divergence from NZ IFRS RDR.

BC30 However, the Board noted that adopting this Standard will result in a divergence from the New Zealand RDR Framework. The AASB's *For-Profit Entity Standard-Setting Framework* sets out the differences between accounting Standards issued in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman. This divergence could cause inconvenience for entities operating trans-Tasman. Notwithstanding this, the Board noted that the R&M requirements for entities applying the Tier 2 reporting frameworks in Australia and New Zealand would remain consistent and given the current situation of many Australian entities not complying with full R&M requirements, the overall outcome is likely to be more consistency with NZ requirements than currently. The Board further noted that the NZ XRB has asked its stakeholders about the importance of harmonisation with Australia in their Targeted Review of the Accounting Standards Framework in July 2019 and the NZASB will consider the feedback in future discussions on whether and how to respond to the developments in Australia and internationally.¹

12. The AASB was aware that AASB 1060 might ultimately be replaced with the standard developed by the IASB (see below). However, the AASB could not wait for the IASB to complete its project because a revised disclosure framework was needed in time for the removal of SPFS from 1 July 2021. The AASB continues to monitor the progress of the IASB's project.

IASB project

13. In 2016, following comments received on the previous agenda consultation, the IASB include in its research pipeline a project on disclosures for subsidiaries that

¹ R&M means recognition and measurement

are SMEs. In March 2019 the research project became active and was added to the IASB's standard-setting programme in January 2020.

14. The objective of the project is to develop a reduced disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries that are SMEs. The starting point for the disclosures will be those from the *IFRS for SMEs* Standard, amended as appropriate.
15. The IASB's Work Plan indicates that a decision on whether to publish a discussion paper or an exposure draft is planned for Q4 2020. Therefore, the consultation document will not be published until early 2021.

Targeted Review of the Accounting Standards Framework

16. Paragraph 27 of the New Zealand Accounting Standards Framework states that Tier 2 Accounting Requirements are harmonised with Australia as appropriate.
17. The Targeted Review conducted by the XRB in 2019 sought feedback on the importance of harmonisation with Australia for Tier 2 for-profit disclosures.
18. The following high-level summary is taken from agenda item 9.2 from the February 2020 NZASB meeting.
 46. While the majority of respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important, we (NZASB staff) note the following.
 - (a) Among the respondents that are preparers, only one respondent (R15) identified as a for-profit preparer within a group that contains Australian entities. While that respondent was of the view that harmonisation with Australia is important, the respondent also noted that some divergence in disclosure requirements can be acceptable.
 - (b) Among the accounting firms and professional accounting bodies (whose clients/constituents include Tier 2 for-profit entities) there were mixed views as to the importance of harmonisation with Australia for Tier 2 for-profit disclosures and as to whether the XRB should wait for the IASB to finalise its project in this area.
 - (c) Many of the respondents who considered continued alignment with Australia to be important did not specifically refer to the upcoming changes in the Australian Tier 2 regime or to the IASB's work on a reduced disclosure requirements regime, and therefore might not have considered these developments.

Reasons for not harmonising NZ IFRS RDR with AASB 1060

19. The NZASB discussed two options: either explore harmonising NZ IFRS RDR with AASB 1060 or wait for the IASB to develop and issue an ED on disclosures for subsidiaries that are SMEs and then consider whether to explore harmonisation of NZ IFRS RDR with the IASB's proposals or with AASB 1060.
20. The NZASB decided to wait for the IASB to develop and issue an ED for the following reasons.
 - (a) Whichever option is followed, NZ IFRS RDR will not be harmonised with Australia in the short term. Even if we develop an ED to harmonise with Australia, the effective date of the requirements in New Zealand would be later than 1 July 2021.

- (b) Waiting for the IASB avoids the possibility of two rounds of changes: the first to harmonise with Australia and the second to harmonise with the IASB. This concern was also raised by respondents to the Targeted Review.
 - (c) Although the majority of respondents to the Targeted Review supported harmonisation of disclosures for Tier 2 for-profit entities in Australia and New Zealand, and thought harmonisation is important, some were of the view that we should await the outcome of the IASB's project. The for-profit preparer within a group that contains Australian entities was of the view that some divergence in disclosure requirements can be acceptable.
 - (d) Using the IASB's disclosure requirements would result in disclosure requirements for Tier 2 for-profit entities being converged with disclosure requirements in other jurisdictions that adopt the IASB's approach, reduce compliance costs for entities with international and trans-Tasman obligations, and increase the comparability for users of Tier 2 financial statements with similar entities in other jurisdictions (when such financial statements are available).
 - (e) Although AASB 1060 and the IASB's project are both based on the *IFRS for SMEs* Standard, AASB 1060 includes the presentation requirements for financial statements and the statement of cash flows from the *IFRS for SMEs* Standard. At its April 2020 meeting the IASB tentatively decided that subsidiaries that are SMEs would apply the presentation requirements in *IAS 1 Presentation of Financial Statements* and *IAS 7 Statement of Cash Flows* rather than the presentation requirements in the *IFRS for SMEs* Standard. The IASB's approach is more consistent with the current NZ IFRS RDR approach.
21. The NZASB acknowledged the close economic ties between Australia and New Zealand and that differences in Tier 2 for-profit disclosures for entities operating in both jurisdictions is not ideal. However, the NZASB noted that:
- (a) NZ IFRS RDR was initially developed later than Australian RDR so different disclosure requirements for Tier 2 for-profit entities is not something new.
 - (b) Respondents to the Targeted Review had mixed views on the impact of different disclosure requirements for Tier 2 entities for the purposes of consolidation.
 - (c) There will continue to be no recognition and measurement differences for entities that operate in both Australia and New Zealand. Under AASB 1060 and NZ IFRS RDR Tier 2 for-profit entities continue to be required to comply with all recognition and measurement requirements in the relevant accounting standards.
22. The practical impact on Tier 2 for-profit entities of the adoption of AASB 1060 for reporting periods beginning on or after 1 July 2021 is as follows.
- (a) No impact on New Zealand-owned entities or overseas-owned companies with a foreign parent not based in Australia.
 - (b) No impact on an Australian-owned New Zealand subsidiary that is consolidated into a Tier 1 Australian parent or a parent that prepares special purpose financial statements (and will continue to do so under the new Australian size thresholds).

- (c) Some impact for a trans-Tasman group where both the New Zealand and Australian companies are in Tier 2, but the practical impact will depend on the facts and circumstances (given there is still a significant amount of overlap between the two sets of requirements) and group materiality levels.

Recommendation

- 23. The NZASB recommends that the XRB Board AGREES with the NZASB's decision to put a temporary hold on the harmonisation of disclosure requirements with Australia for Tier 2 for-profit entities.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE: 26 June 2020
TO: Members of the External Reporting Board
FROM: Misha Pieters
SUBJECT: **XRB Au1 Legislative Update**

Purpose and introduction

1. The purpose of this agenda item is to seek the XRB Board's approval of XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*.

Due process

2. The Regulatory Systems (Economic Development) Amendment Act 2019, incorporates related services within the mandate of the XRB. This will enable the XRB, who has designated this authority to the NZAuASB, to issue an agreed-upon procedures standard.
3. The NZAuASB provided input into a developing ED at its February 2020 meeting and was supportive of the proposals.
4. The XRB Board approved an invitation to comment and exposure draft (ED) XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)* in March 2020. Comments were due by 8 June 2020. The ED proposed amendments to XRB Au1 to reflect the amended legislative mandate.
5. No submissions were received in response to the ED. Given that no submissions were received and no changes to the ED are being tabled, the NZAuASB has not undertaken further deliberation.
6. The due process followed by this project complies with the due process requirements established by the XRB Board and, in the staff's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
7. In accordance with section 22(2) of the Financial Reporting Act 2013 staff advises that the revised standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Effective date

8. The ED proposed an effective date of 2 months after the issue of the standard. If the XRB approves the issue of the standard at its meeting on 14th July 2020, the standard can be gazetted on 23rd July 2020. We recommend that the amendments are effective for assurance engagements and related services beginning on or after 1 October 2020, with earlier application permitted.

Consistency with XRB Financial Reporting Strategy

9. The amendments to XRB Au1 are consistent with the revised legal mandate of the XRB.

10. The amendments will enable further alignment between the assurance standards issued by the XRB with those issued by the Australian Auditing and Assurance Standards Board (AUASB). Historically, the AUASB has issued the agreed-upon procedures standard in Australia.

Other matters

11. The NZAuASB approved for issue an exposure draft of ISRS (NZ) 4400, *Agreed-Upon Procedures Engagements* at its June meeting. It is proposed that if adopted, ISRS (NZ) 4400 will be effective for agreed-upon procedures engagements for which the terms are agreed on or after 1 January 2022, to be consistent with the applicable international standard. Early adoption is permitted. Submissions close in September 2020.
12. XRB Au1 (Legislative Update) would be effective before the NZAuASB approves ISRS (NZ) 4400. However, there will be a transition period until January 2022, where the applicable New Zealand agreed-upon procedures standard issued by CAANZ, will be in effect until the new standard to be issued by the NZAuASB comes into effect.

Recommendation

13. We recommend that the XRB Board APPROVES for issue XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*.

Attachments

Agenda item 16.1: XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*



EXTERNAL REPORTING BOARD STANDARD Au1

Application of Auditing and Assurance Standards (Legislative Update)

Effective for assurance engagements or related services beginning on or after 1 October 2020.

This Standard was issued on [date] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to reflect amendments made to the Financial Reporting Act 2013, to include standards for related services within the mandate of the External Reporting Board.

This Standard, when effective, will supersede XRB Au1 *Application of Auditing and Assurance Standards*.

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EXTERNAL REPORTING BOARD STANDARD Au1

APPLICATION OF AUDITING AND ASSURANCE STANDARDS*Issued by the External Reporting Board***CONTENTS**

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Introduction

Reasons for issuing the Standard

- IN 1 This Standard codifies the standards that assurance practitioners are to apply when conducting an assurance engagement or related service in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.
- IN 2 The appendices to this Standard list the auditing and assurance, or related services, standards applicable to different engagements.

Objective

1. The objective of this Standard is to codify the standards that assurance practitioners are to apply when conducting an assurance engagement or related service in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

Scope

2. This Standard identifies the auditing and assurance standards that shall be applied when conducting different types of assurance engagements or related services in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.
3. Standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board may be applied by an assurance practitioner even if there is no statutory requirement to do so. Even when applied voluntarily, all of the applicable standards should be applied to ensure that the assurance engagement or related service is of appropriate quality.

Definitions

4. For the purposes of this Standard the following term has the meaning attributed below:
 - (a) Assurance Practitioner – a person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.
 - (b) Related services – services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Application of Standards

5. Assurance practitioners shall apply the professional and ethical standards listed in Appendix 1 in preparing for and conducting all assurance engagements or related services.
6. Assurance practitioners shall apply International Standards on Auditing (New Zealand) listed in Appendix 2 in conducting audits of historical financial information.
7. Assurance practitioners shall apply Review Engagement Standards listed in Appendix 3 in conducting review engagements.
8. Assurance practitioners shall apply Other Assurance Engagement Standards listed in Appendix 4 in conducting other assurance engagements.
9. Assurance practitioners shall apply Related Services Standards listed in Appendix 5 in conducting agreed upon procedures to information and other related services engagements as specified by the New Zealand Auditing and Assurance Standards Board.
10. A diagrammatic overview of the auditing and assurance standards and the engagements governed by the standards is included in Appendix 6.

Effective Date

11. This Standard is effective for assurance engagements or related services beginning on or after 1 October 2020.

Professional and Ethical Standards

This appendix is an integral part of the Standard.

This appendix lists the Professional and Ethical Standards to be applied in preparing for and conducting all assurance engagements or related services.

PES 1 International Code of Ethics for Assurance Practitioners
(including International Independence Standards) (New
Zealand)

PES 3 (Amended) Quality Control for Firms that Perform Audits and
Reviews of Financial Statements, and Other Assurance
Engagements

International Standards on Auditing (New Zealand)

This appendix is an integral part of the Standard.

This appendix lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

ISA (NZ) 200	Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)
ISA (NZ) 210	Agreeing the Terms of Audit Engagements
ISA (NZ) 220	Quality Control for an Audit of Financial Statements
ISA (NZ) 230	Audit Documentation
ISA (NZ) 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISA (NZ) 250 (Revised)	Consideration of Laws and Regulations in an Audit of Financial Statements
ISA (NZ) 260 (Revised)	Communication with Those Charged with Governance
ISA (NZ) 265	Communicating Deficiencies in Internal Control to those Charged with Governance and Management
ISA (NZ) 300	Planning an Audit of Financial Statements
ISA (NZ) 315 (Revised)	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
ISA (NZ) 320	Materiality in Planning and Performing an Audit
ISA (NZ) 330	The Auditor's Responses to Assessed Risks
ISA (NZ) 402	Audit Considerations Relating to an Entity Using a Service Organisation
ISA (NZ) 450	Evaluation of Misstatements Identified During the Audit
ISA (NZ) 500	Audit Evidence
ISA (NZ) 501	Audit Evidence – Specific Considerations for Selected Items
ISA (NZ) 505	External Confirmations
ISA (NZ) 510	Initial Audit Engagements – Opening Balances
ISA (NZ) 520	Analytical Procedures
ISA (NZ) 530	Audit Sampling
ISA (NZ) 540 (Revised)	Auditing Accounting Estimates and Related Disclosures
ISA (NZ) 550	Related Parties
ISA (NZ) 560	Subsequent events
ISA (NZ) 570 (Revised)	Going Concern

ISA (NZ) 580	Written Representations
ISA (NZ) 600	Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)
ISA (NZ) 610 (Revised 2013)	Using the Work of Internal Auditors
ISA (NZ) 620	Using the Work of an Auditor’s Expert
ISA (NZ) 700 (Revised)	Forming an Opinion and Reporting on Financial Statements
ISA (NZ) 701	Communicating Key Audit Matters in the Independent Auditor’s Report
ISA (NZ) 705 (Revised)	Modifications to the Opinion in the Independent Auditor’s Report
ISA (NZ) 706 (Revised)	Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report
ISA (NZ) 710	Comparative Information – Corresponding Figures and Comparative Financial Statements
ISA (NZ) 720 (Revised)	The Auditor’s Responsibilities Relating to Other Information
ISA (NZ) 800 (Revised)	Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
ISA (NZ) 805 (Revised)	Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
ISA (NZ) 810 (Revised)	Engagements to Report on Summary Financial Statements

New Zealand Auditing Standards

This appendix is an integral part of the Standard

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

Review Engagement Standards

This appendix is an integral part of the Standard.

This appendix lists the Review Engagement Standards to be applied in conducting review engagements.

ISRE (NZ) 2400	Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity
NZ SRE 2410	Review of Financial Statements Performed by the Independent Auditor of the Entity

Other Assurance Engagement Standards

This appendix is an integral part of the Standard.

This appendix lists the Other Engagement Standards to be applied in conducting other assurance engagements.

ISAE (NZ) 3000 (Revised)	Assurance Engagements other than Audits or Review of Historical Financial Information
ISAE (NZ) 3402	Assurance Reports on Controls at a Service Organisation
ISAE (NZ) 3410	Assurance Engagements on Greenhouse Gas Statements
ISAE (NZ) 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
SAE 3100 (Revised)	Compliance Engagements
SAE 3150	Assurance Engagements on Controls

Related Services Standards

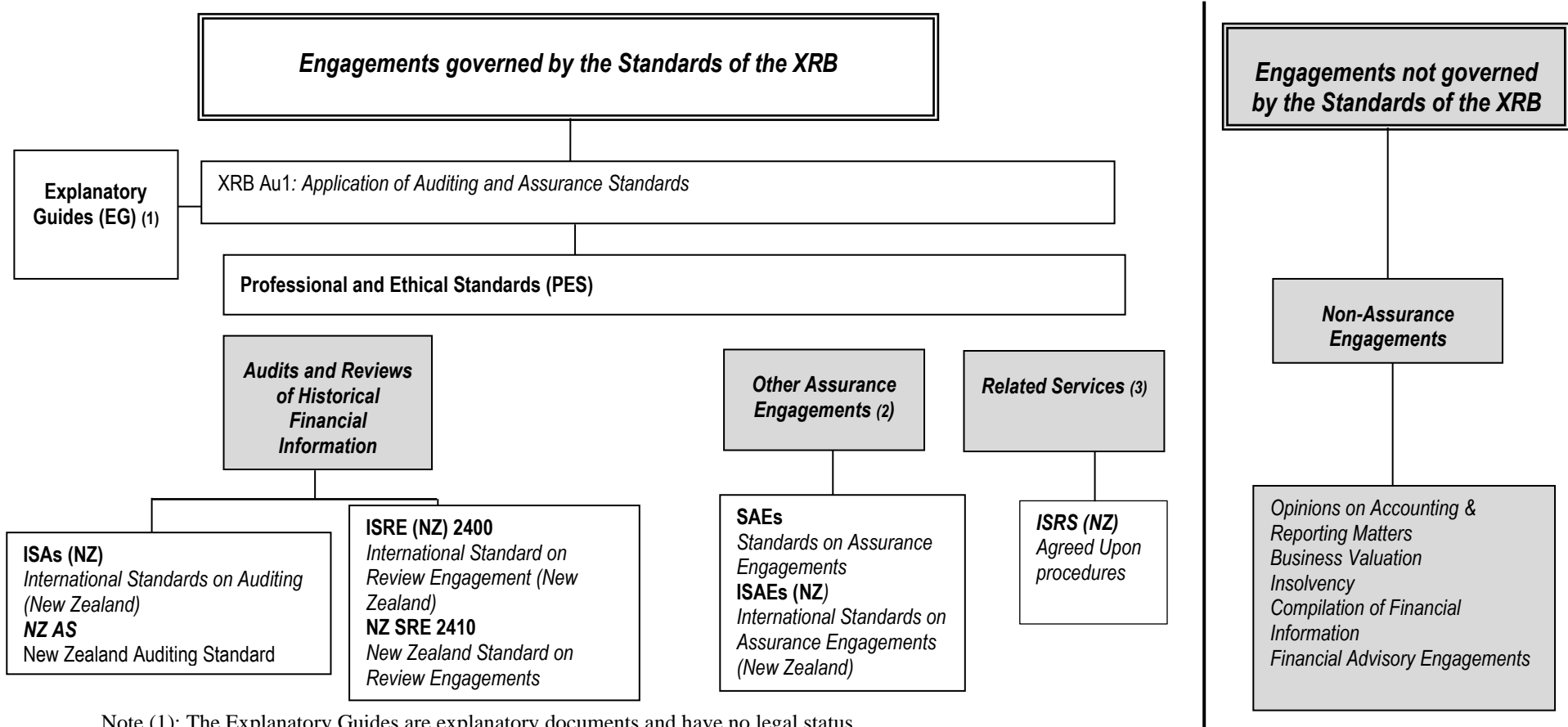
This appendix is an integral part of the Standard.

This appendix lists the Related Services Standards to be applied in conducting agreed upon procedures to information and other related services as specified by the New Zealand Auditing and Assurance Standards Board.

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Appendix 6

Overview of the Auditing and Assurance Standards of the XRB, and the Engagements Governed by the Standards



Note (1): The Explanatory Guides are explanatory documents and have no legal status.

Note (2): The XRB’s legislative mandate is restricted to standards relating for use in assurance engagements required by statute. The Board may also issue standards relating to Other Assurance Engagements where there is no statutory requirement for assurance, provided the Minister of Commerce authorises the XRB to do so.

Note (3): The XRB’s legislative mandate includes related services, meaning services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Basis for Conclusions on XRB Au1

This Basis for Conclusions accompanies, but is not part of, XRB Au1.

Introduction

BC1 This Basis for Conclusions outlines the rationale for the requirements in this Standard.

Auditing and assurance standards

BC2 This Standard is issued to assist assurance practitioners in identifying the relevant auditing and assurance standards to be used in specific circumstances. It was issued to provide a comprehensive list of the auditing and assurance standards that are to be applied by assurance practitioners when conducting an assurance engagement or related services in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.