

Targeted Review of the New Zealand Accounting Standards Framework

FEEDBACK STATEMENT

August 2020



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Introduction

In July 2019, the External Reporting Board (XRB) issued for public consultation the [Discussion Paper Targeted Review of the New Zealand Accounting Standards Framework](#) (the DP).

The main purpose of the DP was to “check-in” with constituents on whether the New Zealand Accounting Standards Framework (ASF) is functioning as anticipated and is achieving its original objectives, and whether any refinements to the ASF are required. The DP also sought feedback on certain specific matters relating to the ASF.

This Feedback Statement outlines the main matters raised by respondents in submissions on the DP, and the main decisions made by the XRB Board in response to those submissions.

Summary of key findings and next steps

Respondents did not identify significant unintended consequences or new developments that would require changes to the ASF at this stage. Therefore, the XRB is not proposing any changes to the ASF.

What is the New Zealand Accounting Standards Framework?

In New Zealand, some entities (including public sector entities, registered charities and some companies) are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. **The New Zealand Accounting Standards Framework (ASF) sets out the XRB’s strategy for developing and issuing accounting standards** that are appropriate for such entities. The current ASF was first introduced in 2012 and last updated in 2015.

The objectives of the ASF are to:

- **meet users’ needs**, by recognising the different information needs of users in the for-profit and public benefit entity (PBE) sectors; and
- **balance the costs and benefits of reporting**, by establishing appropriate accounting requirements based on the nature and size of the entity.



The ASF is built around a **multi-sector, multi-tiered, multi-standards approach**. This means that accounting standards are developed and applied as follows.

Sectors	Tiers and applicable standards	Standards based on
For-profit entities	Tier 1: NZ IFRS Tier 2: NZ IFRS RDR (Reduced Disclosure Regime)	IFRS Standards (International Financial Reporting Standards)
PBEs in the public and not-for-profit (NFP) sectors	Tier 1: PBE Standards Tier 2: PBE Standards RDR	IPSAS (International Public Sector Accounting Standards)
	Tier 3: PBE Simple Format Reporting – Accrual Tier 4: PBE Simple Format Reporting – Cash	XRB’s Simple Format Reporting Requirements

Purpose of the Discussion Paper

For many entities, the ASF has been effective for four or five years. This is too soon for a comprehensive first-principles review of the ASF.

However, the XRB considered it timely and important to **“check-in” with constituents on whether the ASF is functioning as anticipated and is achieving its original objectives.** This is the main purpose of the Targeted Review of the ASF.

The DP sought general feedback on the application of the ASF. Respondents were asked **whether they are aware of any unintended consequences of recent developments in the financial reporting environment that would require refinements to the ASF.**

The DP also sought feedback on the following three specific matters for comment (SMCs).

- (a) SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS
- (b) SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures
- (c) SMC 3: Do the PBE tier size criteria need to be revisited?

Background information on each of the SMCs, including why the DP sought feedback on these matters, is provided under each of the relevant SMCs in the section [Summary of Feedback Received and XRB Responses](#).

Public consultation

The DP was issued in July 2019, accompanied by a [Summary Document](#). Respondents had the option of providing a written submission or completing an online submission (answering any or all of the DP questions).

The DP was open for comment for three and a half months. During that time, XRB staff conducted various outreach activities including: [webinar](#) and in-person presentations, discussions with the XRB’s consultative advisory groups, roundtable meetings with key stakeholder groups, publishing articles and postings on social media.

The DP comment period closed on 15 November 2019. Nineteen submissions were received. Non-confidential submissions can be accessed on the [XRB website](#).

Summary of feedback received and the XRB’s response

This section summarises the feedback received from respondents on the DP questions, and the XRB’s response to this feedback.

General feedback on the ASF

<p>DP Questions:</p> <p>(a) Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?</p> <p>(b) Do you have any other comments about the ASF?</p>
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What we heard	Our response
<p>Overall, the ASF appears to be operating as intended</p> <p>No significant unintended consequences identified. Some respondents specifically noted that the ASF is working well/as intended.</p> <p>Most respondents did not identify new developments (other than those noted in the DP) that would require refinements to the ASF.</p>	<p>No amendments to the ASF are required at this time</p> <p>The responses indicate that in general, application of the ASF has not resulted in significant unintended consequences, and that the ASF is operating as intended.</p> <p>Therefore, based on the responses received, the XRB concluded no changes to the ASF are required at this time.</p>
<p>New development — Increased focus on wellbeing and integrated reporting</p> <p>One respondent wondered whether the recent amendments to the Public Finance Act 1989 to focus on wellbeing would affect the future development of accounting standards for PBEs.</p> <p>On a somewhat related note, another respondent recommended referring to integrated reporting in the ASF, to future proof financial reporting.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB acknowledges the recent increased focus on environmental, social, and governance accountability reporting, both in the private and public sectors. These matters are closely linked to the XRB’s ongoing project on Extended External Reporting (EER).</p> <p>Matter will be considered further under a separate project</p>
<p>New development — Legislative reforms for incorporated societies</p> <p>One respondent mentioned the forthcoming legislative reforms for incorporated societies (which would require certain incorporated societies to report in accordance with accounting standards issued by the XRB). The respondent noted that the new legislation would affect many entities and preferred to delay any changes to the ASF until the new legislation has been passed.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is currently monitoring the development of new legislation for incorporated societies.</p> <p>However, once any new legislation has been enacted, the XRB will assess whether additional guidance for incorporated societies is required in the PBE accounting standards, and/or amendments to the ASF is required</p> <p>Matter will be considered further under a separate project</p>

<p>Support for review of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards</p> <p>Respondents noted that smaller charities are struggling with their financial reporting obligations and expressed support for the XRB’s Post-implementation Review (PIR) of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>Respondents also suggested that more education and support for small charities will help increase the level of compliance with accounting standards.</p> <p>There were also specific suggestions in relation to the Tier 3 and Tier 4 standards and reporting by entities in Tier 3 and Tier 4.</p>	<p>No amendments to the ASF are required at this time</p> <p>The XRB is aware that some smaller charities are struggling with their financial reporting obligations. As discussed in the DP, this matter will be specifically considered as part of a standards-level PIR of the Tier 3 and Tier 4 PBE Simple Format Reporting Standards.</p> <p>The first step of this project will be the issuance of a <i>Request for Information</i>, which is expected to be issued for public consultation later in the year.</p> <p>Matter will be considered further under a separate project</p>
<p>Other general comments on the ASF</p> <ul style="list-style-type: none"> • The ASF is complex (but is working as intended). • Recommendation for research on the costs and benefits of the multi-sector approach, to support a future comprehensive review of the ASF. 	<p>No amendments to the ASF are required at this time</p> <ul style="list-style-type: none"> • Those respondents who noted the complexity of the ASF did not identify significant unintended consequences and did not recommend changes at this stage. • The XRB will consider whether to undertake the suggested research closer to the time of the future comprehensive review of the ASF.

SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS

Background

SMC 1 relates to the XRB's strategy for developing PBE Standards for Tier 1 and Tier 2 PBEs based on IPSAS. That strategy is documented in the [Policy Approach to Developing the Suite of PBE Standards](#) (PBE Policy Approach).

Generally, the application of the PBE Policy Approach results in the XRB maintaining close alignment between PBE Standards and IPSAS. That is, in applying the PBE Policy Approach, the XRB generally would:

- wait for the IPSASB to complete its project, rather than developing a PBE standard ahead of the IPSASB; and
- once the IPSASB's project is complete, adopt the IPSAS into PBE Standards, with domestic changes permitted only in specific circumstances.

The DP sought feedback on the importance of maintaining close alignment between PBE Standards and IPSAS, compared with the importance of addressing local considerations.

DP Questions:

- (a) Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?
- (b) If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
- (c) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS are used as the base for PBE Standards?
- (d) Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

What we heard

We received feedback on SMC 1 that supported both the importance of alignment with IPSAS and also the importance of allowing the flexibility for consideration of New Zealand specific issues.

- The majority of respondents considered the prioritisation of local considerations to be more important than maintaining close alignment between PBE Standards and IPSAS, and supported a more flexible approach to the development of PBE Standards.
- However, there was some support for maintaining the current strategy of close alignment between PBE Standards and IPSAS.

It is also important to note the following.

- Some respondents who supported a more flexible approach also noted the importance of alignment with IPSAS in general and where appropriate.

What we heard

- Some respondents that preferred close alignment with IPSAS (or thought the current PBE Policy Approach is appropriate as it is) acknowledged the challenges arising from the current strategy of close alignment with IPSAS and suggested the following to address these challenges.
 - A respondent noted that the existing development principle and rebuttable presumptions in the PBE Policy Approach should be considered on a case-by-case basis; and
 - Another respondent recommended to clarify the current level of flexibility, particularly the circumstances in which it would be appropriate to modify or not adopt an IPSAS.

Our response

In response to the mixed feedback received, the XRB Board decided to introduce some **refinements to the wording of the PBE Policy Approach**.

In developing these refinements, the XRB Board took into account the following key considerations.

- While the majority of respondents supported more flexibility to prioritise local considerations over close alignment with IPSAS when developing PBE Standards, the feedback was mixed in nature.
- The current wording of the PBE Policy Approach already provides some flexibility to prioritise local consideration over close alignment with IPSAS when appropriate – although this could be made clearer.



As a result, we have not made significant changes to the factors that are taken into account when considering a change in PBE Standards, or the rebuttable presumptions in the PBE Policy Approach. Rather, some clarifications have been made.

Ultimately the Board reaffirmed the position in the current ASF, that it is appropriate to develop PBE Standards based primarily on standards issued by the IPSASB.

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

Background

Under the ASF, Tier 2 reporting requirements for for-profit entities are based on NZ IFRS with reduced disclosures (RDR). Since the ASF was introduced, the disclosure requirements for Tier 2 for-profit entities have been harmonised with Australia.

The Australian Accounting Standards Board (AASB) recently changed its approach for developing for-profit Tier 2 disclosure requirements. Furthermore, the IASB has recently commenced a project to develop a set of reduced disclosure requirements that could eventually replace the Tier 2 regime in both New Zealand and Australia (the IASB's project is called *Disclosure Initiative: Subsidiaries that are SMEs*).

To inform the XRB's approach to maintaining and enhancing Tier 2 for-profit disclosure requirements in light of these developments, the DP sought feedback on the importance of maintaining harmonisation with Australia for Tier 2 for-profit disclosures.

DP Questions:

- (a) How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?
- (b) If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?
- (c) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

What we heard

While the majority of respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important, responses to this SMC were mixed.

Respondents who thought harmonisation with Australia for Tier 2 for-profit disclosures noted that such harmonisation leads to efficiency and cost savings for the many entities that operate across the Tasman, among other reasons. However, some respondents thought that based on cost/benefit considerations, it may be preferable to wait for the IASB to finish its project on reduced disclosure requirements, rather than changing NZ IFRS RDR now to harmonise with the Australian Tier 2 reforms and then changing NZ IFRS RDR again when the IASB finalises its project. There were also some respondents who thought that harmonisation with Australia was important for measurement and recognition requirements, but not for disclosures.

Our response

No amendments to the ASF are required at this time

The XRB Board decided that the responses to SMC 2 did not require an immediate change to the ASF as part of the Targeted Review project.

The AASB issued its new Tier 2 disclosure standard (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*) in March 2020. It is effective for periods beginning on or after 1 July 2021.

In July 2020 the XRB confirmed its decision to defer making any changes to NZ IFRS RDR following the introduction of AASB 1060 in Australia, and instead wait for the International Accounting Standards Board (IASB) project on disclosures for subsidiaries that are SMEs, as that might provide a solution for both countries.

Key reasons for this decision include the following.

- Many Tier 2 entities will not be affected by the Tier 2 reforms in Australia, such as entities that are not part of a trans-Tasman group.
- Waiting for the IASB avoids the possibility of two rounds of changes: the first to harmonise with Australia and the second to harmonise with the IASB.
- Although the majority of respondents to the Targeted Review supported harmonisation of disclosures for Tier 2 for-profit entities in Australia and New Zealand, and thought harmonisation is important, some were of the view that we should await the outcome of the IASB's project.
- There will continue to be no recognition and measurement differences for entities that operate in both Australia and New Zealand.

Matter will be considered further under a separate project

SMC 3: Do the PBE tier size criteria need to be revisited?**Background**

Under the ASF's tiered approach, lower tiers have more simplified accounting requirements. The tier that applies to a PBE depends on whether the PBE has "public accountability" (as defined in the standard XRB A1) and the PBE's size, based on expenses.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has 'public accountability'
2	Annual expenses between \$2 million and \$30 million*
3	Annual expenses less than or equal to \$2 million*
4	Annual operating payments less than \$125,000 (the XRB is unable to amend this)*

* to qualify for this tier, the PBE must also not have public accountability (as defined)

The DP sought feedback on whether there are any unintended consequences or recent developments that would require changes to the PBE tier size criteria.

DP Questions:

- (a) Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?
- (b) If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB's limitations in amending PBE Tier 4, which is determined by the Government)?
- (c) Do you have any other comments on the tier size criteria for PBEs?

What we heard	Our response
<p>Overarching comments</p> <p>Most respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.</p>	<p>No amendments to the ASF are required at this time</p>

What we heard	Our response
<p>The \$2 million threshold between Tier 3 and Tier 2 should be increased</p> <p>Three respondents thought the \$2 million threshold between Tier 3 and Tier 2 should be increased, as it results in too many organisations having to report in Tier 2, including ones for whom the costs of reporting outweigh the benefits to users.</p> <p>Suggestions for what this tier threshold should be ranged from \$4 million to \$10 million.</p>	<p>No amendments to the ASF are required at this time</p> <p>We did not change the \$2 million threshold between Tier 3 and Tier 2 for the following reasons.</p> <p>As noted, in the DP, only about 4% of registered charities currently qualify for Tier 2 based on expenditure. This proportion has remained stable since the ASF was introduced. From this perspective it appears the \$2 million threshold remains appropriate.</p> <p>Also, based on our analysis in the DP, the quantum of increase in the \$2 million threshold recommended by the respondents seems unlikely to significantly increase the percentage of charities that would qualify for Tier 3 instead of Tier 2.</p>
<p>Recommendation to consider adding an asset-based threshold</p> <p>Three respondents did not recommend changing the current expenditure-based PBE tier size threshold, but recommended adding an asset-based threshold.</p> <p>Reasons included the view that entities that control large asset balances have a responsibility to report on the management of these assets, and that some entities that report in the lower tiers of the ASF (including Tier 4, which requires cash accounting) have large asset holdings.</p> <p>However, Charities Services did not recommend adding an asset-based threshold. One reason was that although an asset-based threshold would lead to higher transparency due to entities with large asset holdings having to report in higher tiers, this benefit is unlikely to outweigh the costs to the charitable sector of the additional complexity and compliance burden that such a threshold would introduce.</p>	<p>No amendments to the ASF are proposed at this time</p> <p>However, staff will convey respondents' feedback on this matter to the Ministry of Business, Innovation and Employment (MBIE).</p> <p>XRB staff have analysed data available from the Charities Register to understand what percentage of charities eligible to report in Tier 3 and Tier 4 have large asset holdings.</p> <p>Based on this analysis and considering respondents' arguments for and against introducing an asset-based threshold, the XRB Board agreed not to amend the ASF at this time. However, the XRB will report to MBIE on the feedback received from respondents – particularly with respect to Tier 4 entities, given that the Tier 4 size threshold is set in legislation,</p> <p>Furthermore, as part of the Tier 3 and Tier 4 PIR, we will consider whether additional guidance is needed in the standards for PBEs with large asset holdings. The Tier 3 and Tier 4 standards already require certain disclosures on significant assets held.</p>

What we heard	Our response
<p>Adjusting the PBE tier size criteria for inflation movements and other factors</p> <p>Some respondents noted the importance of regularly reviewing the PBE tier size thresholds to consider whether adjustments are required as a result of inflation or other factors (including changes to statutory reporting thresholds).</p>	<p>No amendments to the ASF are required at this time</p> <p>Staff will continue to monitor on a periodic basis whether inflation movements or other factors have arisen that require the PBE tier size criteria to be amended.</p> <p>When new statutory reporting requirements are introduced, staff will consider whether any amendments are required to the ASF (and/or the underlying accounting standards), including the PBE tier size criteria.</p>
<p>Consideration of ‘public interest’ in a PBE</p> <p>One respondent suggested that the level of public interest in an PBE should be considered when determining whether a PBE is in Tier 2 or Tier 3 – in addition to considering the expense-based size criteria.</p>	<p>No amendments to the ASF are required at this time</p> <p>We consider that public accountability and the tier size criteria remain appropriate for assessing the public interest in an entity and the nature and needs of the entity’s users.</p>
<p>Reducing the number of PBE tiers</p> <p>One respondent proposed to streamline the current tier structure and perhaps reduce the number of tiers.</p>	<p>No amendments to the ASF are required at this time</p> <p>Decreasing the number of tiers could worsen the ASF’s ability to balance the costs and benefits of reporting in a way that accommodates the significant size variability among PBEs</p>

Other comments

Other comments received that do not directly relate to DP questions are noted below.

What we heard	Our response
<p>Proposal to develop a specific framework for PBE Tier 2 disclosures</p> <p>The respondent who made this recommendation noted that PBE Tier 2 requirements should not be driven by trans-Tasman harmonisation as in the for-profit sector.</p>	<p>No amendments to the ASF are required at this time</p> <p>A decision on when to recommence the PBE RDR project will be made in the future.</p> <p>Matter will be considered further under a separate project</p>

What we heard	Our response
<p>Proposals relating to XRB A1 Application of the Accounting Standards Framework</p> <p>Proposals included the following.</p> <ul style="list-style-type: none"> • To develop a positive definition of ‘for-profit entity’ • To provide additional guidance on accounting for a change in an entity’s classification from PBE to for-profit and vice versa • To improve the definition of ‘public accountability’ (for the purpose of determining whether an entity is in Tier 1) 	<p>No amendments to the ASF are required at this time</p> <p>We have not proposed amendments to the ASF at the present time, for the following key reasons.</p> <ul style="list-style-type: none"> • A for-profit entity is deliberately defined as “any entity that is not a PBE”, to ensure that the respective definitions of for-profit entity and PBE are exhaustive and mutually exclusive. Also, recent amendments to Appendix 1 of XRB A1 clarified the guidance on the definition of a PBE • Regarding situations where an entity’s classification changes from PBE to for-profit or vice versa, accounting standards already include some guidance in relation to this matter. • While we acknowledge that some entities may need to apply more judgement than others when determining whether they have public accountability, we believe that the current guidance on the meaning of ‘public accountability’ is sufficient, and reflects both the IASB’s internationally accepted definition of public accountability and New Zealand legislation.
<p>Proposals to add guidance on topics not addressed in existing standards</p> <p>Proposal included:</p> <ul style="list-style-type: none"> • To develop specific accounting guidance for trusts, to reduce the current diversity in trust accounting. • To develop accounting guidance on cryptocurrency. 	<p>No amendments to the ASF are required at this time</p> <p>These comments relate to the development of specific accounting standards/guidance for a specific topic/transaction, which would require consideration of changes at the standards level (not at the ASF level).</p> <p>Staff will continue to monitor developments in the reporting of cryptocurrency and any changes in the statutory reporting requirements for trusts, and consider what further actions should be taken.</p>

What we heard	Our response
<p>Timing of the comprehensive review of the ASF</p> <p>A respondent recommended announcing the timing of the future comprehensive first-principles review of the ASF, given the targeted nature of this review.</p>	<p>No amendments to the ASF are required at this time</p> <p>Once the ASF has been operating for 10–15 years, the XRB will assess the need for a comprehensive first-principles review of the ASF. It would not be appropriate to lock-in the date of the review at this time.</p>

Closing comments

The ASF is an important framework that underpins how the XRB goes about developing and issuing accounting standards that meet the needs of all financial statements users across all sectors, while also maintaining an appropriate cost-benefit balance.

The XRB Board appreciates the time and effort constituents have put into considering the DP on the Targeted Review of the ASF. The feedback received has been very useful in confirming that the ASF is generally operating as intended, which helped the XRB Board conclude that the ASF does not need to be refined at the present time. The feedback also helped with identifying refinements to the PBE Policy Approach and other projects for future consideration.

As noted above, the XRB will assess the need for a comprehensive first-principles review of the ASF at a future date. The XRB expect to make this assessment once the ASF has been operating for at least 10–15 years. The timing will depend on future developments.

Any questions or comments on this Feedback Statement can be directed to enquiries@xrb.govt.nz.



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

©External Reporting Board
PO Box 11250
Manners Street Central, Wellington 6142
New Zealand
<https://www.xrb.govt.nz>

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