

Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs

Minister for the Digital Economy and Communications

Minister for State Owned Enterprises

Minister of Statistics

Minister Responsible for the Earthquake Commission



11 MAR 2021

Michele Embling
Chair
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142
Email:

Dear Michele

ANNUAL LETTER OF EXPECTATIONS FOR 2021/22

I am writing to convey my portfolio priorities and your role in achieving these priorities, along with my strategic and performance expectations for the External Reporting Board (XRB) in relation to the 2021/22 financial year.

I would like to extend my sincere thanks for all of your hard work over the previous year. I understand that you contributed to the COVID-19 effort through issuing guidance material to assist preparers, auditors and users with the application of standards during this time to help maintain trust and confidence in financial reporting. It has been a challenging year working in a COVID-19 environment and I would like to commend you for your agility and diligence as an organisation in responding to these challenges.

The goal of this government's economic strategy is to improve the well-being and living standards of New Zealanders through sustainable and inclusive growth. This means moving beyond narrow economic indicators and measures of success, and instead puts the well-being of our people and the environment at the centre.

Commerce and Consumer Affairs priorities and what this means for the XRB

The Government's economic priorities for developing a productive, sustainable and inclusive economy have not changed, however, a particular focus for this year's Government is on resetting and rebuilding our economy to position New Zealand for recovery from the effects of COVID-19. This is relevant to the XRB more than ever, as trust and confidence in the financial reporting system underpins macro-economic stability of the financial system as a whole. Your new work programme to develop

and implement climate-related disclosures so the effects of climate change will be routinely considered in business and investment decisions fits well with our economic priority for a sustainable economy and the declaration of a Climate Emergency in December 2020.

My priorities for this year in relation to the financial reporting are as follows:

- progressing legislation to enable the XRB to develop and issue standards for climate-related disclosures (CRDs).
- improved communication of standards and accounting and assurance requirements, to all sectors including public, not-for-profit and the corporate sector and focusing engagement with Māori.

I expect the XRB to contribute to achieving results against these priorities, as appropriate.

This is a busy time for the XRB with an expanding mandate, and increased expectations that come with it. I appreciate all the hard work you have put in to this work so far and know you will continue to meet these challenges and carry on your core functions effectively.

This Government's priorities extend beyond agency boundaries – many will involve you playing an effective role within an integrated and coherent system. I expect you to focus on working together with a range of agencies and parties to achieve these priorities.

Specific expectations for the XRB

I want to commend the XRB on your achievements over the last year including your COVID-19 response, developing a work programme for CRDs, the continued issuing of accounting, and auditing and assurance standards, the development of your Statement of Intent from 2020-25, work on integrated reporting; and strong engagement with international organisations. The Board continues to have a strong record in delivering its objectives while maintaining high standards of trust and confidence from stakeholders.

During 2021/22, my specific expectations are that the XRB will:

- continue work to develop and issue CRD standards based on the recommendations of the Task Force on Climate-related Financial Disclosures
- as time permits, work on progressing a framework for other areas of integrated reporting, to meet increasing demand for best practice reporting and of non-financial information. This work should not slow the implementation of CRD standards. It should be consistent with international developments on sustainability and other non-financial reporting
- develop capability to engage meaningfully with Māori on the wider work of the XRB

- continue to monitor and respond to any COVID-19 developments and assist preparers and auditors who may be affected by these changes
- continue to issue accounting and auditing standards which are informed by international community and are applied to function effectively in the New Zealand context
- continue to maintain global linkages, seek influence and provide thought leadership on the development of standards by international standards boards and their governance and oversight bodies. This includes continuing to maintain a strong relationship and collaborate closely with Australian standards setters
- continue to monitor trends within the audit profession and issue auditing, assurance and professional and ethical standards
- continue to monitor the extent to which accounting and auditing standards are meeting user needs and actively seek feedback from users
- continue to foster strong relationships and meaningful engagement with stakeholders, both in the development of standards and in raising awareness and understanding of XRB standards.
- consider the direct and indirect costs of the XRB's actions on businesses, not-for-profit and government entities and the wider economy.

General expectations and good governance

I am confident the XRB will work constructively with the Government to help realise these priorities. In doing so, please work closely with officials to share information on the impacts of COVID-19 to ensure policy settings give the best chance for delivering a revitalised New Zealand economy. In addition, I expect you to follow the updated *Enduring Letter of Expectations* from the Minister of Finance and Minister of State Services to Statutory Crown Entities in 2019 and the Ministry of Business, Innovation and Employment's *Monitoring Arrangements for MBIE-monitored Crown entities*.

As part of your role in governing a high-performing entity, I expect you to:

- maintain an effective board
- be the primary monitor of the XRB's performance and maintain effective relationships with my advisors in the Ministry of Business, Innovation and Employment (MBIE)
- operate a 'no surprises' policy.

These expectations are set out in more detail in the **Annex 1** to this letter.

Strategy and performance information

All Crown entities must prepare an annual Statement of Performance Expectations (SPE) and have an approved Statement of Intent (SOI). The annual SPE should provide a clear performance framework and support excellent reporting to Parliament and the public on results.

As the XRB produced a new SOI in 2020/21 financial year, I do not expect the XRB to produce a new SOI for the 2021/22 financial year.

Response

Your advice by **30 March 2020** on how you propose to respond to the expectations set out in this letter would be appreciated. I would be happy to consider approaches that best achieve our collective aims and work well for the XRB. In the first instance, please discuss your proposed response with MBIE.

I look forward to developing an effective working relationship over the coming year.

Yours sincerely,

A handwritten signature in blue ink, consisting of a stylized 'D' and 'C' intertwined, with a horizontal line extending to the left.

Hon Dr David Clark
Minister of Commerce and Consumer Affairs

Copy to: April Mackenzie
Chief Executive, External Reporting Board

James Hartley
General Manager, Commerce, Consumers and Communications, MBIE

Annex 1: General expectations and good governance

Effective board

Ensuring the XRB is, and remains, high-performing is essential, and an effective board is a key component of this. The XRB has in the 2018/2019 previous financial year, used tools such as the Performance Improvement Framework to self-assess and improve their performance as a governing body. I expect you to advise me of the progress of your actions, as well as the steps the board is taking to respond to the findings of your self-review. MBIE can provide support for the board in undertaking this work.

Your input into succession planning for the board is also sought as and when member's terms expire. I expect you to provide MBIE with your view of the competency mix you need to work well as a board, along with your thoughts on upcoming appointments and any candidate attributes to target.

Effective monitoring of XRB performance by the board and relationship with MBIE

In addition to setting and driving a strategy that delivers on government priorities, your board is the most important monitor of XRB performance. I expect the board to provide me with high-quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity.

I also expect you to continue the constructive working relationship you have developed with your monitor at MBIE.

No surprises

The Government operates a 'no surprises' policy. No surprises means that the Government expects a board to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible, and
- inform the Minister in advance of any major strategic initiatives.

I expect to hear about emerging issues and what major actions the board is considering. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.