

22 February 2023

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
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Submitted to: www.ifrs.org

Dear Andreas

IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard*

Thank you for the opportunity to comment on IASB/ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard* (the ED).

We have not exposed the ED for comment in New Zealand as the *IFRS for SMEs Accounting Standard* is not part of the New Zealand Accounting Standards Framework. However, we do use the IASB definition of public accountability to establish the reporting requirements for certain entities. Therefore, this comment letter is focused on Question 1 of this ED only.

Our response to Question 1 is provided in the Appendix to this letter. We have recommended suggestions to help improve the clarity of the proposed amendments to the definition of public accountability. Changes are recommended in response to application challenges that have arisen in New Zealand when applying the definition.

If you have any queries or require clarification of any matters in this letter, please contact Carly Berry (Carly.Berry@xrb.govt.nz) or me.

Yours sincerely



Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Question 1 – Definition of public accountability

Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of ‘public accountability’ in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs Accounting Standard* (Standard).

In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:

- (a) there is both a high degree of outside interest in the entity and a broad group of users of the entity’s financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
- (b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.

Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.

- 1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?
- 1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Response to Question 1

Amendment to paragraph 1.3(b) – changing ‘most’ to ‘often’

1. We agree with the deletion of the word ‘most’ from part (b) of the IASB definition of public accountability, as that term has contributed towards concerns raised in New Zealand in relation to brokers. In New Zealand, many entities known as ‘brokers’ do not hold clients’ funds – yet the current IASB definition of public accountability says that ‘most’ securities brokers/dealers would meet the ‘fiduciary capacity’ part of the definition.
2. To further emphasise that brokers and dealers would sometimes not have public accountability we recommend adding a new paragraph below paragraph 1.4, which would

read as follows: *“Some entities do not hold assets in a fiduciary capacity for a broad group of outsiders despite being one of the types of entities listed as examples in paragraph 1.3(b). For example, a securities broker or dealer that only provides investment portfolio advice and/or transactional services to its clients, and does not hold funds on behalf of clients, would typically not meet the criterion in paragraph 1.3(b).”*

Proposed new paragraph 1.3A

3. Our understanding is that the proposed new paragraph 1.3A is intended to clarify the circumstances in which brokers and other entities mentioned in paragraph 1.3(b) would usually have public accountability (by meeting the ‘fiduciary capacity’ part of the definition). Paragraph 1.3A may therefore help with confirming that, for example, a broker that does not hold clients’ funds (and does not issue shares/debt on a public market) does not have public accountability in accordance with the IASB definition – which would confirm (albeit indirectly) that the broker does not meet the ‘fiduciary capacity’ part of the IASB definition of public accountability. This could be helpful for addressing the abovementioned application challenge in New Zealand relating to brokers.
4. The new paragraph 1.3A could, however, be read as an additional set of criteria for meeting the definition of public accountability, i.e., in addition to the criteria in parts (a) and (b) of paragraph 1.3. For example, an entity that does not issue shares or debt in a public market and does not hold assets in a fiduciary capacity for a broad group of outsiders may think that it also needs to assess whether it meets paragraph 1.3A as an additional criterion of public accountability. This could be read as widening the scope of the IASB definition of public accountability.
5. We recommend making it clearer that the new paragraph 1.3A does not add to the definition in paragraph 1.3 but is intended to help apply this definition (we believe this was the IASB’s intention). To achieve this clarity, we suggest adding a sentence to the end of paragraph 1.3(b) as follows: *“Paragraph 1.3A provides further guidance on applying this criterion”*.

Questions 2 – 15

6. We have not commented on Questions 2 – 15.