



25 November 2022

## **New leases standard for Public Benefit Entities**

I am pleased to provide a submission to the External Reporting Board (the XRB) on the consultation and exposure draft of the proposed accounting standard *PBE IPSAS 43 Leases*. Charities Services' functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to prepare financial statements that comply with these standards.

Charities Services considers that the Specific Matters for Comment (SMC) are technical matters that would be more appropriately answered by professionals involved in the preparation and audit of financial statements, due to their experience and understanding of the sector's needs. Rather than comment on the SMC, we appreciate the opportunity to provide general comments and to share the feedback received from the sector.

### ***General comments***

We understand and appreciate the approach to developing PBE IPSAS 43, the desire to align this standard with IPSAS 43 and NZ IFRS 16 and can see value in the benefits the standard is expected to achieve.

We consider the alignment of this standard with for-profit and international standards would be beneficial for some entities. However, it is our experience that most registered charities place more importance on the financial reporting standards reflecting the environment in which they operate over alignment with international reporting standards.

### ***Sector feedback and comments***

During this consultation period, we have received comments and feedback from members of the sector, mostly from professional Accountants or Auditors. Most of the comments we have received either raise specific concerns or were not in support of the proposed changes. While some commenters understood the benefits of aligning this standard with for-profit and international standards, the concerns shared are that:

- The standard will take a simple concept such as rent expenses and disclosed liabilities and make it too complex.
- The changes may create extra work for PBEs and their auditors with little tangible benefit, and that it will make financial statements harder to understand.
- It will be too complicated to determine the effective interest rate and to discount the assets and liabilities to present value.
- More time and resources (cost) will be required to calculate the present value discount, and for auditors to gain assurance over the recognised values.
- Due to the current shortage of accountants and auditors, the changes may create extra strain on the workforce because of the time required to upskill and account for leases using more complex methods.

It is possible that increasing the complexity of reporting requirements may result in lowered compliance with the reporting standards and increase costs as charities start applying the new way of accounting for leases. The risk of lowered compliance may be mitigated by the fact that the proposed standard will be applied by professionals with appropriate capability.



There is a significant amount of time to prepare for the changes, which will be further facilitated by sufficient professional support and guidance provision in the lead up to, and into the mandatory adoption period. We will continue our commitment to sharing all resources that will be made available to the sector in support of any changes to accounting standards.

Thank you for the opportunity to comment.

Nga mihi,

**Stephen Reilly**

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