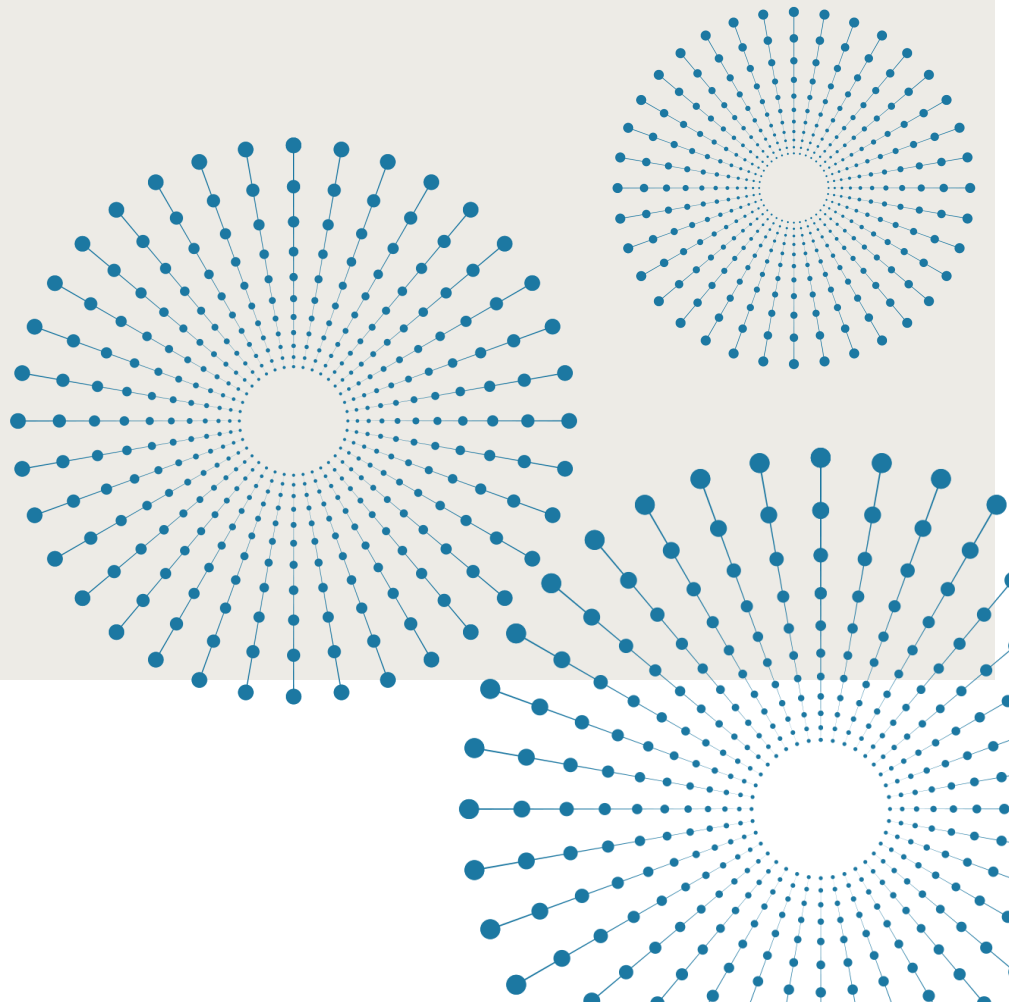


Basis for Conclusions

Reporting Requirements for Tier 4 Not-for-Profit Entities



May 2023



Basis for Conclusions on *Reporting Requirements for Tier 4 Not-for-Profit Entities — (Tier 4 (NFP) Standard)*

This Basis for Conclusions accompanies but is not part of the Tier 4 (NFP) Standard.

The Basis for Conclusions summarises the key matters considered by the New Zealand Accounting Standards Board (NZASB) in developing the Tier 4 (NFP) Standard, issued in May 2023.

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Basis for Conclusions

Introduction

- BC1. The New Zealand Accounting Standards Framework (“the Framework”) includes four reporting tiers for not-for-profit entities. *Reporting Requirements for Tier 4 Not-for-Profit Entities* (“Tier 4 (NFP) Standard” or the “Standard”) is a non-GAAP Standard and may be applied by entities classified by law as not being “specified not-for-profit entities” (which allows them to use cash accounting) and which elect to do so.
- BC2. This Basis for Conclusions summarises the NZASB’s considerations in developing the Standard. The Standard, when applied, supersedes the Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit) Standard (PBE SFR-C (NFP)).

Development of the Tier 4 (NFP) Standard

Post-implementation Review and the development of the Tier 4 (NFP) Standard Exposure Draft

- BC3. The NZASB completed a post-implementation review of the Simple Format Reporting Standards in 2021 to assess whether these standards were working as intended and achieving their original objectives. Over 100 submissions were received, which were considered as the basis for developing proposed amendments to PBE SFR-C (NFP) in May 2022.
- BC4. Many respondents to the post-implementation review considered that, overall, PBE SFR-C (NFP) was working well. However, there was strong support to reduce the length and complexity of PBE SFR-C (NFP) to support increased adoption and consistent application.
- BC5. In response to the issues raised by respondents during the post-implementation review, the NZASB issued ED NZASB 2022-6 – Tier 4 (NFP) Standard Exposure Draft (ED NZASB 2022-6) in May 2022, which proposed the following key amendments.

Simplification of PBE SFR-C (NFP)

- BC6. The NZASB received feedback during the post-implementation review that some Tier 4 not-for-profit entities are finding it difficult to apply PBE SFR-C (NFP) for the following main reasons.
- (a) PBE SFR-C (NFP) and the accompanying guidance is too long and complex.
 - (b) The language used in PBE SFR-C (NFP) is too technical for non-accountants to understand.
- BC7. Feedback also highlighted that PBE SFR-C (NFP) requires simplification to promote increased adoption and consistent application by Tier 4 not-for-profit entities, such as registered charities.
- BC8. Although PBE SFR-C (NFP) was developed as a single, short and simple standard written in less technical language than is normally found in accounting standards, the NZASB agreed that there was scope to simplify PBE SFR-C (NFP) further. The NZASB undertook a comprehensive review of PBE SFR-C (NFP) and proposed to:
- (a) simplify and re-express the existing requirements using plain English and remove technical accounting terms;
 - (b) reformat the Standard to improve readability; and
 - (c) remove optional disclosures, to allow the Standard to focus on the minimum reporting requirements.

Reporting requirements for small Tier 4 not-for-profit entities

BC9. The NZASB is aware that, for smaller Tier 4 not-for-profit entities, there are often limited resources available, and it is difficult to attract and retain volunteers or staff who have experience completing annual reporting requirements in accordance with XRB accounting standards. Feedback from respondents highlighted the need for the reporting burden to be reduced for these entities, to make it easier for them to meet their annual reporting requirements.

BC10. The NZASB considers it important that these small entities, particularly small registered charities, comply with XRB accounting standards for accountability and transparency purposes. The NZASB therefore considered how best to address this feedback and make it easier for these entities to meet their statutory annual reporting requirements. One option was to create another, simpler, reporting tier (i.e., a “Tier 5”), but ultimately the NZASB decided that doing so would add complexity to the financial reporting environment in New Zealand, resulting in potential confusion among constituents.

BC11. The NZASB therefore proposed to introduce reporting concessions, within the Standard itself, for Tier 4 not-for-profit entities that meet the following criteria.

- (a) Eligibility (as permitted by legislation) to report using the Standard; and
- (b) Total annual payments of less than \$10,000 for the current and previous financial years.

BC12. Tier 4 not-for-profit entities that meet the criteria in paragraph BC11 (i.e., “small Tier 4 entities”) would be exempt from disclosing the following information in the Performance Report.

- (a) The entity structure.
- (b) The names of any entities controlled by the entity.
- (c) Quantifying (to the extent practicable) the significant activities undertaken during the financial year.
- (d) The amount paid to purchase significant assets or an estimate of their current value.
- (e) The source of the estimate of current value (where the current value has been estimated).
- (f) The amount of significant grants or donations received which are expected to be used in future financial years.
- (g) The nature of the expectations and conditions over future use of significant grants.
- (h) Information about the impact of significant events occurring after the financial year-end but before the financial statements are authorised.
- (i) Any additional information considered necessary for readers to understand the overall performance of the entity.

Service performance reporting

BC13. Feedback from the post-implementation review indicated that some preparers were finding the requirements concerning the reporting of service performance information difficult to apply and understand – in particular, the requirement to report on “outputs” (as well as the optional disclosure of “outcomes”) was causing confusion, as the terms are not well understood by all preparers.

BC14. The NZASB noted that the statement of service performance requirements in PBE SFR-C (NFP) were developed before PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) was developed and issued. The NZASB decided to re-express the requirements for Tier 4 not-for-profit entities so that they were more in line with the requirements in PBE FRS 48.

BC15. The NZASB proposed to remove terms such as “outcomes” and “outputs” from PBE SFR-C (NFP) but retain the requirement for a Tier 4 not-for-profit entity to report on what it is seeking to achieve

over the medium to long term (i.e., its “objectives”) and the significant activities undertaken during the reporting period to achieve these objectives.

Categories for presenting cash received and cash paid

BC16. PBE SFR-C (NFP) requires cash received and cash paid to be aggregated and reported within a set of prescribed categories in order to improve the understandability, consistency and comparability of performance reports. While feedback from the post-implementation review was generally supportive of maintaining the minimum categories, many respondents raised concerns about application and interpretation challenges when using the existing categories. Respondents also noted that the required categories could be improved by introducing additional categories and simplifying existing categories.

BC17. In response to this feedback, the NZASB proposed to refine the existing categories and add new categories, such as:

- (a) “sale of goods or services (commercial activities)” and “costs related to the sale of goods or services (commercial activities)” – for those transactions arising from trading activities, where goods or services are sold on commercial terms for the primary purpose of generating a profit (with the profits earned being used to fund the entity’s not-for-profit purpose).
- (b) “funding from service delivery grants/contracts” – for grants that are, in substance, a contract for the delivery of specified goods or services. PBE SFR-C (NFP) already allowed for these transactions to be reported separately, as an optional disclosure, but the NZASB proposed to make this a required category.
- (c) “grants received” – to allow for separate reporting of grants other than those reported under the category “funding from service delivery grants/contracts”.

BC18. The NZASB also proposed to split the minimum category “volunteer and employee related payments” into two separate required categories – “employee remuneration” and “volunteer and other employee costs”.

BC19. The increase in the number of categories was expected to assist entities when allocating different types of transactions. As the amount of mandatory disaggregation has increased (where applicable to the entity’s particular circumstances), the NZASB also proposed to remove the option to provide further disaggregation in the statement of cash received and cash paid, noting that if an entity wants to provide more disaggregated information, they are still able to do so in the notes to the Performance Report.

Statement of Resources and Commitments

BC20. Feedback from the post-implementation review highlighted concerns about the purpose of the Statement of Resources and Commitments in PBE SFR-C (NFP). Many respondents considered that it is not useful to impose accrual concepts (such as the reporting of assets and liabilities) through a statement of this nature onto entities that are applying a cash-based standard.

BC21. The NZASB considers it important for a Tier 4 not-for-profit entity to continue to provide information about its significant assets and liabilities, to enable the reader to understand the assets available to deliver future services and the entity’s ability to continue operating in the future. The NZASB also noted that retaining the requirements to report this information was important to assist smaller entities to transition to Tier 3 when/if they exceed the Tier 4 size threshold in the future.

BC22. However, the NZASB agreed that this information should be kept at a minimum to recognise the cash-based nature of the Standard and the need to keep the requirements simple. Therefore, the NZASB proposed to:

- (a) remove the requirement to prepare a Statement of Resources and Commitments;

- (b) require disclosure of significant assets and liabilities in the notes to the Performance Report;
- (c) require disclosure (when significant) of either the amount paid to purchase the asset or the estimated current value of the asset (with the value of land and buildings permitted to be estimated using rateable values); and
- (d) require, for each significant amount owed to an external party, the amount expected to be paid in the future to fully settle the liability.

New standard for Tier 4 not-for-profit entities

BC23. Due to the extent of these proposed changes to PBE SFR-C (NFP), the NZASB decided that it would be appropriate to develop a new standard to supersede PBE SFR-C (NFP). The NZASB also decided to give the new standard a simpler, more understandable name.

Feedback on ED NZASB ED 2022-6

BC24. The NZASB received 36 submissions on ED NZASB 2022-6. Overall, there was strong support for the proposals; however, the NZASB decided to amend its proposals in certain areas in response to specific feedback received.

BC25. The key changes from the proposals in ED NZASB 2022-6 are set out in paragraphs BC26–BC39.

Simplification of PBE SFR-C (NFP)

BC26. Respondents generally agreed with the simplification proposals in ED NZASB 2022-6. However, there was some feedback to suggest that the Standard should be made even simpler. The Board considered how to address the feedback and decided to:

- (a) extend the proposed reporting concessions for small Tier 4 entities to all Tier 4 entities; and
- (b) substantially reduce the need for Tier 4 not-for-profit entities to apply judgment when preparing the Performance Report.

BC27. The decision in paragraph BC26(a) is discussed further in paragraphs BC29–BC35. With respect to the decision in paragraph BC26(b), the Board decided that the following areas of the Performance Report should allow for a more rules-based approach.

- (a) *Statement of service performance* – the word “significant” is substituted with “main” when referring to the activities undertaken during the financial year. Although disclosing information about an entity’s main activities still requires an element of judgement, the Board considers this word to be more understandable to Tier 4 not-for-profit entities.
- (b) *Notes (Significant assets)* – ED NZASB 2022-6 required a Tier 4 entity to determine which assets would be considered “significant” to the readers of the Performance Report. To simplify these proposals further, the Board decided to stipulate which types of assets are usually significant to a Tier 4 entity. These assets are:
 - (i) land and buildings
 - (ii) vehicles
 - (iii) investments (shares, bonds, units in managed funds)
 - (iv) amounts loaned to other organisations or persons
- (c) *Notes (Significant liabilities)* – as for significant assets, ED NZASB 2022-6 required a Tier 4 entity to determine which liabilities would be considered “significant” to the readers of the Performance Report. To simply these proposals further, the Board decided to stipulate which types of assets are usually significant to a Tier 4 entity. These assets are:

- (i) loans and other borrowings
 - (ii) amounts borrowed from other organisations or persons
 - (iii) money held on behalf of others
- (d) *Notes (Correction of errors)* – ED NZASB proposed that a Tier 4 entity should include information about significant errors in the Performance Report. To simplify these proposals further, the Board decided that disclosure is required for all errors, other than those that are clearly trivial.

BC28. The Board’s decision to simplify the proposals in ED NZASB 2022-6 has resulted in fewer uses of the term “significant” within the Standard (and therefore fewer instances where a Tier 4 entity must apply judgment to determine what is “significant”). However, the term has not been removed completely from the Standard – there is still a definition for “significant” in the Glossary and the term appears in note disclosure requirements relating to assets, liabilities and related parties. The Board considered that it was necessary to retain some exposure to the term because users are interested in understanding the significance of these elements and transactions to Tier 4 entities. The Board also note that Tier 4 not-for-profit entities may transition to Tier 3 in the future, and the use of judgment is more critical when applying *Reporting Requirements for Tier 3 Not-for-Profit Entities*.

Reporting requirements for small Tier 4 not-for-profit entities

BC29. The NZASB received mixed feedback on its proposals to create reduced reporting requirements for small Tier 4 not-for-profit entities. Some of the concerns raised by respondents are listed below.

- (a) Small entity concessions within the Standard may be confusing/complicated for preparers.
- (b) The concessions may be too permissive for registered charities.
- (c) Providing small entity concessions is not aligned with the current New Zealand Accounting Standards Framework.
- (d) The threshold of \$10,000 is too low.
- (e) The concessions will interfere with trend analysis within the sector.
- (f) Tier 4 entities should not have to report anything, and the Standard should be removed entirely (this feedback was disregarded, as it is outside of the XRB’s mandate to remove reporting requirements for entities required by law to report under XRB Standards).

BC30. Among those respondents who agreed with the concept of a small Tier 4 entity, there were some respondents who only partially agreed with the proposed reporting concessions and either suggested additional concessions or recommended not providing a concession for a particular requirement. There was also feedback that the requirements for small Tier 4 entities (taking into account the proposed reporting concessions) were still too onerous.

BC31. The NZASB considered this feedback and decided that the most appropriate way to address respondents’ feedback is to remove the concept of a small Tier 4 entity and instead make further simplifications to the Standard, which involved extending certain reporting concessions to all Tier 4 not-for-profit entities. By making this decision, the NZASB intends to make the Standard easier to apply for all Tier 4 not-for-profit entities without adding unnecessary complexity to the regulatory environment.

BC32. The table below sets out the Board’s decisions with respect to each of the proposed reporting concessions in ED NZASB 2022-6.

Concession in ED NZASB 2022-6	Comment
The entity structure.	Extended to all Tier 4 not-for-profit entities.

Concession in ED NZASB 2022-6	Comment
	Although there was some feedback stating that registered charities should be required to disclose this information, Tier 4 not-for-profit entities do not frequently have complex structures and it is likely that this information will already be available on a public register alongside the Performance Report.
The names of any entities controlled by the entity.	Extended to all Tier 4 not-for-profit entities. Although there was some feedback stating that Tier 4 not-for-profit entities should be required to disclose this information, these entities typically do not control other entities – in cases where they do, this information is usually noted on a public register alongside the Performance Report (if the entity is a registered charity).
Quantify to the extent practicable, the significant activities undertaken during the financial year.	Concession removed. Tier 4 entities should be able to quantify activities where practicable, and doing so provides useful information. Refer to BC26(a) for discussion on the change from “significant activities” to “main activities”.
The amount paid to purchase significant assets or an estimate of their current value. When the current value has been estimated, the source of that estimate.	Concession removed. Feedback on ED NZASB 2022-6 indicates that this information is considered important. Removing this concession will also ensure that significant assets and significant liabilities are accounted for similarly, which will make the Standard more internally consistent. Refer to BC26(b) for further discussion on significant assets.
The amount of significant grants or donations received which are expected to be used in future financial years. The nature of the expectations and conditions over future use of the funds received.	Retained as an optional disclosure within the Standard. This disclosure is significantly less relevant in a cash-based standard where grants or donations with expectations attached cannot give rise to a liability. However, there was feedback that indicated that a small Tier 4 entity should be able to provide this information if applicable. Therefore, the NZASB decided to retain this as an optional disclosure within the Standard, for all Tier 4 not-for-profit entities.
Information about the impact of the significant events occurring after the financial year-end but before the financial statements are authorised. Any additional information considered necessary for readers to understand the overall performance of the entity.	Retained as an optional disclosure within the Standard. There was feedback that indicated that a small Tier 4 entity should be able to provide this information if applicable. Therefore, the NZASB decided to retain this as an optional disclosure within the Standard, for all Tier 4 not-for-profit entities.

BC33. There was feedback from one respondent, suggesting that a small Tier 4 entity should not have to disclose its medium to long term objectives. The NZASB considered this feedback and decided that, for most Tier 4 not-for-profit entities, their medium to long term objectives are likely to be:

- (a) closely aligned to their stated purposes, which will already be publicly available alongside the Performance Report if they are a registered charity; or
- (b) self-explanatory due to the relatively simple nature of most Tier 4 not-for-profit entities.

BC34. Therefore, the NZASB decided not to require Tier 4 not-for-profit entities to disclose their medium to long term objectives in the Performance Report.

BC35. An additional reporting concession suggested by a respondent concerns the reporting of the value of significant liabilities. The NZASB considers this information to be important for readers and therefore did not decide to provide this reporting concession to any Tier 4 not-for-profit entities.

Service performance reporting

BC36. There was strong support for the NZASB's proposals with respect to service performance reporting. Therefore, there are no significant changes to the proposals in ED NZASB 2022-6 aside from the NZASB's decision not to require the disclosure of medium to long term objectives (see paragraphs BC32 – BC33).

Categories for presenting cash received and cash paid

BC37. Respondents mostly agreed with the proposed required categories for cash received and cash paid, with some minor amendments to the category names suggested. One significant change that the NZASB decided to make, was to remove "other employee costs" from the *Volunteer and Other Employee Costs* category and add it to the *Employee Remuneration* category. This was done to align the Standard with *Reporting Requirements for Tier 4 Public Sector Entities*, where feedback suggested that it would be too complex and time consuming for Tier 4 public sector entities to decide which costs are "employee remuneration" and which costs are "other employee costs".

Statement of Resources and Commitments

BC38. There was mixed feedback relating to the proposals in ED NZASB 2022-6. Most respondents agreed with the proposal to remove the Statement of Service Performance but had some concerns about the proposed note disclosure. These concerns were largely addressed through the changes discussed in paragraph BC27(b) and (c) and paragraph BC32.

Other changes

BC39. PBE SFR-C (NFP) requires consolidation. Feedback from a respondent on ED NZASB 2022-6 suggested that this requirement be reconsidered, as for cost/benefit reasons it is not appropriate for Tier 4 not-for-profit entities. In light of this feedback, and the fact that the consolidation requirement is not likely to be applicable to the vast majority of Tier 4 not-for-profit entities, the NZASB decided to remove this requirement from the Standard. However, a Tier 4 not-for-profit entity that controls one or more entities is still required to assess whether its total combined operating payments exceed \$140,000 for the purposes of determining its eligibility to report under Tier 4.