



EXPLANATORY GUIDE A2: OVERVIEW OF THE ACCOUNTING STANDARD SETTING PROCESS (EG A2)

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This Explanatory Guide outlines the due process that will be followed by the New Zealand Accounting Standards Board (NZASB), a sub-Board of the External Reporting Board (XRB), in developing and issuing accounting standards.

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Roles of the XRB and NZASB

- 1 The External Reporting Board (XRB) is an independent Crown Entity established under section 22 of the Financial Reporting Act 1993 (the Act) and subject to the provisions of the Crown Entities Act 2004. Under the Act the XRB is responsible for financial reporting strategy, developing and issuing accounting standards, developing and issuing auditing and assurance standards, and giving directions and guidance about accounting policies that have authoritative support in New Zealand. For the purposes of this Explanatory Guide the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 2 The XRB Board has established a sub-Board, the New Zealand Accounting Standards Board (NZASB). The NZASB is responsible for developing and issuing accounting standards, and giving directions and guidance about accounting policies that have authoritative support in New Zealand. The NZASB operates under delegated authority from the XRB Board.
- 3 While responsibility for the setting of accounting standards has been delegated to the NZASB, the XRB Board is concerned to ensure that appropriate due process is used in the promulgation of standards. The XRB Board considers due process to be an essential part of an effective standard setting process and important to achieving the XRB's outcome goal of *contributing to the creation of dynamic and trusted markets through the establishment of an accounting and assurance standards framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally, and enhances entities' accountability to stakeholders*. Due process is also a statutory obligation.¹
- 4 The XRB Board has established a minimum set of due process requirements to be followed by the NZASB in undertaking its responsibilities. Those requirements are outlined in this Explanatory Guide. The publication of this Guide is designed to ensure that the standard setting process is clear and transparent to the constituency, and to indicate where the constituency may contribute to the process.

NZASB standard setting process

Context

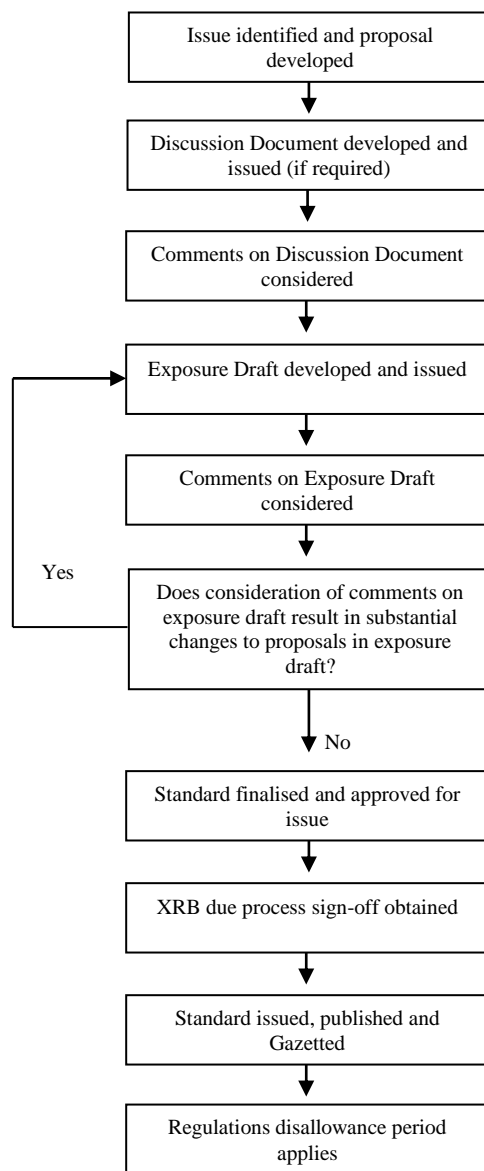
- 5 In broad terms the NZASB issues two types of standards: New Zealand equivalents to international standards developed and issued by international standards-setting bodies, notably the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB), and domestic standards.
- 6 In developing New Zealand equivalents to international pronouncements the following processes need to be taken into account:
 - (a) The due process followed by the IASB in developing and approving International Financial Reporting Standards (IFRSs) is described in the *IASB Due Process Handbook* December 2010 and in the *IASB Preface to International Financial Reporting Standards*.
 - (b) The due process followed by the IFRS Interpretations Committee is described in the *Preface to International Financial Reporting Standards*. The IFRS Interpretations Committee is a committee of the IASB that provides timely guidance on newly identified financial reporting issues not specifically addressed in IFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop.
 - (c) The due process followed by the IPSASB of the International Federation of Accountants (IFAC) is described in the *Preface to International Public Sector Accounting Standards*.

¹ Section 26(1) of the Financial Reporting Act 1993 (as amended by the Financial Reporting Amendment Act 2011) requires that, before a standard or an amendment to a standard is issued, the External Reporting Board must take reasonable steps to consult with persons or organisations, or their representatives, who in the opinion of the Board, would be affected by the issue of the standard or the amendment.

General process

- 7 The general process followed by the NZASB in developing accounting standards² is illustrated in Figure 1.

Figure 1: General process for developing accounting standards



- 8 While the process used follows this general approach, the exact process applied is dependent on the type of standard being developed and relevant circumstances. For example, where comments on an exposure draft overwhelmingly propose a substantial change, that change need not be re-exposed.

Process for international standards

- 9 The IASB and IPSASB periodically issue due process documents, that is, consultation papers, discussion papers, exposure drafts and requests for views. The NZASB will expose for comment in New Zealand all IASB and IPSASB due process documents concurrently with their international exposure period. Interested parties will be notified of the issue of these due process documents. Where appropriate,

² The due process followed in developing accounting standards also applies to amendments to accounting standards and the development of other accounting related pronouncements where relevant.

forums might be staged or other arrangements made to enable further discussion and exchange of opinion.

- 10 Constituents' comments will generally be sought on:
 - (a) the proposals set out in the international exposure draft;
 - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the international standard; and
 - (c) issues relating to the Privacy Act 1993.
- 11 The international due process documents will generally be open for comment for a period of three months (or 120 days in the case of IASB documents), but this may be a longer or a shorter period depending on the complexity of the topic and the period of the international exposure. Proposed changes that result in only minor amendment to an issued international standard may be progressed in a shorter period.
- 12 Individuals and organisations, as well as National Standard Setters, are able to make submissions to the IASB and the IPSASB on their due process documents.
- 13 As the National Standard Setter, the NZASB will make submissions to international standard setters where it considers it worthwhile to do so. The XRB is strongly committed to the international convergence and international harmonisation of standards. It considers commenting on due process documents as well as contributing to the development of those documents where appropriate is an important way for it to reflect its support for the work of the IASB and the IPSASB.
- 14 The NZASB will take into account constituents' comments when developing the New Zealand response to the relevant international standard-setting body.
- 15 Constituents are encouraged to comment directly to the relevant international standard-setting body where the topic is a matter of interest to them. Constituents are requested to forward a copy of their submission to the IASB or the IPSASB to the NZASB so that it can consider those comments in preparing its own submission.
- 16 International standards per se are not issued in New Zealand. Accordingly, the NZASB's involvement in the process of issuing international standards ceases when the exposure draft submission process is completed. However, the NZASB will notify the constituency when a new international standard is issued.

Process for New Zealand equivalents to international standards

- 17 New Zealand's decision to adopt International Financial Reporting Standards (IFRSs) is a commitment to using that set of standards as a whole. This means that the failure to adopt any particular standard, or amendment of a recognition or measurement requirement, or removal of a disclosure requirement would remove the ability of for-profit entities in New Zealand to assert (per IAS 1 *Presentation of Financial Statements*) compliance with those standards.
- 18 Accordingly, the XRB's strategy is to maintain New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) for for-profit entities as a set of standards converged with IFRSs (i.e. substantively the same) as well as harmonised with Australian standards³. This means that the NZASB:
 - cannot amend IFRS recognition and measurement requirements for for-profit entities; and
 - cannot reduce IFRS disclosure requirements for for-profit entities – although it can add additional disclosure requirements if it is considered important to do so in the New Zealand context.
- 19 The XRB is strongly committed to harmonising New Zealand and Australian accounting standards for for-profit entities. Australia has also adopted IFRSs and the AASB has a parallel policy to New Zealand

³ In accordance with the Government's policy objectives, the XRB is committed to harmonised trans-Tasman standards for for-profit entities. This is reflected in the harmonized IFRS equivalents and also through cross appointments on the New Zealand and Australian standard setting bodies.

- on adapting IFRSs for issue as equivalent domestic standards. Therefore in most cases the required harmonisation will tend to follow simply as the result of the respective policies on adoption of IFRSs.
- 20 Further, in 2011 New Zealand and Australian accounting standard setters established a harmonised set of domestic equivalents to IFRSs. The standards are also converged with (pure) IFRSs with any additional disclosure requirements contained in a New Zealand domestic standard, FRS-44 *New Zealand Additional Disclosures*. As a result of this harmonisation and convergence process, modifications to IFRSs for for-profit entities are now expected to be very rare.
- 21 Where an international standard is being adopted without substantive change as the New Zealand equivalent, a separate due process for a new or amended NZ IFRS is not required because it is covered by the due process for the international standard itself. The NZASB will therefore proceed to issue a NZ IFRS once an IFRS (that has been subject to due process) has been issued.
- 22 However, should the NZASB consider that modifications to an international standard (i.e. an IFRS or an International Public Sector Accounting Standard (IPSAS) are required in developing it as a New Zealand equivalent to the international standard (for example, to customise it for public benefit entities (PBEs) or to incorporate differential reporting concessions), then it will run a specific due process for that New Zealand modification. That process will run separately from, but ideally with, the due process for the international standard itself. The proposed New Zealand modifications will be clearly highlighted in the exposure draft.
- 23 New Zealand equivalents to international standards that contain modifications from the (pure) international standard will clearly identify the modification from the international standard on which the New Zealand equivalent has been based.

Process for domestic standards

- 24 The process for developing domestic standards will normally follow the process outlined in Figure 1.
- 25 In developing domestic standards, constituents' views will be sought on the need for, and content of, any requirements. For significant projects, the first step will commonly be a Discussion Document identifying the issues that the NZASB is considering and the options regarding those issues.
- 26 The NZASB will then prepare an Exposure Draft of the proposed standard with accompanying explanatory material that will highlight:
- (a) the reason for the development of the standard; and
 - (b) existing practice and any relevant guidance.
- 27 Interested parties will be notified of the issue of all due process documents. Where appropriate, forums might be staged or other arrangements made to enable further discussion and exchange of opinion.
- 28 Exposure drafts will generally be open for a three month comment period. Longer comment periods may be appropriate in certain circumstances. Shorter comment periods will be used only for urgent or trivial matters and will never be less than one month.
- 29 Constituents' comments will generally be sought on:
- (a) the proposed requirements and the need for any further additional requirements;
 - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the standard; and
 - (c) issues relating to the Privacy Act 1993.
- 30 Constituents' comments will be taken into account when finalising the domestic standard. Unless a constituent requests otherwise, constituents' comments will be posted on the XRB's website.

Process for approval of standards

- 31 Once the exposure period has been completed and comments (as applicable) considered by the NZASB, the NZASB will finalise the standard and approve it for issue in accordance with the Act.
- 32 Before approving it for issue the NZASB will satisfy itself that reasonable steps have been taken to consult with persons or organisations likely to be affected by the proposed standard, or representatives of

such persons or organisations. The NZASB will also satisfy itself that the proposed standard is likely to achieve its objectives and that the advantages of the standard are sufficient to justify its issue.

- 33 The NZASB is then required to obtain a certificate signed by the XRB Board Chairman, or in his absence another XRB Member so designated, authorising the standard be issued (or amended or revoked). The issuing of the certificate is the last step in the process of issuing a standard.
- 34 The certificate process involves a check that the standard to be issued is consistent with the XRB's financial reporting strategy, that due process has been followed, and that matters raised by the constituency during this process have been adequately considered. This reflects the XRB Board's interest in ensuring due process is followed as outlined in paragraphs 3 and 4.
- 35 Following the signing of the certificate the NZASB will issue the standard. This will be notified to the constituency by notification in the Gazette, and also by general communication.
- 36 In accordance with the provisions of the Act, all issued standards (and amendment to standards) are subject to the Regulations (Disallowance) Act 1989. This means that the standards are treated as Regulations and must be tabled in Parliament within 16 sitting days of the standard being issued by the NZASB. Parliament may, by resolution within 21 sitting days, disallow a standard. The parliamentary process surrounding this involves consideration of the issued standard by the Regulations Review Committee which can recommend disallowance to the House.
- 37 The requirements of existing standards that are affected by the proposals in an exposure draft remain in force until the approval date of the new standard. Subject to the requirements of the standard, a new or revised or amended standard may be applied in advance of the effective date of the standard.

Process for other pronouncements

- 38 Pronouncements other than standards may also be issued by the NZASB from time to time. Examples of these types of pronouncements include:
- *Framework documents.* These types of pronouncements will be subject to the same, or similar, due process as the development of standards.
 - *Practice statements, technical practice aids and other non-mandatory guidance.* Consultation will take place as part of the development of these types of pronouncements although the due process may be less than the due process for standards and framework documents, depending on the topic.
- 39 A process similar to that for developing accounting standards is also applied for other pronouncements developed and issued by the NZASB.