XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	**ASF review – special purpose financial reporting**
Date:	24 July 2026
Prepared by:	Gali Slyuzberg
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☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. As part of our project to review the New Zealand Accounting Standards Framework (ASF), we have considered the viability of exploring an option whereby the XRB would develop special purpose financial reporting (SPFR) requirements for for-profit entities and public benefit entities (PBEs).

2. The purpose of this memo is to document our considerations on whether XRB-developed SPFR requirements is a viable option to explore as part of the ASF review, and to seek the NZASB's views on how to communicate our recommended conclusion in the future Discussion Paper.

Recommendations

3. We recommend that the Board provides **FEEDBACK** on:

   (a) The considerations in this memo on the viability of XRB-developed SPFR requirements, and the recommendation that this is not a viable option to explore as part of the ASF review; and

   (b) Our suggestion on how to explain these considerations and recommended conclusions in the future Discussion Paper on the ASF review.

Structure of this memo

4. The remainder of this memo is organised as follows.

   (a) General purpose vs special purpose financial reports

   (b) Why are we considering SPFR as part of scoping the ASF review?

   (c) Statutory context and policy intent of GPFR requirements

   (d) Observations from Australia

   (e) Viability of SPFR as a framework option to explore in the ASF review

   (f) Indicative wording for the Discussion Paper

   (g) Next steps

   (h) Appendix 1: Meaning of GAAP and non-GAAP standard in primary legislation

   (i) Appendix 2: Special purpose financial reporting - slides

General purpose vs special purpose financial reports

5. Currently, the XRB issues accounting standards for the purpose of preparing **'general purpose financial reports' (GPFR)**. XRB A1 *Application of the Accounting Standards Framework* defines GPFR as "financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

6. The objective of GPFR is as explained in the XRB's internationally-aligned Conceptual Frameworks for for-profit entities and PBEs that are required to prepare GPFR.

Table 1: Objective of GPFR per the internationally-aligned conceptual frameworks

For profit entities: NZ equivalent to the IASB Conceptual Framework for Financial Reporting	Public Benefit Entities' Conceptual Framework
1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.	2.1 The objectives of financial reporting by public benefit entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes"). 2.4 [...] GPFRs of public benefit entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public benefit entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and elected or appointed representatives are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the PBE Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives [...].

7. The XRB's Explanatory Guide A1 *Guide to Application of the Accounting Standards Framework* (EG A1) explains the difference between **GPFR** and **special purpose financial reports (SPFR)**. The relevant paragraphs in EG A1 are shown in the table below.

Table 2: GPFR vs SPFR explanation in EG A1

GPFR	SPFR
Para 22: The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seeks to provide information to a range of general purpose users with different interests in that information. GAAP and non-GAAP standards issued by the XRB reflect this.[12] *Footnote:* [12] The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the [Conceptual Frameworks – see above].	Para 23: By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or Statistics New Zealand, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

8. SPFR are reports that aim to address the information needs of specific users, who have the ability to request specific information from the entity – e.g. reports requested by and prepared specifically for the Inland Revenue, the entity's bank, or a specific shareholder/owner. By contrast, GPFR are intended to satisfy the information needs of a broader range of external users as indicated in the respective for-profit and PBE conceptual frameworks – i.e. current and potential investors, lenders and creditors in the for-profit sector, and service providers, resource recipients and their representatives in the PBE sector.

Why are we considering SPFR as part of scoping the ASF review?

9. As shown in Figure 1 in the next section of the memo, entities that are not required by primary legislation to report in accordance with standards issued by the XRB may choose, or may be required by specific users, to prepare SPFR. For example:

   (a) A company may have no statutory requirement to report in accordance with standards issued by the XRB, i.e. it is not 'large' under the Companies Act 1993, not an FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013, etc. However, that company may choose to prepare SPFR for its five shareholders, to support their governance efforts. In preparing the SPFR, the company's management would develop accounting policies and agree on them with these specific shareholders. Some of these policies might be aligned with requirements in NZ IFRS, and some might not be – depending on what is considered most useful for the five shareholders for whom the SPFR are prepared, and considering preparation costs for management in this context. The company would not assert compliance with XRB standards in their SPFR.

   (b) Inland Revenue requires companies that are not required to prepare financial statements in accordance with XRB standards to prepare SPFR for tax purposes – per the minimum requirements in the Tax Administration Act 1994.

10. We understand that SPFR is beneficial for those entities that prepare such reports and for their users, because such reporting allows entities to tailor their recognition, measurement, presentation and disclosure policies to specific users – and to avoid the financial reporting costs associated with some of the more complex or disclosure-heavy requirements in NZ IFRS or PBE Standards, which are aimed at satisfying the needs of broader user groups.

11. For example, in the case of the hypothetical company mentioned above: Management might depreciate property, plant and equipment (PP&E), other than land, as aligned with NZ IAS 16 *Property, Plant and Equipment,* because the resulting information is important to the specific shareholders – but might not recognise deferred tax as required by NZ IAS 12 *Income Taxes* and might not use the right-of-use (ROU) model for leases as required by NZ IFRS 16 *Leases*, if the information provided by deferred tax accounting and ROU lessee model is not of great interest to those specific shareholders. This way, the company avoids the cost of applying deferred tax accounting and the ROU lessee accounting model, but the shareholders still get the benefits from the company applying established PP&E accounting which is consistent with other entities.

12. We acknowledge the benefits of SPFR for entities that are currently permitted to report in this way. We note that our current ASF considerations will not take away this permission, as the XRB does not have the mandate to expand the scope of entities who are required to prepare financial statements in accordance with our standards.[1] Entities that are currently permitted to prepare SPFR and not required by legislation to apply XRB standards are outside the scope of the ASF.

[1] The XRB does not have a mandate to determine 'who' (i.e. which entities) must prepare financial statements in accordance with standards issued by the XRB. Rather, this is determined in primary legislation. See the next section for more information.

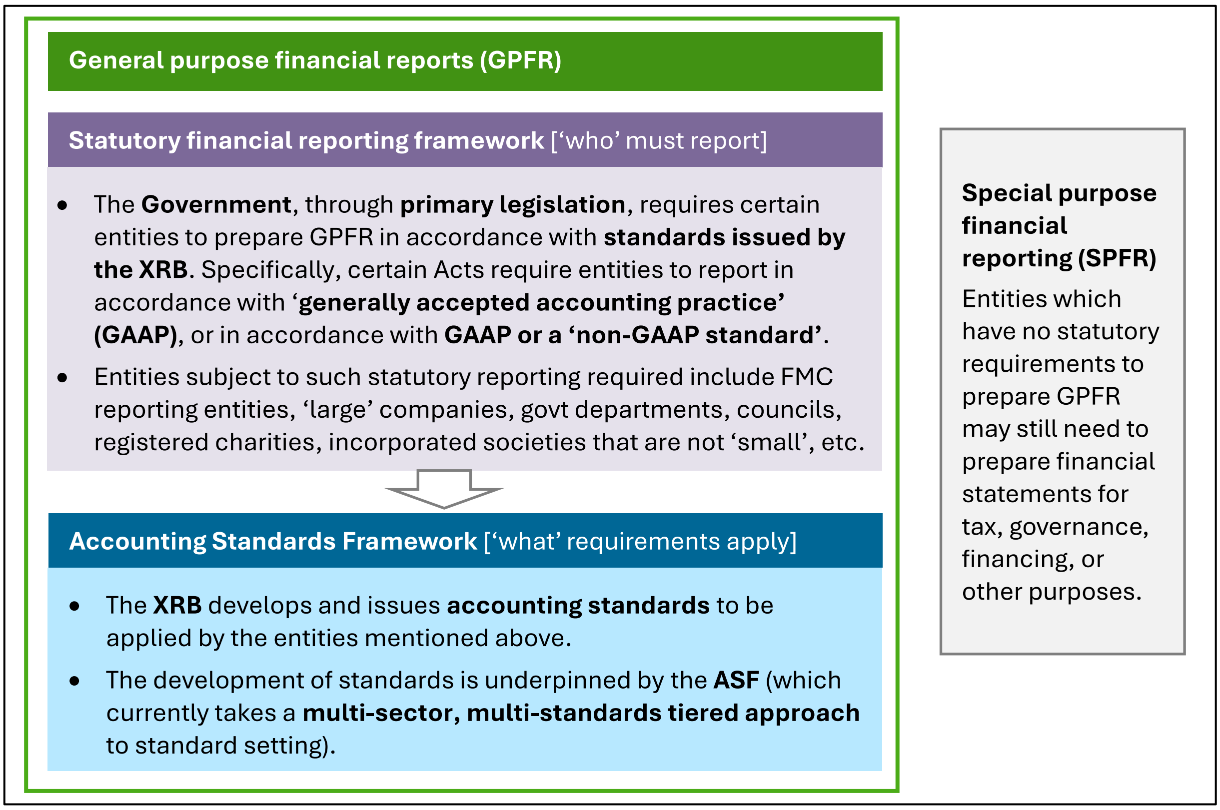
13. However, this memo outlines our considerations as to whether the XRB should consider developing SPFR requirements for those entities that are in the scope of the ASF – considering the benefits of SPFR mentioned above, but also taking into account the difference between those entities that are currently permitted to prepare SPFR only and their users' needs, versus those entities that are currently required to prepare GPFR in accordance with XRB standards and their users' needs.

Statutory context and policy intent of GPFR requirements

Overview of the financial reporting framework

14. A high-level overview of the overall New Zealand financial reporting framework, and how GPFR and SPFR currently fit into this context, is shown below.

Figure 1: Overview of the financial reporting framework



The role of the XRB per primary legislation

15. Per section 12 of the Financial Reporting Act 2013 (FRA), one of the XRB's functions is: "to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires— (i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or (ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards".

Meaning of GAAP and the link between GAAP and GPFR

16. The FRA defines the terms 'generally accepted accounting practice' (GAAP) and 'non-GAAP standard' for the purpose of primary legislation that use these terms in the context of statutory reporting requirements.

17. According to the FRA, both the term ‘GAAP’ and the term ‘non-GAAP standard’ refer to standards issued by the XRB for financial reporting purposes – albeit a ‘non-GAAP standard’ needs to be specifically identified by the XRB as such. Appendix 1 provides further information and relevant FRA sections. Note: Currently, the only non-GAAP standard is the XRB’s cash-based Tier 4 Standard, for PBEs in Tier 4 in the NFP and public sectors. All other accounting standards issued by the XRB are considered GAAP.

18. The definitions of ‘GAAP’ and ‘non-GAAP standard’ in the FRA do not specifically refer to the term ‘general purpose financial reports’ (GPFR). However, the link between the statutory requirement for certain entities to prepare financial statements in accordance with GAAP (or a non-GAAP standard) and the concept of GPFR becomes clear when considering the policy intent behind these statutory requirements.

19. Specifically: The Ministry of Economic Development (MED), which was the precursor to the Ministry of Business, Innovation and Employment (MBIE), published a Regulatory Impact Statement (RIS) on the review of the New Zealand financial reporting framework in 2011. That review resulted in the introduction of the current statutory financial reporting framework and ASF. The 2011 RIS notes the following:

    (a) Paragraph 2: “Financial reporting law addresses the following matters: (a) Whether an entity is required to prepare an annual GPFR”.

    (b) Appendix 1: “GPFR is financial reporting that is carried out in accordance with GAAP or, to put it another way, financial reporting that is regulated under the Financial Reporting Act. GPFR is designed for external users (e.g. investors) who have a need for an entity’s financial statements but are unable to demand them. Because those external users can have diverse information needs, financial reporting standards require a large number of disclosures to cover the information needs of all of the main potential users”.

20. The 2011 RIS extracts above indicate that the statutory requirements to prepare financial statements in accordance with GAAP or a non-GAAP standard are intended to result in the preparation of GPFR for external users who cannot demand tailored information from the entity.

21. This link is further demonstrated in XRB A1, paragraph 1, which says the following:

    “The objectives of this Standard are to establish: (a) the accounting standards framework for those entities that have a statutory obligation, or that opt under an enactment, to prepare financial statements or financial reports that comply with generally accepted accounting practice (GAAP) or non-GAAP standards that are issued by the External Reporting Board (XRB), hereafter referred to as general purpose financial reports (GPFR) [...]”.

Policy intent and user needs

22. The abovementioned 2011 RIS relating to the statutory reporting framework discussed certain indicators used in considering whether different types of entities are likely to have “external users who are unable to demand the financial information they need for decision-making or accountability reasons” – and therefore should have a statutory requirement to prepare GPFR. These indicators are explained below, per paragraph 6 of the RIS.

    (a) **‘Public accountability’** [Note: Not the same meaning as in XRB A1]:
    “Is the entity effectively owned by the public and/or is it funded directly by the public? If so, it should be required to prepare and publish assured GPFR, unless there are outweighing compliance costs.”

    (b) **Economic significance**:
    “Is the entity large? If so, its failure could have significant economic and social impacts. It

should be required to prepare and publish assured GPFR, unless there are outweighing commercial confidentiality and/or privacy-related costs. Where publication is not justified, the entity should be required to prepare assured GPFR and distribute them to the entity's owners or members;" and

(c) **Separation [between owners and management]**:
"Are the managers and the owners or members of the entity the same or different people? If there is a significant degree of separation, the default position should be preparation, assurance and distribution, but not publication. [...]".

23. Thus, we understand that the statutory requirements to prepare GPFR in accordance with XRB standards are based on the needs of external users who cannot demand specific financial information from the entity, but who need financial information to assess accountability and for decision-making purposes – taking into account the related economic and social impacts.

24. The table below lists some examples of entity types that have a statutory requirement to prepare GPFR (not a complete list) and the rationale per the 2011 RIS. In this table, the term 'public accountability' is used with the meaning described in the RIS (see above), rather than as per the definition in XRB A1. We have also included our considerations about the external users of these entities' financial reports. This is not an exhaustive list of users.

Table 3: Reasons for current statutory reporting requirements to prepare GPFR

Entity type	Statutory requirement to prepare GPFR	Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]	Comments on users [XRB staff comments]
FMC reporting entities (e.g. entities that issue shares or bonds to the public, managed investment schemes, licensed insurers and registered banks, among others)	Financial Markets Conduct Act 2013 (FMC Act) – requires compliance with GAAP	[*Note: As the FMC Act was not yet enacted at the time of the 2011 RIS, it does not use the term 'FMC reporting entities'*] **Public accountability** [*per RIS, not XRB A1*] "Issuers are publicly accountable because they seek money from the public, or take deposits and/or hold money for wide groups of outsiders in a fiduciary capacity"	Retail **investors** need financial information about companies that issues shares or bonds to the public, to decide whether to hold, buy or sell shares in the company – but are unable to demand tailored financial information from such companies. The requirement to prepare GPFR aim to help retail investors receive the information they need for decision-making. Similar considerations apply to **lenders and creditors** who do not have the power to demand specific information from entities, who need information to make decisions on providing funding/credit to these entities.
'Large' companies [as defined in the FRA]	Companies Act 1993 – requires compliance with GAAP	**Economic significance** "[...] there can be significant adverse impacts on a society when a large entity fails and that GPFR can contribute to reducing the risks of business failure."	Even if a large company is closely held, it is likely to have several **creditors** who may be unable to demand specific financial information from entities, but who need this information to decide whether to provide credit to the company. Also: The failure of an economically significant entity can significantly affect members of the public beyond direct users of financial statements, and the financial discipline inherent in GPFR, being based on a robust set of comparable requirements and transparent disclosures, could help reduce the risks of business failure.

<table>
<thead>
<tr><th>Entity type</th><th>Statutory requirement to prepare GPFR</th><th>Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]</th><th>Comments on users
[XRB staff comments]</th></tr>
</thead>
<tbody>
<tr><td>‘Large’ partnerships
[as defined in the FRA]</td><td>Partnership Law Act 2019 – requires compliance with GAAP</td><td>Economic significance
“The benefits arise from reducing the risk of business failure if GAAP-compliant financial statements are prepared in accordance with a set of standards that senior management has no control over”</td><td>Similar considerations to ‘large company’.</td></tr>
<tr><td>NZ government and its departments</td><td>Public Finance Act 1989 – requires compliance with GAAP</td><td rowspan="3">Public accountability
[per RIS, not XRB A1]
“All public sector entities are publicly accountable. Taxpayers and ratepayers effectively own all public sector entities. They also provide nearly all of the funding for most public sector entities.”</td><td rowspan="3">Taxpayers and ratepayers are unable to demand specific financial reporting from public sector entities like government agencies and councils – but they need financial and service performance information about these entities for accountability purposes, e.g. to assess how the agency or council spent money raised from taxes and rates collected from the public. The requirement to prepare GPFR aims to ensure that these users receive the information they need.
Some public sector entities issue bonds (e.g. the government and councils), and have creditors – so the considerations above relating to retail investors and creditors also apply.</td></tr>
<tr><td>Crown Entities
(including state and state-integrated schools and tertiary education institutions)</td><td>Crown Entities Act 2004 – requires compliance with GAAP</td></tr>
<tr><td>Councils and council-controlled organisations</td><td>Local Government Act 2002 – requires compliance with GAAP</td></tr>
<tr><td>Registered charities</td><td>Charities Act 2005
• Requirement to comply with GAAP: Charities that meet the definition of ‘specified not-for-profit (NFP) entity’ in the FRA – i.e. operating payments are <u>$140,000 or more</u> in each of the 2 preceding accounting periods.
• Other charities are required to comply with either GAAP or a non-GAAP standard.</td><td>Public accountability
[per RIS, not XRB A1]
All 25,000-odd[*] registered charities are publicly accountable because they accept donations from the public and/or earn revenue from assets that have been donated in the past.
* At the time of preparing the RIS
From a cost/benefit perspective, the RIS also noted that the most charities would be able to apply simple-format reporting requirements, i.e. the Tier 3 or Tier 4 Standard.</td><td>Members of the public who donate to charities (donors) are unable to demand specific financial information from charities, but need this information for accountability purposes, i.e. to assess how the charity spent money raised from donations – and potentially for the purpose of deciding whether to make further donations.</td></tr>
</tbody>
</table>

Entity type	Statutory requirement to prepare GPFR	Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]	Comments on users [XRB staff comments]
Incorporated societies	Incorporated Societies Act 2022 • Requirement to comply with GAAP: For societies that meet the definition of 'specified not-for-profit (NFP) entity' in the FRA – i.e. operating payments are <u>$140,000 or more</u> in each of the 2 preceding accounting periods. • Other incorporated societies are required to with either GAAP or a non-GAAP standard – <u>excluding</u> 'small' societies, i.e. societies that are not donee organisations and have operating payments and total assets below $50,000 in the two preceding accounting periods.	[*As the Incorporated Societies Act 2022 was enacted several years after the 2011 RIS was published, the extract below is from the RIS relating to the Incorporated Societies Act 2022*]: **Separation** "The relevant indicator in this case is the "separation" indicator, which applies when there is a degree of separation between the owners from management and the owners are therefore reliant on general purpose financial reports to assess the financial performance, financial position and cash flows of the entity. […] this indicator is present in virtually all societies because of their structure. […]. This separation suggests that some provision needs to be made to ensure members receive adequate information about their society." From a cost/benefit perspective, that RIS also noted that most incorporated societies that become subject to XRB standards would be able to apply the XRB's 'simple format reporting' standards, i.e. the Tier 3 or Tier 4 Standard.	Members of an incorporated society (and other resources providers and service recipients of the society) do not have direct access to the financial and service performance information that they need in relation to the incorporated society, and may not be able to demand specific information from the society – but they need such information for accountability and decision-making purposes.

Observations from Australia

25. In recent years, the AASB has introduced reforms to its financial reporting framework, which removed the ability to prepare SPFR for many entities.

26. In the past, several Australian entities that had a statutory requirement to prepare financial statements were permitted to self-assess whether they are a 'reporting entity', as was defined in

Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (SAC 1). For example, such self-assessment was permitted for large proprietary companies who did not have 'public accountability' as aligned with the IASB's definition (i.e. whose debt or equity instruments were not traded on public markets, etc.) If these entities deemed themselves not to be a 'reporting entity', they were permitted to prepare SPFR – rather than complying with Australian Accounting Standards in full or with Australian Accounting Standards with disclosure concessions (previously referred to as 'RDR').

27. In 2020, the AASB issued the amending standard AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. That amending standard removed the ability to prepare SPFR for for-profit entities that have a statutory requirement to report in accordance with Australian Accounting Standards and those that are required to do so by their constitutional documents. Instead, those entities became required to prepare GPFR, in accordance with the full requirements of Australian Accounting Standards, but with Tier 2 entities being permitted disclosure concessions per AASB 1060. AASB 2020-2 became mandatory for periods beginning on or after 1 July 2021.

28. As explained in the Basis for Conclusions accompanying AASB 2020-2, this change was in response to "concern that SPFS lack consistency, comparability transparency and enforceability". Specifically:

    (a) With respect to companies that were lodging their SPFS with the Australian Securities and Investments Commission (ASIC), the AASB noted the following in the Basis for Conclusions: "The Board's research has identified that there are users of financial statements that are publicly lodged with the Australian Securities and Investments Commission (ASIC), and the Board has been informed by those users that comparability, transparency, comprehensibility and consistency are what is most important to them when reading financial statements. For example comparability of recognition and measurement (R&M) requirements in AAS was rated 88% in importance to primary users1 and 100% in importance to other users. They also expressed concern that key information is omitted from SPFSs (see paragraphs BC37-BC41)". [Paragraph BC2]

    (b) The AASB also noted in the Basis for Conclusions that "the solution to the SPFS problem provided by this Standard is to remove the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare SPFS when they are required to prepare financial statements that comply with AAS. [footnote omitted] This will improve the consistency, comparability, transparency and enforceability of financial statements, thus meeting the needs of users who are accessing these financial statements on a public register or otherwise." [Paragraph BC6]

29. Recently, the AASB also limited the ability of private sector not-for-profit entities to prepare SPFR – by issuing AASB 2026-2 *Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*. This standard applies to reporting periods beginning on or after 1 July 2029.

Viability of SPFR as a framework option to explore in the ASF review

30. The table below summarise our considerations on whether it would be viable for the XRB to develop SPFR standards. We have considered at a high level what this 'SPFR option' could involve and the implications on viability, in light of the statutory and policy context discussed above.

Table 4: Considerations of the viability of developing SPFR standards/requirements

<table>
<tr><th>What would the 'SPFR option' likely involve</th><th>XRB staff comments</th></tr>
<tr><td>Selecting a specific user or users who is likely to require SPFR from the entity, and developing requirements based on the specific user's likely information needs; or</td><td>Advantages: Could help entities meet the needs of the selected user more effectively and avoid the costs of catering for the information needs of a broader user group with diverse information needs
Disadvantages:
As noted above, the current statutory financial reporting framework is set up so that certain entities are required to prepare GPFR in accordance with standards issued by the XRB – to meet diverse information needs of external users who are unable to demand tailored financial information from entities. Such external users include:
Existing or potential investors in a large or listed company who are not involved in management;
Taxpayers/ratepayers and their representatives in the case of a government agency or a council; and
Members of the public who donate to charities.
If the XRB were to develop standards for the purpose of preparing SPFR for a specific selected user(s), there is a risk that the needs of the abovementioned broader external user groups would not be met. This would be inconsistent with the intent behind the statutory financial reporting framework, and could have negative economic and social impacts in New Zealand (see 'policy intent and user needs' above).
Currently, SPFR are typically prepared to meet the specific information needs of users who are able to demand specific information from the entity – e.g. Inland Revenue, who can request specific tax-related information. As such users are able to request specific information from the entity, it is not clear what problem SPFR standards would be solving.
Furthermore, if the XRB were to select a specific user whose needs the SPFR standards should aim to satisfy, this selection could be challenging and arbitrary.</td></tr>
<tr><td>Providing maximum flexibility in the standards in terms of recognition, measurement, presentation and disclosure requirements – so that entities are able to tailor their SPFR based on the information needs of the specific user for whom the report is prepared.
For example, an SPFR standard could let entities choose whether to account for all leases as expenses or whether to recognise a right-of-use asset and lease liability in the statement of financial position, to</td><td>Advantages: Maximum flexibility on accounting policies would allow entities to tailor their financial statements to the specific information needs of selected specific users, potentially meeting that specific user's needs more effectively than under GPFR. This approach would also allow entities to decrease financial statements preparation costs by selecting the simplest accounting policies that are acceptable to whichever user the entity is focusing on.
Disadvantages:
Similar to the discussion above: Entities that are currently required to prepare GPFR typically have several external users or a range of different external users that rely on GPFR for accountability and decision-making purposes, who cannot demand specific information from the entity. Under SPFR standards with maximum flexibility regarding accounting policies, there is a risk that the needs of these users would not be met. The impact of not meeting these users' needs could be significant for these users and for the economy, considering that current statutory requirements to prepare GPFR apply to economically significant entities and those that are funded by the public.
Furthermore, maximum flexibility is likely to decrease comparability between entities and between the financial statements of an entity from one period to the next. Lack of comparability is likely to negatively</td></tr>
</table>

What would the 'SPFR option' likely involve	XRB staff comments
initially recognise donated property, plant and equipment at fair value or at their cost of nil, to recognise or not recognise deferred tax, to measure financial instruments at either cost or fair value, to recognise revenue on a cash basis or evenly over time or based on the fulfilment of performance obligations, to amortise or not amortise goodwill, etc.	impact investors that invest in for-profit companies, as it would be more challenging for them to decide which companies to invest in – and in the case of economically significant companies, these challenges could have significant impacts the economy. A similar concern can arise for donors and grantors in the not-for-profit space. While taxpayers and ratepayers and their representatives do not necessarily make decisions based on comparing the financial statements of different public sector entities, lack of comparability due to maximum flexibility in accounting policies could make it harder for such users to understand public sector entities' financial statements, impeding accountability. • If there are specific accounting requirements in IFRS Accounting Standards and/or IPSAS that NZ reporting entities currently find challenging or costly, and if modifications to these requirements are possible in a way that still meets user needs, this could be explored as part of the 'locally modified accounting standards' option.

31. For the reasons above (and considering recent reforms in Australia limiting the ability to prepare SPFR), we consider that the development of SPFR requirements is not a viable option to explore as part of the ASF review, for either the for-profit or PBE sectors.

32. We note that, regardless of our considerations in the ASF project, entities outside the statutory 'GAAP/non-GAAP standard' reporting framework may continue to prepare SPFR voluntarily for specific users. Not developing XRB SPFR requirements would therefore not prevent SPFR from being prepared where needed. Rather, this course of action would preserve the distinction between statutory GPFR and user-specific reporting outside the XRB's ASF. We will also consider whether website or other communications would be useful to clarify that entities outside the statutory 'GAAP/non-GAAP' reporting framework may prepare SPFR voluntarily.

Indicative wording for the Discussion Paper

33. We propose to explain our considerations in the Discussion Paper by:

    (a) Explaining the meaning of SPFR as compared to GPFR, using a summarised version of the section 'General purpose vs special purpose financial reporting' in this memo;

    (b) Explaining why we consider that developing SPFR requirements is not a viable option to explore in the ASF review, using a summarised version of Table 3 (which also refers to the policy intent behind the current statutory requirements to prepare GPFR).

34. The indicative text that we propose to include in the Discussion Paper is shown below.

Figure 2: Indicative draft wording on SPFR for the ASF Discussion Paper

XRB-developed special purpose financial reporting requirements *not* considered a viable option

The XRB currently develops and issues accounting standards for the purpose of preparing general purpose financial reports (GPFR) – for application by entities that are required by primary legislation to prepare financial statements in accordance with 'generally accepted accounting practice' GAAP or a 'non-GAAP standard'.

The statutory requirement to prepare GPFR currently applies to entities that have **large and/or diverse groups of external users** who rely on financial information about the entity for accountability and/or decision-making purposes, but who cannot demand specific financial information from the entity.

For example, such users include:

- Existing or potential investors of a large or listed company who are not involved in managing the company – who need financial information about the company to decide whether to hold, buy or sell shares in the company, but are not able to demand tailored financial reports from the company;
- Taxpayers/ratepayers and their representatives – who need financial and service performance information on government agencies and councils for accountability purposes, but are unable to demand specific reports;
- Members of the public who donate to charities – who need financial and service performance information on charities for accountability purposes and to make decisions about donating, but are unable to demand specific reports.

Special purpose financial reports (SPFR) are tailored to the needs of specific users who have the power to require an entity to include specific information in a financial report. SPFR allow entities to select accounting policies that meet the needs of a specific user(s) in a targeted way – while avoiding the costs of applying in full the accounting requirements in, say, NZ IFRS or PBE Standards, which cater for the needs for broader user groups.

We considered whether, as part of the review of the ASF, we should explore an option whereby the XRB would develop standards or requirements for preparing SPFR. This could involve either the XRB selecting a specific type of user and developing requirements to meet that specific user's needs – or allowing maximum flexibility in the selection of accounting policies in standards. We do not consider this to be viable, because there is a risk that the needs of the broad and diverse user groups mentioned above, who rely on financial reporting by entities in the scope of the ASF for accountability and/or decision-making purposes, will not be met. This could have negative economic and social consequences. This may also be inconsistent with the XRB's current mandate.

Therefore, we do not consider XRB-developed SPFR standards or requirements to be a viable option to explore as part of the ASF review.

Question for the Board

Q1. Does the Board have any feedback on:

(a) Our considerations relating to the viability of developing SPFR requirements and the recommendation that this is not a viable option to explore as part of the ASF review; and

(b) Our suggestion on how to explain these considerations and recommended conclusions to the public?

Next steps

35. We will update the draft wording for the ASF discussion paper as per the Board's feedback at this meeting.

Appendix 1

Meaning of GAAP and a non-GAAP standard in primary legislation

Both the term 'generally accepted accounting practice' (GAAP) and the term 'non-GAAP standard' refer to standards issued by the XRB for financial reporting purposes – albeit a 'non-GAAP standard' needs to be specifically identified by the XRB as such. This is demonstrated in the graphic below.

Figure A1: Definitions of GAAP and related terms in the FRA

GAAP (FRA s8)

"financial statements, group financial statements, a report, or other information complies with **generally accepted accounting practice** only if the report, statements, or information comply with:

(a) applicable **financial reporting standards**; and

(b) in relation to matters for which no provision is made in applicable financial reporting standards, an **authoritative notice**".

Non-GAAP standard (FRA s5)

"**financial reporting standard** that is stated in the standard to be a non-GAAP standard"

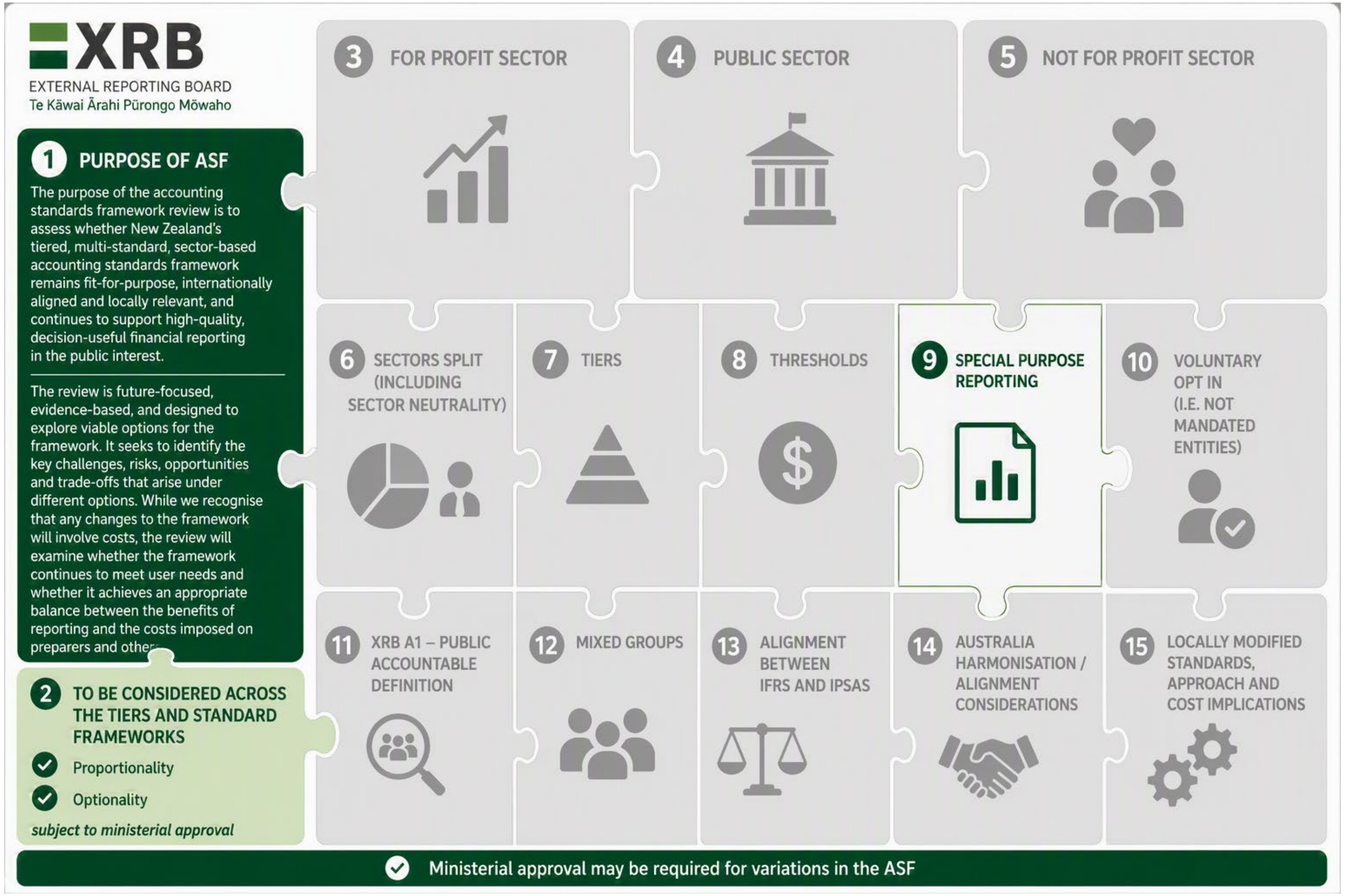
Financial reporting standard (FRA s5)

"Financial reporting standard **issued by the Board [i.e. XRB] under section 12 [of FRA]**; and includes an amendment to a financial reporting standard that is issued by the Board."

Authoritative notice (FRA s5)

"Notice **issued under section 12(c) [of FRA by XRB]**; and includes an amendment to an authoritative notice that is issued by the Board [i.e. the XRB]"

Appendix 2:
Special purpose reporting



Special purpose reporting

We heard: *Entities may want to adopt a more flexible approach to accounting requirements which involves selecting relevant IFRS or IPSAS standards and disclosing their accounting policies, including departures (e.g. not applying IFRS 16 Leases).*

Rationale for this option

- May reduce cost and complexity for certain entities
- Allows targeted application of requirements based on entity circumstances and for specific users

Legislative considerations

- XRB currently issues accounting standards for the purpose of **primary legislation** that requires reporting in accordance with **Generally Accepted Accounting Practice (GAAP) or a non-GAAP standard** (per mandate in FRA section 12)
- Statutory requirement to report in accordance with GAAP/non-GAAP standard is currently associated with **general purpose financial reports (GPFR)**
- Statutory GPFR requirement applies to entities that have **large and/or diverse groups** that rely on financial information about the entity for **accountability and/or decision-making purposes**, but **cannot demand specific reporting from an entity** – e.g. investors in large/listed company, taxpayers and ratepayers (re: public sector entities), members of the public donating to charities, etc.
- In this context, XRB's current standards (e.g. NZ IFRS, PBE Standards) provide a coherent and comprehensive framework supporting the preparation of GPFR, aiming to address the information needs of broad user groups (as described in the relevant Conceptual Frameworks)

Key consideration and risks

- **SPFR** are **tailored to the needs of specific users** who have **power to require an entity to report specific information**
- If the XRB were developed SPFR standards/requirements (instead of standards supporting preparation of GPFR), there is a risk that the **needs of the broad and diverse user groups currently served by GPFR would not be met**.
- An SPFR option would **reduce comparability** across entities and increase **variability in accounting treatments for similar transactions**
- SPFR option may mean less clarity on what constitutes compliance with a reporting framework and - potential challenges for audit and regulatory oversight

SPFR not considered a viable option to explore in ASF review