



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Targeted Review of the New Zealand Accounting Standards Framework

Discussion Paper

July 2019

Contents

Page

Information for respondents	3
List of abbreviations.....	4
1. Introduction	5
1A. Purpose of this Discussion Paper	5
1B. Project milestones and next steps	8
1C. Overview of the Discussion Paper content	8
2. Background information	9
2A. Overview of the New Zealand external financial reporting environment	9
2B. Overview of the New Zealand Accounting Standards Framework	13
2C. Observations from the application of the ASF	17
3. Objectives and scope of this targeted review	23
3A. Objectives.....	23
3B. Scope	23
4. SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	26
4A. What is this SMC about.....	26
4B. The XRB’s current strategy for the development of PBE Standards	27
4C. Maintaining close alignment with IPSAS: Recent developments.....	29
4D. Options for how IPSAS is used when developing PBE Standards.....	34
Questions for respondents (SMC 1)	35
5. SMC 2: Importance of harmonisation with Australia for for-profit Tier 2 disclosures.....	36
5A. What is this SMC about.....	36
5B. The XRB’s current strategy for harmonised Tier 2 disclosure requirements.....	37
5C. Recent developments in Australia and internationally relating to Tier 2 disclosure requirements.....	39
Questions for respondents (SMC 2)	41
6. SMC 3: Do the PBE tier size criteria need to be revisited?.....	42
6A. What is this SMC about.....	42
6B. The current PBE tier size criteria.....	44
6C. Recent developments in the reporting environment	47
6D. Application of the PBE tier size criteria.....	47
Questions for respondents (SMC 3)	51
Questions for respondents.....	52
Appendix A: The External Reporting Board	
Appendix B: Next steps in the targeted review of the ASF	
Appendix C: Research on the benefits of IFRS Standards adoption	
Appendix D: Information on the adoption of IPSAS around the world	
Appendix E: The spread of registered charities across the four PBE tiers	

Information for respondents

Invitation to Comment

The External Reporting Board (XRB) is conducting a targeted review of the application of the New Zealand Accounting Standards Framework (ASF).

As part of this review, the XRB Board is seeking feedback on the [Questions for Respondents](#) raised in this Discussion Paper (DP). These questions are located in the relevant chapters, and a full list of the questions can be found at the end of this paper.

Your submissions are important to help the XRB Board consider whether refinements should be made to its strategic approach for developing and issuing accounting standards from 2021 onwards.

For areas in which you consider refinements are needed, we encourage you to include detailed information on your suggestions for improvement.

The closing date for submissions is 15 November 2019 .

Making a submission

You can choose to comment on only those questions that are of most relevance to you or comment on all Questions for Respondents raised in this DP.

We encourage submissions to be made by:

- completing the online submission form; or
- uploading to our website your own submission document.

Both submission options can be completed electronically through our secure webpage at:

<https://www.xrb.govt.nz/reporting-requirements/targeted-review-of-the-accounting-standards-framework>

Alternatively, you can also send your submission by:

- Email to submissions@xrb.govt.nz; or
- Post to:
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
NEW ZEALAND

For any written submissions please include *Targeted Review of the ASF* in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

What happens next?

The XRB Board will consider the responses to this DP in deciding whether certain aspects of the ASF require refinement. Any proposed amendments to the ASF will be exposed separately for public comment.

An overview of the next steps in the targeted review of the ASF is provided in [Appendix B](#).

Publishing submissions

We will publish all submissions on the XRB website (www.xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on our website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

List of abbreviations

The following abbreviations are used in this DP.

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ASF	New Zealand Accounting Standards Framework
DP	Discussion Paper
ED	Exposure Draft
FRA 2013	Financial Reporting Act 2013
GAAP	Generally Accepted Accounting Practice
GPFR	General Purpose Financial Reports
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
NFP	Not-for-profit
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ IFRS RDR	NZ IFRS with disclosure concessions for Tier 2 for-profit entities
NZASB	New Zealand Accounting Standards Board, a sub-Board of the XRB
PBE	Public Benefit Entity
RDR	Reduced Disclosure Regime
SMC	Specific Matter for Comment
SMEs	Small and Medium-sized Entities
XRB	External Reporting Board organisation
XRB Board	Board of the XRB

1. Introduction

1A. Purpose of this Discussion Paper

- 1.1 The XRB has issued this Discussion Paper (DP) to seek feedback from constituents to help the XRB to conduct a targeted review of the application of the [New Zealand Accounting Standards Framework \(ASF\)](#).
- 1.2 More specifically, the purpose of this DP is to “check in” with constituents and receive feedback on whether the ASF is functioning as anticipated and is achieving its original objectives. This feedback will assist the XRB Board to consider whether any refinements to the ASF are required.

The New Zealand Accounting Standards Framework (ASF)

- 1.3 The ASF sets out the XRB’s strategy for developing and issuing accounting standards that are appropriate for entities with a statutory requirement to prepare financial statements in accordance with accounting standards issued by the XRB.
- 1.4 The development of the ASF began in early 2009¹ in conjunction with Government reforms to the Statutory Financial Reporting Framework as proposed by the then Ministry of Economic Development (MED).² These reforms lead to the enactment of the Financial Reporting Act 2013 (FRA 2013) and associated amendments to other legislation.
- 1.5 As a result of these reforms, the preparation of general purpose financial reports (GPFR) by entities required under legislation to prepare such reports was established through the following frameworks.
 - (a) **The Statutory Financial Reporting Framework**
 - Established by the Government through legislation³
 - Determines **who** is required to report in accordance with standards issued by the XRB.
 - (b) **The Accounting Standards Framework (ASF)**
 - Developed and issued by the XRB
 - Establishes the strategy for determining **what** accounting standards apply to those entities with statutory reporting obligations.
- 1.6 The ASF was first issued in April 2012 after a comprehensive consultation process and updated for minor amendments in December 2015.
- 1.7 The ASF became effective on a rolling basis across three stages (see Table 1 on the next page).

¹ [September 2009 Discussion Document: Proposed Application of Accounting and Assurance Standards Under the Proposed New Statutory Framework for Financial Reporting.](#)

² Proposals were developed by MED, now the Ministry of Business, Innovation and Enterprise (MBIE) — September 2009 Discussion Document: *The Statutory Framework for Financial Reporting.*

³ For example, the Companies Act 1993, the Charities Act 2005, and various public sector legislation.

Sector	Reporting periods beginning on or after	Number of years the ASF has been effective
Public sector PBEs ⁴	1 July 2014	4 – 5 years
For-profit entities ⁵	1 April 2015 ⁶	3 – 4 years
Not-for-profit PBEs ⁷	1 April 2015	3 – 4 years

1.8 Further background information on the ASF is provided in [Chapter 2](#).

Scope and objectives of the targeted review of the ASF

1.9 The scope of the targeted review is focused on the ASF itself — being the XRB’s strategy for developing accounting standards – rather than on the requirements of the underlying accounting standards (see “What is not within scope” below).

1.10 The XRB Board decided it was timely to conduct a *targeted review* of the application of the ASF, rather than a *first-principles’ review* of the ASF’s fundamental elements. The issuance of the current ASF represented a major change in the development of accounting standards for entities preparing GPFR. Since the ASF has only been applicable for 4–5 years for many entities, it is too soon after such a major change to conduct a comprehensive first-principles’ review.

1.11 Furthermore, the XRB is not aware of any significant unintended consequences arising from the implementation of the fundamental elements of the ASF. Therefore, this review does not contemplate changing the ASF’s multi-standard, multi-tiered approach, or which international standards should be used as the basis for developing New Zealand standards. The XRB intends to review the fundamental elements of the ASF once the ASF has been operational for at least 10–15 years.

1.12 The key objective of this targeted review is to check-in with constituents on whether:

- (a) the ASF is **functioning as anticipated** and achieving its desired objectives;
- (b) there are any **unintended consequences** or concerns to date arising from the implementation of the AFS; and
- (c) any refinements to the ASF are needed because of any **new developments or emerging issues** since the ASF was first developed.

⁴ **Public Benefit Entities (PBEs)** are reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders.

Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

⁵ **For-profit entities** for financial reporting purposes are reporting entities that are not PBEs.

⁶ There was an earlier version of the ASF that included transitional for-profit tiers. These two transitional tiers were removed from the ASF, effective for periods beginning on or after 1 April 2015. Therefore, 1 April 2015 is the date when the ASF’s current two-tier structure for for-profit entities became effective for for-profit entities.

⁷ **Not-for-profit PBEs** are PBEs that are not public sector PBEs (e.g. registered charities).

1.13 Further information on the scope and objectives of the targeted review of the ASF is provided in [Chapter 3](#).

Specific matters for which we are seeking your feedback

1.14 In addition to seeking general feedback from constituents on whether the new ASF is functioning as anticipated, the XRB has identified three specific matters for comment (SMC).

- (a) The importance of maintaining **close alignment between PBE Standards and IPSAS**.
- (b) The importance of **harmonisation with Australia for Tier 2 for-profit disclosures**.
- (c) Whether the **PBE tier size criteria** need to be revisited.

1.15 Further information on the three SMCs is provided in Chapters [4](#), [5](#) and [6](#).

1.16 In addition to these three SMCs, the XRB is **interested in feedback on any other aspects of the ASF where refinements may be required**. This could be due to unintended consequences or recent developments in the reporting environment. However, as noted above, we are not contemplating changes to the fundamental aspects of the ASF.

What is not within scope?

1.17 This targeted review is focused on the ASF itself and, therefore, the scope does not include seeking feedback on:

- (a) **specific requirements established through accounting standards** issued by the XRB;
- (b) the **auditing and assurance requirements** that apply to financial statements prepared in accordance with accounting standards issued by the XRB; or
- (c) the **legislative requirements** that determine which entities must prepare financial statements in accordance with accounting standards issued by the XRB.

1.18 Further information on the rationale for these scope exclusions is provided in [Chapter 3](#).

Future Post-implementation Review of the Tier 3 and Tier 4 PBE Reporting Requirements

1.19 The XRB and its sub-board, the New Zealand Accounting Standards Board (NZASB), are aware that some Tier 3 and Tier 4 PBEs are experiencing challenges in applying the PBE Simple Format Reporting Requirements⁸ issued by the XRB.

1.20 The XRB and NZASB are conscious there is a significant number of smaller registered charities⁹ who are preparing annual performance reports in accordance with the Tier 3 or Tier 4 PBE Simple Format Reporting Requirements. These entities often have limited resources available and are reliant on the support of volunteers.

⁸ In this DP, the term “Simple Format Reporting Requirements” refers to the Tier 3 and Tier 4 PBE Accounting Requirements, which include the standards [PBE Simple Format Reporting – Accrual](#) (for Tier 3 PBEs) and [PBE Simple Format Reporting – Cash](#) (for Tier 4 PBEs).

⁹ The XRB considers smaller registered charities to be those charities with annual expenditure less than \$2 million.

- 1.21 The NZASB plans to conduct a separate standards-level review of the Tier 3 and Tier 4 PBE Simple Format Reporting Requirements shortly after the completion of the targeted review of the ASF. This separate review will consider whether refinements to current requirements or more guidance is needed to assist smaller not for-profit (NFP) entities in applying the specific reporting requirements within these standards.

Questions for respondents

- 1.22 The [questions for respondents](#) are provided within the relevant chapters in this DP, and a full list of all the questions is located at the end of this DP.
- 1.23 This DP generally takes a “**request for information**” approach, seeking information from constituents to help the XRB consider which aspects of the ASF may need refinement and why.
- 1.24 However, for the SMC on the *importance of close alignment between PBE Standards and IPSAS*, the DP discusses a possible alternative approach to the current policy for setting PBE Standards and seeks constituents’ views as to the preferred approach.

1B. Project milestones and next steps

- 1.25 After the end of the consultation period, the XRB Board will analyse the submissions received, and consider whether certain aspects of the ASF require refinement.
- 1.26 Any proposals to amend the ASF will be issued for public consultation as a separate exposure draft (ED). Any proposed changes would also require the approval of the Minister of Commerce and Consumer Affairs. The NZASB will also consider if any consequential amendments to accounting standards are required.
- 1.27 An overview of the planned approach for conducting the targeted review of the ASF is provided in [Appendix B](#).

1C. Overview of Discussion Paper content

- 1.28 The DP covers the following matters:
- Background information ([Chapter 2](#))
 - Overview of the New Zealand external reporting environment
 - Overview of the New Zealand Accounting Standards Framework (ASF)
 - Observations to date from the application of the ASF
 - Scope and objectives of the targeted review of the ASF ([Chapter 3](#))
 - Discussion on each of the three SMCs ([Chapters 4–6](#))
 - Questions for respondents ([provided at end of the DP](#))
- 1.29 The background information in [Chapter 2](#) provides an overview of the current ASF and the basis for its development over the 2009–2012 period. For those respondents who are unfamiliar with the history behind the current ASF, this information will be useful to understand the decisions made on the scope and objectives of this targeted review, as discussed in [Chapter 3](#).

2 Background information

2A. Overview of the New Zealand external financial reporting environment

- 2.1 The ASF was developed within the context of the broader New Zealand external financial reporting environment, which is the term we use to describe the overall framework in New Zealand for establishing the requirements for entities to prepare GPFR.
- 2.2 People and organisations that invest in, provide funds to, trade with, provide donations or otherwise interact with an entity need financial information about that entity to make informed decisions. Such parties are known as external users of GPFR. While banks, other lenders and grantors are usually able to demand the financial information that they need from entities to whom they provide funding (as a condition of providing funds), most other external users are unable to demand the financial information that they need.
- 2.3 Therefore, in New Zealand, certain entities are required by law to prepare GPFR. The purpose of GPFR is to *“provide information to external users who have a need for an entity’s financial statements but are unable to demand them”*.¹⁰
- 2.4 In New Zealand, the preparation of GPFR is governed by the following frameworks as discussed in the introduction to this DP.
- (a) **The Statutory Financial Reporting Framework**; and
 - (b) **The Accounting Standards Framework (ASF)** – the focus of this targeted review.

The Statutory Financial Reporting Framework

- 2.5 The statutory financial reporting framework is established by the Government through legislation and determines:
- (a) which entities are required to **prepare GPFR** – that is, to report in accordance with accounting standards issued by the XRB;¹¹
 - (b) which entities have **audit or assurance requirements**¹²; and
 - (c) which entities are required to **file, distribute or make publicly available** their GPFR.
- 2.6 The development of the current statutory financial reporting framework began in 2009 and was introduced in 2013 with the Parliament’s enactment of the FRA 2013 and associated amendments to other legislation.

¹⁰ The Ministry of Economic Development (now the Ministry of Business, Innovation and Employment), The Statutory Framework for Financial Reporting, 2009, paragraph 45.

¹¹ Legislation refers to standards issued by the XRB as “generally accepted accounting practice” (GAAP), except for the cash-basis standard for Tier 4 PBEs, which is referred to as a “non-GAAP standard issued by the XRB”.

¹² The XRB’s Auditing and Assurance Standards Framework sets out the XRB’s strategic approach for setting standards for auditing and assurance engagements conducted in New Zealand – this Framework is outside the scope of this targeted review.

- 2.7 The Government used the following key indicators to determine which entities should be required by legislation to prepare GPFR.

Table 2: Key indicators used to determine GPFR requirements	
Key Indicators	Rationale
Accountability to the public	When an entity receives money directly from the public, it should be accountable to the public
Economic significance	A large entity is likely to have a large economic and/or social impact if it fails
Separation of management and ownership	Based on the “principal-agent” challenge – the concern that management might not manage owners’ money as well as the owners would themselves.

- 2.8 When it was introduced, the statutory financial reporting framework removed the requirement for small and medium sized privately-held for-profit entities to report in accordance with generally accepted accounting practice (GAAP). On the other hand, it also introduced new requirements for registered charities (and certain other entities) to report in accordance with GAAP (being accounting standards issued by the XRB) or other standards issued by the XRB.
- 2.9 The ASF was developed in conjunction with these legislative reforms to provide the framework for the accounting standards that should be used by those entities with a statutory requirement to prepare GPFR.
- 2.10 Examples of legislation that requires the preparation of GPFR include the following.
- (a) *The Financial Markets Conduct Act 2013*: GPFR are required for “FMC reporting entities”, including certain issuers of shares and bonds, managed investment schemes, entities listed on a stock exchange, registered banks, licensed insurers, etc.
 - (b) *The Companies Act 1993*: GPFR are required for “large” companies, companies that are “public entities”, and companies with more than 10 shareholders (unless they opt out).
 - (c) *The Charities Act 2005*: GPFR are required for all registered charities.
 - (d) Various public sector legislation requires public sector entities to prepare GPFR – including the *Public Finance Act 1989* (for Government departments), the *Crown Entities Act 2004* (for Crown Entities), the *Local Government Act 2002* (for local authorities).
- 2.11 Entities with no statutory financial reporting requirements may choose to prepare financial statements in accordance with XRB accounting standards, or may have other external obligations to prepare GPFR (for example, obligation imposed by lenders or funders).

Current legislative developments

- 2.12 The Government is currently reviewing the Charities Act 2005¹³ and the Incorporated Societies Act 1908.¹⁴ Further information on these reforms is provided in [Chapter 6](#).
- 2.13 The above legislative reforms may impact the requirements for certain entities to prepare financial statements in accordance with XRB accounting standards. Once the outcome of these reforms is known, the XRB will consider whether any changes are required to the ASF or the underlying standards.

Overview of ASF within the broader external financial reporting environment

- 2.14 [Figure 1](#) on the next page provides an overview of the broader external financial reporting environment and where the ASF fits within this broader picture.

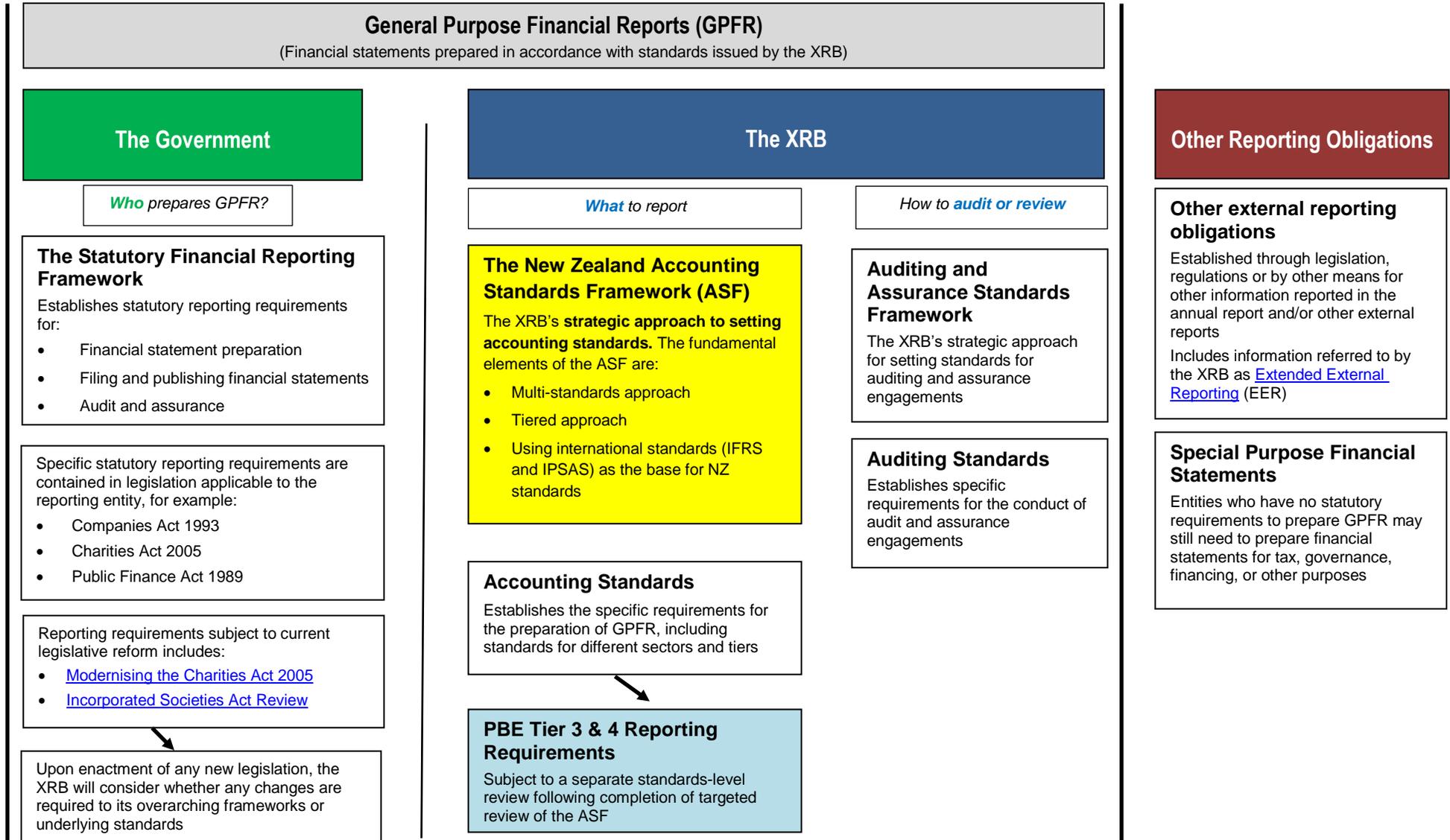
¹³ [Modernising the Charities Act 2005](#) – Discussion Document, Department of Internal Affairs, February 2019

¹⁴ The [Incorporated Societies Review](#) has proposed statutory reporting requirements for some incorporated societies.

The New Zealand External Reporting Environment

Where does the ASF fit within the broader New Zealand external reporting environment?¹⁵

Key:
 The Accounting Standards Framework



¹⁵ This diagram is a high-level overview of the New Zealand reporting environment and is not intended to be comprehensive.

2B. Overview of the New Zealand Accounting Standards Framework (ASF)

- 2.15 The ASF was developed by the XRB using a user-needs approach. It is based on a multi-standards approach that uses tiers of reporting to match the costs and benefits of reporting. For entities that are required by legislation to prepare financial statements in accordance with standards issued by the XRB, the ASF determines which standards they need to apply.
- 2.16 A key driver for developing a new ASF was the Government’s decision at the time to establish a new statutory financial reporting framework ([see section 2A](#)). The resulting changes to the statutory financial reporting framework required the XRB to develop a new ASF that would appropriately accommodate the different natures and sizes of entities required to report in accordance with accounting standards issued by the XRB.
- 2.17 The development of the ASF over the 2009-2012 period included a comprehensive review and analysis of the different options available for various elements of the ASF. The development process included an extensive consultation process, including various consultation papers, together with general and targeted outreach activities to seek feedback from broader constituent groups and key stakeholders across the for-profit, public and NFP sectors.

Key elements of the ASF

- 2.18 The ASF (as approved by the Minister of Commerce in April 2012) has three key elements.

Multi-standards approach	Different suites of accounting standards for two distinct sectors: for-profit entities and public benefit entities (PBEs)
Tiered approach	Different accounting requirements for each tier that are appropriate for the entities concerned, based on the nature and size of the reporting entity
Basis for developing each suite of accounting standards	For for-profit entities, accounting standards are based on International Financial Reporting Standards (IFRS Standards). For PBEs, accounting standards are based primarily on International Public Sector Accounting Standards (IPSAS) for Tiers 1 and 2, and on the XRB’s Simple Format Reporting Requirements for Tiers 3 and 4.

The objectives of the key elements of the ASF

- 2.19 The development of the ASF was underpinned by two key objectives:
- To meet user needs — by developing accounting standards that lead to high quality financial reporting that meets the different user-needs in the for-profit and PBE sectors; and
 - To balance the costs and benefits of reporting — by establishing appropriate accounting requirements based on the nature and size of the entity.

Objective 1: To meet user needs

- 2.20 A key objective of the ASF is to meet the information needs of the users of financial statements across all relevant sectors in New Zealand. This includes users of the financial statements of for-profit entities, public sector PBEs and NFP PBEs.
- 2.21 The XRB gave effect to this objective by basing the ASF on adopting a multi-standard approach and developing different suites of accounting standards for for-profit entities and PBEs.
- 2.22 The XRB concluded that user needs cannot be adequately addressed by a single set of accounting standards, as different users have different information needs. In particular, the capital markets focus of IFRS Standards makes those standards less relevant to the users of the financial reports of non-capital market entities. Certain constituents were also of the view that IFRS Standards were becoming increasingly unsuitable as a base for PBE reporting. The XRB concluded that user-needs can be better addressed by adopting separate sets of standards – one for for-profit entities based on IFRS Standards; and one for PBEs based primarily on IPSAS.¹⁶
- 2.23 The major disadvantage of the multi-standards approach highlighted during consultation on the current ASF was the resulting increase in fragmentation between for-profit and PBE accounting standards – particularly the need for greater sector specialisation within the accounting profession and potentially more complex professional education requirements. The XRB considered at the time that fragmentation should be minimised to the extent possible. That is, while the multi standards approach is designed to allow different user-needs to be reflected, as much transaction neutrality as possible should be retained and unnecessary differences between the two sets of standards minimised. The XRB concluded that the fragmentation implications did not, of itself, provide a sufficient reason not to adopt a multi-standards Framework.

Objective 2: To balance the costs and benefits of reporting

- 2.24 The second key objective of the ASF was to balance the information needs of users and the costs of reporting for different sized entities.
- 2.25 The XRB operationalised this objective by basing the ASF on a multi-tiered approach. That is, the ASF provides for multiple tiers within each sector (for-profit and PBE respectively). There are different accounting requirements for each tier that are appropriate for the entities within that tier, based on the nature and size of the reporting entity.
- 2.26 The main disadvantage raised by constituents in relation to the tiered approach was the risk that the reporting requirements for lower tiers may not generate sufficient information to meet minimum user-needs. The XRB considered this risk can be managed by the NZASB monitoring on an on-going basis the usefulness of information reported by the lower tiers.

¹⁶ Except for PBEs in Tier 3 and 4, for which the XRB decided to develop Simple Format Reporting Requirements

Current ASF multi-standards, multi-tiered approach

2.27 The ASF consists of a two-sector, multi-tier structure with different accounting requirements or standards applying to each tier of reporting to match costs and benefits. A summary of current ASF multi-sector, multi-tiered approach is provided in Table 4 and Table 5 below.

Table 4: For-profit Entities		
Tier	Entity type	Standards
Tier 1	Has public accountability , ¹⁷ or is a large for-profit public sector entity with total expenses > \$30million	New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)
Tier 2	Has no public accountability <i>and</i> is not a large for-profit public sector entity (i.e. not a for-profit public sector entity with total expenses > \$30 million)	NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR)

Any for-profit entity that has a statutory requirement to prepare financial statements in accordance with accounting standards issued by the XRB, but does not meet the criteria for Tier 1, is eligible for Tier 2.

Table 5: Public Benefit Entities (PBEs)		
Tier	Entity type	Standards
Tier 1	Has public accountability , ⁶ or is a large PBE with total expenses ¹⁸ > \$30million	PBE Standards ¹⁹
Tier 2	Has no public accountability <i>and</i> is not large (i.e. has total expenses < \$30million) <i>and</i> elects to be in Tier 2	PBE Standards Reduced Disclosure Regime (PBE Standards RDR)
Tier 3	Has no public accountability <i>and</i> has total expenses ≤ \$2million <i>and</i> elects to be in Tier 3	PBE Simple Format Reporting Standard – Accrual (SFR-A)
Tier 4	Has no public accountability <i>and</i> is allowed by law (i.e. operating payments under \$125,000) to use cash accounting <i>and</i> elects to be in Tier 4	PBE Simple Format Reporting Standard – Cash (SFR-C)

¹⁷ Public accountability is a defined term; in short, it is any entity that has issued equity or debt instruments in a public market plus some other types of entities. For the full definition refer to XRB A1 [Application of the Accounting Standards Framework](#).

¹⁸ All PBE tier size thresholds are based on annual amounts.

¹⁹ PBE Standards are primarily based on International Public Sector Accounting Standards (IPSAS) and amended to ensure they are relevant and provide appropriate reporting requirements for New Zealand PBEs.

The rationale for each suite of accounting standards

2.28 A key element of the ASF is the basis for developing each suite of accounting standards to give effect to the multi-standard, multi-tiered approaches. Under the current ASF:

- (a) accounting standards for for-profit entities are based on International Financial Reporting Standards (**IFRS** Standards), with any additional New Zealand-specific disclosure requirements and disclosure concessions for Tier 2 entities being harmonised with Australia; and
- (b) International Public Sector Accounting Standards (**IPSAS**) are used as the starting point for developing accounting standards for PBEs in Tiers 1 and 2 (while PBEs in Tiers 3 and 4 report under the XRB's Simple Format Reporting Requirements).

2.29 The rationale for using the selected standards for each sector and tier are described below.

Table 6: Accounting standards for for-profit entities	
Description of standards	Rationale
Tier 1: NZ IFRS converged with IFRS Standards, and supplemented by additional New Zealand specific standards, harmonised with Australia as appropriate.	In the interests of international competitiveness, it is important for for-profit entities in Tier 1 to be able to assert compliance with IFRS.
Tier 2: NZ IFRS with RDR retains the recognition and measurement requirements of full NZ IFRS, but with reduced disclosures, and harmonised with Australia as appropriate.	The objective of Tier 2 is to have a set of accounting requirements that result in reduced preparation costs to reflect the reduced needs of the users of these GPFR. Therefore, the disclosure requirements for Tier 2 entities are reduced as compared to Tier 1. However, to enhance comparability between Tier 1 and Tier 2 and to ease consolidation efforts for groups containing entities in both tiers (among other reasons), the recognition and measurement requirements in Tier 2 are the same as in Tier 1.

Table 7: Accounting standards for PBEs	
Description of standards	Rationale
<p>Tier 1: PBE Standards use IPSAS as their base, but are modified:</p> <ul style="list-style-type: none"> ○ for any recognition, measurement or disclosure matters considered inappropriate in New Zealand; ○ to include other relevant standards (including IFRS-based and domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS; and ○ to make them relevant, applicable and understandable for NFP PBEs. 	<p>The XRB concluded that it was important for PBE Standards to be based on international accounting standards. The only set of international standards other than IFRS, is IPSAS. However, the XRB considered that it was premature to adopt “pure” IPSAS and a degree of flexibility to allow for domestic modification should be retained in the ASF.</p>
<p>Tier 2: PBE Standards RDR retains the recognition and measurement requirements of full PBE Standards, but with reduced disclosures.</p>	<p>The approach and rationale are consistent with for-profit Tier 2 entities.</p>
<p>Tier 3: PBE Simple Format Reporting — Accrual establishes simple format accrual-based reporting requirements within a single standard, accompanied by optional performance report templates and associated guidance material. In broad terms, the recognition and measurement requirements are consistent with Tier 1 and Tier 2 entities, but with some simplifications to reflect the “simple” nature of the entities in this tier.</p>	<p>This approach was taken to promote consistent reporting by the smaller entities in this tier, which often have a reduced level of resources and accounting expertise available.</p>
<p>Tier 4: PBE Simple Format Reporting — Cash establishes simple format cash-based reporting requirements within a single standard, accompanied by optional performance report templates and associated guidance material (for entities permitted by legislation to use cash accounting).</p>	<p>This approach was taken to establish consistent reporting requirements for entities permitted by legislation to use cash accounting.</p>

2C. Observations to date from the application of the ASF

- 2.30 This section of the DP discusses the application of the ASF to date, and whether the ASF is achieving its original objectives, based on our observations so far. Most reporting entities with a legislative requirement to prepare financial statements in accordance with accounting standards issued by the XRB have applied the changes resulting from application of the new ASF for 4–5 years.
- 2.31 We are not aware of any significant unintended consequences arising from the implementation of the ASF, and it appears that the original objectives of the ASF – meeting user needs and balancing the costs and benefits of financial reporting – are generally being achieved. However, certain recent developments in the reporting environment suggest that certain aspects of the ASF may need to be refined — as discussed in [Chapters 4–6](#).
- 2.32 The XRB observations from the application of the ASF for each sector and tier is discussed below. Some of these observations is based on [XRB user-needs research](#), while other comments reflect informal feedback received.

For-profit entities

Tier 1 for-profit entities

- 2.33 Under the ASF, Tier 1 for-profit entities are required to report in full compliance with NZ IFRS, which allows the reporting entity to also assert full compliance with IFRS Standards.
- 2.34 For-profit entities in Tier 1 include those entities that have “public accountability” (as defined in XRB A1). This includes FMC reporting entities that have “higher level public accountability” in accordance with the Financial Markets Conduct Act 2013, such as certain entities that issue shares, bonds or units in a scheme to the public, registered banks and licenced insurers. For-profit public sector entities that have over \$30 million expenses are also in Tier 1.
- 2.35 When the ASF was first issued in 2012, NZ IFRS had already been largely mandatory in New Zealand since 2007 for Tier 1 for-profit entities.
- 2.36 The decision to adopt IFRS in New Zealand reflected the growing acceptance of IFRS internationally, and the decision of the European Union (EU) and Australia to adopt IFRS. The XRB’s predecessor body, the Accounting Standards Review Board (ASRB), considered it necessary for New Zealand to also adopt IFRS to protect the credibility of New Zealand financial reporting and maintain international competitiveness for New Zealand companies.
- 2.37 The XRB is of the view that the decision to adopt IFRS in New Zealand has been validated by the fact that IFRS is now viewed internationally as a generally accepted basis for reporting by capital market entities.²⁰ The following information from the IASB’s website²¹ illustrates the extent of IFRS adoption internationally.
- 144 jurisdictions now require the use of IFRS Standards for all or most publicly listed companies – including the EU, Australia, Singapore, Hong Kong, Malaysia, South Korea, Canada, South Africa, Brazil and Argentina.
 - A further 12 jurisdictions permit the use of IFRS Standards for publicly listed companies. This includes Japan, where in 2018 listed companies accounting for 33% of the total listed market capitalisation have adopted or plan to adopt IFRS.²²
- 2.38 Furthermore, in some of the countries that have not adopted IFRS Standards, the domestic standards are substantially converged with IFRS Standards. For example, this is the case in China²³ and India.²⁴

²⁰ It should be noted that the USA has not adopted IFRS Standards. In the USA, listed domestic companies must report under US GAAP. However, listed foreign companies are permitted to report under IFRS Standards.

²¹ <https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/>

²² According to the [Tokyo Stock Exchange, Inc.](#), July 2018.

²³ <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/china/>

²⁴ <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/india/>

- 2.39 According to the IASB, the specific benefits of adopting IFRS Standards include enhanced transparency, stronger accountability and improved economic efficiency. Further, international research and studies have shown that the benefits of IFRS Standards adoption include a lower cost of capital for companies and increased investment in jurisdictions that adopted IFRS Standards.²⁵
- 2.40 Some recent international and New Zealand research on the benefits of IFRS Standards adoption is included in [Appendix C](#).

Tier 2 for-profit entities

- 2.41 Under the ASF, Tier 2 for-profit entities are required to report in compliance with NZ IFRS RDR. NZ IFRS RDR contains the same measurement and recognition requirements as NZ IFRS, but provides disclosure concessions that are harmonised with the current RDR requirements in Australia.
- 2.42 For-profit Tier 2 entities consist of all for-profit entities that have a statutory requirement to report in accordance with standards issued by the XRB, but are not Tier 1 for-profit entities. This includes “large” companies and partnerships, FMC reporting entities without “higher level of public accountability”, retirement villages and certain other for-profit entities.
- 2.43 It should be noted that NZ IFRS RDR is different to the IASB’s *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard contains not only reduced disclosures as compared to “full” IFRS Standards, but also simplified recognition and measurement requirements, which in some cases are different to IFRS Standards. When the ASF was developed the XRB decided to apply a Reduced Disclosure Regime in Tier 2, rather than adopting the *IFRS for SMEs* Standard. This was to enhance comparability between Tier 1 and Tier 2 and to ease the consolidation efforts of groups containing entities in both tiers (among other rationales). The same approach is taken in Australia, and although the Australian financial reporting framework is currently undergoing reforms, the Australian Accounting Standards Board (AASB) recently reaffirmed its intention to continue with the RDR approach for Tier 2 for-profit entities (further details are provided in [Chapter 5](#)).
- 2.44 In 2017, the XRB published the research report [Information and assurance needs of the users of Tier 2 for-profit Entity Financial Reports](#).²⁶ This research aimed to address the question of whether NZ IFRS RDR are fit-for-purpose and result in GPFR that satisfy user needs. The research involved surveying representatives of the following user groups: shareholders, lenders, advisors (e.g. accountants, consultants) and regulators.
- 2.45 The findings indicate that, overall, the majority of users of Tier 2 for-profit financial statements find the information in the financial statements useful and trust worthy. The results of this research indicate that the approach in the ASF to setting standards for Tier 2 for-profit entities is mainly operating as intended, and that the objectives of the ASF in terms of meeting user needs is being met.

²⁵ <https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/>

²⁶ A [summary](#) of this research report is also available from the XRB website.

Recent developments in Tier 2 for-profit entities reporting requirements

2.46 There have been recent developments in the Australian reporting environment that relate to Tier 2 for-profit entities. Australia is currently reviewing its approach to setting Tier 2 disclosure requirements, and as noted above, New Zealand's Tier 2 requirements are currently harmonised with Australia. Although the results of this project are not yet known, any resulting changes may require refinements to the New Zealand ASF, in terms of what extent disclosure requirements for Tier 2 for-profit entities should continue to be harmonised with Australia.

Please refer to [Chapter 5](#) for further discussion on this specific matter.

Public Benefit Entities (PBEs)

2.47 Under the ASF, Tier 1 and Tier 2 PBEs (in both the public and NFP sectors) are currently required to report in accordance with PBE Standards which have been developed using IPSAS as a starting point, with certain New Zealand-specific modifications.

2.48 Under the ASF, Tier 3 and Tier 4 PBEs (in both the public and NFP sectors) are currently required to report in accordance with Simple Format Reporting Requirements developed by the XRB. These Simple Format Reporting Requirements reflect the small size and limited resources of PBEs in these tiers. We will be conducting a separate standards-level review of the Tier 3 and Tier 4 PBE standards shortly after the completion of the targeted review of the ASF.

Public sector PBEs

2.49 Public sector PBEs are PBEs that are "public entities" as defined in the Public Audit Act 2001,²⁷ and all Offices of Parliament. Examples of public sector PBEs include Government departments, local authorities, Crown Entities, tertiary education institutions, schools, district health boards, etc.

2.50 In terms of the implementation of the ASF by public sector PBEs: In February 2016 the (then) Auditor-General presented to Parliament her report on [Improving Financial Reporting in the Public Sector](#), which highlighted the positive implementation of the ASF and the resulting benefits.

The following are some key points from this report:

- (a) In response to the changes introduced through the new ASF — *"I am pleased to report positive changes to accounting standards during the last six to seven years, which I expect to lead to improvements in financial reporting. The changes mean that we now have a tailored approach to financial reporting in the public sector and a foundation for much better reporting in future."*
- (b) In response to ASF multi sector approach — *"The new Accounting Standards Framework is designed so that financial reports will better meet the needs of users. The Framework distinguishes between accounting standards for public benefit entities and those for commercially focused entities, both of which are applicable to the public sector."*

²⁷ Essentially, a "public entity" is one that is required to be audited by the Auditor-General under the Public Audit Act 2001.

- (c) In response to ASF tiered approach — *“The Framework also uses tiers so that financial reporting requirements reflect the different size and nature of reporting entities in New Zealand. The tiered structure is likely to help smaller entities achieve a better balance between the costs and benefits of general purpose financial reporting.”*
- (d) In response to the ASF basis for developing accounting standards for PBEs — *“By drawing on IPSAS, IFRS, and (where appropriate) Financial Reporting Standards developed in New Zealand, the XRB has put in place a comprehensive suite of PBE accounting standards, appropriate to the size and type of entity.”*
- (e) On the benefits of reporting under the ASF — *“Overall, I am encouraged by the changes that have occurred since 2009. These changes better position the public sector to report more meaningfully in the future.”*

Not-for-profit (NFP) PBEs

- 2.51 NFP PBEs are all those PBEs that are not public sector PBEs. Examples of NFP PBEs include registered charities, friendly societies and incorporated societies that meet the definition of a PBE for financial reporting purposes.
- 2.52 In terms of the ASF achieving its desired outcomes for the NFP sector, limited research has been completed to-date. This is understandable given most NFP PBEs have only been reporting under the new requirements for 3 – 4 years.
- 2.53 The feedback we have received from registered charities to date has highlighted general support for the new PBE Standards, including smaller entities who have reported under the XRB’s Tier 3 and Tier 4 Simple Format Reporting Requirements. We have been told that compliance with these requirements has promoted consistent reporting across the sector, which has enabled these entities to “tell their story” and has made it easier for them to apply for funding and solicit donations.
- 2.54 We have noted that compliance reviews conducted by Charities Services from 2016–2018 have shown:
- close to 100% uptake of the new PBE Standards by Tier 1 and Tier 2 registered charities; and
 - an increasing uptake of Tier 3 and Tier 4 registered charities using the new Simple Format Reporting Requirements issued by the XRB.

We expect this upwards trend to continue through the provision of on-going support and guidance for these small NFP PBEs by Charities Services.

Figure 2: Charities Services Compliance Review Results 2017-2018



2.55 We have also received feedback that some Tier 4 NFP PBEs, namely smaller registered charities, are struggling to comply with the Tier 4 Simple Format Reporting Requirements developed and issued by the XRB. In response to this feedback and other feedback on specific aspects of the Tier 3 and Tier 4 Simple Format Reporting Requirements, the NZASB plans to conduct a separate standards-level review of the Tier 3 and Tier 4 Simple Format Reporting Requirements shortly after the completion of the targeted review of the ASF.

Recent developments in PBE Reporting Requirements

2.56 While we consider the implementation of PBE Standards by both public and NFP sector entities has broadly been a success in the first 3 – 4 years of the current ASF being applied, we are hearing increased concerns from constituents about the timely development of new PBE Standards based on IPSAS and the timely resolution of PBE-specific reporting issues.

Please refer to [Chapters 4](#) for further discussion on this specific matter.

3 Objectives and scope of the targeted review

3A. Objectives

- 3.1 The overall purpose of the targeted review of the application of the ASF is to ensure the XRB's approach to developing and issuing accounting standards, based on the current multi-standards, tiered approach in the ASF, continues to be appropriate from 2021 onwards.
- 3.2 The XRB considers it is now appropriate and timely to conduct a targeted review of the application of the ASF. The objective of this targeted review is to “**check-in**” with constituents on whether:
- (a) the ASF is **functioning as anticipated** and achieving its desired objectives;
 - (b) there are any **unintended consequences** or concerns to date arising from the implementation of the AFS; and
 - (c) refinements to the ASF are needed because of any **new developments or emerging issues** since the ASF was first developed.

3B. Scope

- 3.3 The XRB recognises that many reporting entities began applying the AFS only 4–5 years ago and for these entities the ASF introduced significant changes to their reporting requirements (namely in the Public and NFP sectors). The implementation of these changes has required a significant amount of time and resources for all parties involved in the financial reporting process.
- 3.4 It is therefore in the XRB's view, that it is **too soon after such a major change to conduct a first-principles' review of the ASF** – both because of the costs involved and the relatively recent implementation of the ASF. The current ASF is still relatively new and requires more time to allow all the desired benefits to be fully realised.
- 3.5 In addition, we are currently **not aware of any significant unintended consequences from the implementation of the ASF or its fundamental elements** (discussed below), and it seems that the key objectives of the ASF are being achieved.
- 3.6 Therefore, this is not a first-principles' review of the fundamental elements of the ASF. That is, it does not contemplate changes to:
- (a) the ASF's multi-standards approach;
 - (b) the ASF's multi-tiered approach; or
 - (c) the use of international standards as the base for developing standards in New Zealand (i.e. IFRS Standards and IPSAS).
- 3.7 The XRB expects the fundamental elements of the ASF will be considered as part of a more comprehensive review of the ASF that would be conducted after the ASF has been effective for at least 10–15 years.

- 3.8 This review therefore has a narrow, targeted scope focusing on the application of the ASF to date. It will be used to check in on whether the ASF is functioning as anticipated, and whether any refinements are needed because of any new developments or emerging trends since the ASF was first developed.
- 3.9 While it appears that the objectives of the ASF are generally being achieved and we are not aware of significant unintended consequences, the XRB has identified three aspects of the ASF where potential refinements may be required due to recent developments in the reporting environment.

These specific aspects are listed below.

- (a) **Importance of close alignment with IPSAS** when developing Tier 1 and Tier 2 PBE Standards (please refer to [Chapter 4](#)).
- (b) **Importance of harmonisation with Australia** for the disclosures of Tier 2 for-profit entities (please refer to [Chapter 5](#)).
- (c) Whether the **tier size criteria for PBEs needs to be revisited** (please refer to [Chapter 6](#)).

We are particularly interested in constituent feedback about these aspects of the ASF.

- 3.10 In addition to these three SMCs, we are also **very interested in feedback on any other aspects of the ASF where refinements may be required**. This could be due to unintended consequences or recent developments in the reporting environment. However, as noted above, we are not contemplating changes to the fundamental aspects of the ASF.
- 3.11 Therefore, we are also seeking feedback on the following broad questions:

Question for respondents

1. Are you aware of any other 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?
2. Do you have any other comments about the ASF?

What else is out of scope and why

- 3.12 As noted above, this review is a check-in on whether the ASF is functioning as expected and whether any refinements to the ASF are required – rather than being a first-principles’ review of the key elements of the ASF.
- 3.13 Furthermore, while the ASF interacts with other frameworks that relate to financial reporting (like the statutory financial reporting framework and the auditing and assurance standards framework), and while it impacts the developments of requirements in individual accounting standards, this targeted review is limited to the ASF itself, being the framework used to develop accounting standards in New Zealand.
- 3.14 As such, in addition to the fundamental elements of the ASF, the matters outlined in the table below are also outside the scope of this targeted review.

Table 8: Other matters outside of scope

Matters outside the scope of this review	Explanation
<p>Who should have a statutory requirement to prepare GPFR in accordance with accounting standards issued by the XRB</p>	<p>Determining which entities should report in accordance with standards issued by the XRB is determined by the Government. Therefore, it is outside of the XRB’s remit. That is, the XRB is unable to remove (or add) a statutory requirement to report in accordance with standards issued by the XRB, for any entity.</p>
<p>The appropriateness of specific accounting requirements in accounting standards</p>	<p>The targeted review is limited to the ASF itself, being the framework used to developing accounting standards in New Zealand. Therefore, the requirements in the underlying accounting standards is outside the scope of this review.</p> <p>The XRB has other processes in place for receiving constituents’ feedback on individual accounting standards. For example, please note that the XRB will complete a separate post-implementation review of the Tier 3 and Tier 4 PBE Simple Format Reporting standards shortly after the completion of this targeted review of the ASF.</p>
<p>Audit and assurance requirements</p>	<p>The XRB is unable to determine which entities need to have their GPFR audited or reviewed, as this is determined by legislation.</p> <p>Having said this, in many cases an audit or review of GPFR needs to be conducted in accordance with assurance standards issued by the XRB.²⁸ There is an important link between auditing and assurance requirements and the accounting standards used to prepare the GPFR that are subject to the assurance engagement.²⁹ However, as noted above, the underlying accounting standards are outside the scope of this targeted review of the ASF.</p> <p>Therefore, audit and assurance requirements are outside the scope of this review.</p>

²⁸ Not all entities with a statutory requirement to have their GPFR audited need to be audited in accordance with standards issued by the XRB. For example, “public entities” (as defined in the Public Audit Act 2001) are audited in accordance with standards issued by the Auditor-General.

²⁹ When carrying out an audit of GPFR in accordance with standards issued by the XRB, assurance professionals determine whether the entity’s financial statements are prepared, in all material respects, in accordance with the relevant accounting standards issued by the XRB.

4. SMC 1: The Importance of maintaining close alignment between PBE Standards and IPSAS

4A. What this SMC is about

- 4.1 A key element of the current ASF's "user-needs" approach is the multi-standards approach, with separate suites of standards for two distinct sectors: for-profit entities and PBEs. Accounting standards for for-profit entities are based on IFRS Standards and accounting standard for PBEs in Tier 1 and Tier 2 are based on IPSAS. This chapter seeks constituent feedback on the importance of close alignment between IPSAS (issued by the IPSASB) and PBE Standards (issued by the XRB), being the standards applicable to Tier 1 and Tier 2 PBEs in the public and NFP sectors.
- 4.2 As discussed in [Chapter 2](#), the implementation of PBE Standards based on IPSAS by both public and NFP sector entities has broadly been a success in the first 4–5 years of application of the ASF. The introduction of a separate suite of standards for PBEs has provided a tailored approach to meet the specific user-needs of PBEs in both the public and NFP sectors.
- 4.3 However, we are hearing increased concerns from constituents about the timely development of new PBE Standards. These concerns have largely emerged from developments regarding the IPSASB's Work Programme and its future strategy and the resulting impact on the XRB's current strategy of maintaining relatively close alignment between PBE Standards and IPSAS to the extent appropriate.
- 4.4 While the XRB's current strategy was effective in establishing the PBE Standards and the XRB plans to continue using IPSAS, the XRB considers that the extent of alignment between PBE Standards and IPSAS in the future is an aspect of the ASF that may need to be refined as an outcome of this targeted review.
- 4.5 More specifically, the abovementioned emerging concerns have highlighted a need for the XRB to consider whether more flexibility is needed in the XRB's current strategic approach to developing PBE Standards based on IPSAS. To assist constituents in providing feedback on this matter, this DP:
- provides background information on the XRB's decision to use IPSAS as the base for developing PBE Standards when the ASF was first issued;
 - explains how the XRB's strategy of using IPSAS has been implemented through the development of its [Policy Approach to Developing the Suite of PBE Standards](#) ("PBE Policy Approach");
 - discusses recent IPSAS developments that raise questions about whether the XRB's current approach should be modified to provide more flexibility in how IPSAS is used to develop PBE Standards; and
 - outlines two possible approaches the XRB could take in the future: the current approach and a more flexible approach.
- 4.6 The scope of this matter does not include the alignment of IPSAS with the Tier 3 or Tier 4 PBE Simple Format Reporting Requirements. The Tier 3 and Tier 4 PBE standards are highly simplified, resulting in little direct alignment with IPSAS. The XRB intends to carry out a separate standards-level review of Tier 3 and Tier 4 PBE standards shortly after the completion of this targeted review of the ASF.

4B. The XRB's current strategy for the development of PBE Standards

Background information on the decision to use IPSAS as a base for developing PBE Standards

- 4.7 An explicit part of the ASF's multi-standards approach is the XRB's decision to adopt a set of accounting standards for PBEs other than one based on IFRS Standards. This was in response to growing concerns among New Zealand constituents about the appropriateness of using IFRS Standards as the base for developing accounting standards for PBEs.
- 4.8 The XRB concluded that IPSAS provides a better basis than IFRS Standards for PBE reporting in Tier 1 and Tier 2, because IPSAS are developed specifically for public sector entities whose primary objective is to deliver services to the public, rather than to make profits and generate a return on equity to investors.
- 4.9 However, the XRB also recognised that it would be premature to adopt "pure" IPSAS (in the same way that NZ IFRS for Tier 1 for-profit entities reflects "pure" IFRS Standards).³⁰ This is primarily because:
- (a) IPSAS are developed for public sector entities and the requirements are not always appropriate for NFPs or do not necessarily fit with the New Zealand regulatory environment — New Zealand specific modifications would be required;
 - (b) IPSAS does not currently represent a complete set of standards — other sources for standards would be required, including selected NZ IFRS and domestic standards; and
 - (c) it was recognised that the ability to assert compliance with international standards was of less importance to public sector and NFP PBEs.
- 4.10 Therefore, the ASF concludes that a modified version of IPSAS should be used to develop PBE Standards, as explained further in the following section.
- 4.11 Another key reason for basing PBE Standards for Tiers 1 and 2 on IPSAS (with modifications) — rather than developing a unique set of domestically-based New Zealand standards for PBEs — was the cost-benefit presumption that New Zealand (given its size) should adopt international standards whenever feasible.³¹

The XRB's PBE Policy Approach to Developing the Suite of PBE Standards

- 4.12 When PBE Standards were first issued in May 2013, it was expected that the standards would be enhanced and developed over time. In September 2013, the XRB published its PBE Policy Approach to assist the NZASB in making consistent decisions when developing and enhancing PBE Standards.
- 4.13 The PBE Policy Approach sets out the "development principle", to be applied when considering making a change to the PBE Standards suite. Triggers for considering such changes include the IPSASB issuing a new or amended IPSAS, the IASB issuing a new or amended IFRS Standard, and domestic developments within New Zealand. The development principle is set out below.

³⁰ Paragraph 60 of [the ASF](#)

³¹ Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting — Discussion Document, ASRB, September 2009

Figure 3: The development principle in the PBE Policy Approach

The development principle requires the NZASB to consider the following factors when considering changes to the PBE Standards suite:

- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups NFP PBE groups, than would be the case if the development was not made; and
- (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
 - (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
 - (ii) *relevance to the NFP or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
 - (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
 - (iv) *the impact on mixed groups*; and
- (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).

4.14 The PBE Policy Approach also includes some rebuttable presumptions, which include the following.

- (a) The NZASB will adopt a new or amended IPSAS.
- (b) The NZASB will not include an IFRS Standard that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.
- (c) If a new or amended IFRS Standard is issued on a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to make a similar change to the PBE Standards ahead of the IPSASB. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change and whether the IPSASB will address the change in an acceptable time frame.

4.15 The current strategy (as provided for in the PBE Policy Approach) provides some flexibility for the NZASB to develop PBE Standards ahead of the IPSASB, but this is somewhat limited (e.g. to topics that the IPSASB is not expected to address in the foreseeable future or not within an acceptable timeframe). For example, the NZASB recently developed and issued a new PBE Standard on insurance for NFP PBEs³² (based on the new for-profit standard IFRS 17 *Insurance Contracts*), as it was considered that PBE insurers in New Zealand would benefit from such a standard, and the IPSASB does not intend to develop an IPSAS on insurance in the foreseeable future.

³² PBE IFRS 17 *Insurance Contracts* was issued in July 2019 and is applicable to Tier 1 and Tier 2 NFP PBEs

- 4.16 A key consideration addressed by the PBE Policy Approach is the approach to take when the IASB issue a new or amending standard. This is particularly important for mixed groups, where the benefit of aligning the PBE Standards with NZ IFRS to the extent possible is to reduce the differences between the financial statements of PBEs and for-profit entities for transactions with similar characteristics.
- 4.17 The PBE Policy Approach acknowledges these mixed group concerns, but also notes that careful consideration is required before making any changes to PBE Standards. The PBE Policy Approach generally results in waiting for the IPSASB to address any changes introduced by the IASB, to avoid the risk of getting ahead of the IPSASB.
- 4.18 The Policy also provides that when the IPSASB issues a new or amending IPSAS, it may be appropriate to amend the IPSAS when developing the corresponding PBE Standard to address NZ-specific factors. However, the PBE Policy Approach sets a relatively high hurdle for modifying IPSAS, and does not expect that substantial amendments to an IPSAS will be required.
- 4.19 Overall, therefore, the effect of the PBE Policy Approach is to maintain relatively close alignment between PBE Standards and IPSAS. While there is some flexibility in the PBE Policy Approach to develop a PBE Standard a head of the IPSASB and to modify an IPSAS when developing an equivalent PBE Standard, the PBE Policy Approach currently sets a high hurdle for doing so.

4C. Maintaining close alignment with IPSAS: Recent developments

- 4.20 This section outlines recent developments since the ASF was introduced, and the impact of these developments on PBE Standards and PBEs.

The issuing of several new IFRS Standards, with IPSAS projects “lagging” behind

- 4.21 When the ASF was first introduced in 2012, IPSAS were mostly aligned with IFRS Standards.
- 4.22 Since 2014 the IASB has issued a number of new standards, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*. These standards represent the IASB’s latest thinking on the topics covered by the respective standards. Equivalent NZ IFRS were issued shortly after these IFRS Standards were issued. We note NZ IFRS 9, 15 and 16 have already become effective for for-profit entities.
- 4.23 When a new IFRS Standard is issued, application of the PBE Policy Approach usually results in the NZASB waiting for the IPSASB to consider the IFRS Standard and to issue a new or amending IPSAS addressing this topic, before making changes to PBE Standards, as explained earlier.
- 4.24 The IPSASB has initiated “alignment projects” on IFRS 9, 15, 16 (the IPSASB project relating to IFRS 9 has been completed). The term “alignment” refers to the formal processes the IPSASB follows to assess the applicability of IFRS requirements when developing pronouncements for the public sector.

- 4.25 We have observed that these IPSASB alignment projects have been taking an increasing amount of time to complete, especially when the IPSASB proposes to incorporate some of the requirements in the related IFRS Standard, but at the same time also introduces significant additions to or departures from the IFRS Standard to address public sector specific issues. This is the case for the IPSASB’s current projects on revenue and leases.
- 4.26 Table 9 below provides some examples of the current time lag between the IASB issuing a new standard and IPSASB completing a project on the same topic.³³

Table 9: Examples of the time lag between IFRS standards and IPSASB projects

IFRS Standard/IPSASB Project	IFRS issue date	IFRS effective date	IPSAS expected issue date	IPSAS expected effective date
IFRS 9 <i>Financial Instruments</i> / IPSAS 41 <i>Financial Instruments</i>	July 2014	Jan 2018	Aug 2018 (already issued)	Jan 2022
IFRS 13 <i>Fair Value Measurement</i> / <i>Measurement</i>	May 2011	Jan 2013	June 2021	Jan 2023
IFRS 15 <i>Revenue from Contracts with Customers</i> / <i>Revenue</i>	May 2014	Jan 2018	June 2021	Jan 2023
IFRS 16 <i>Leases</i> / <i>Leases</i>	Jan 2016	Jan 2019	June 2021	Jan 2023

- 4.27 This time lag causes the following issues in New Zealand.
- (a) The first issue relates to quality and understandability of financial reporting for PBEs. While users of the financial statements of for-profit entities in New Zealand can benefit from the new thinking represented by the new NZ IFRS, the equivalent PBE Standard will continue to contain “old” and potentially significantly different requirements until the IPSASB finalises its project.
 - (b) The second issue is that for (potentially) several years, a similar transaction would be treated differently under PBE Standards as compared to NZ IFRS solely as a consequence of the standard-setting process (rather than because of differences between the sectors, such as different user information needs). This could cause issues for reporting entities that are “mixed groups” (e.g. a PBE with a for-profit subsidiary).
- 4.28 An example of the above is the IPSASB’s project on leases, which is not expected to be finalised for another two years from now. In the meantime, New Zealand PBEs will continue to apply the current lease accounting requirements in PBE Standards, which are based on the old IFRS requirements for leases – rather than applying the new requirements in IFRS 16, which (in our view) lead to higher quality financial reporting. In addition, as NZ IFRS 16 became effective for for-profit entities for periods beginning on or after 1 January 2019, a “mixed group” will likely need to prepare consolidation adjustments when reporting on the group’s leases.

³³ Expected dates for completion of IPSASB projects based on the March 2019 [IPSASB Work Plan](#)

- 4.29 Similarly, the IPSASB's project on financial instruments took significant time to complete. However, in this case the NZASB decided to issue an interim PBE Standard (PBE IFRS 9), pending the development of the new IPSAS. This was to remedy the significant "mixed group" issues that would otherwise arise when NZ IFRS 9 became effective. This would have affected the New Zealand Government in particular. In addition, PBE IFRS 9 allowed PBEs to benefit from the improvements in financial reporting introduced by IFRS 9, without having to wait for the IPSASB to finalise its project.³⁴ However, as explained earlier, the development of a PBE Standard ahead of the IPSASB is an exception to the usual approach of waiting for the IPSASB.
- 4.30 The above developments raise the following question: In cases where adopting the requirements of a new IFRS Standard into PBE Standards would benefit New Zealand PBEs and mixed groups, but the IPSASB's project on the same topic is expected to take a significant period of time to complete, would constituents prefer the XRB to have more flexibility to develop a PBE Standard ahead of the IPSASB? Or, would constituents prefer to accept the time lag between new IFRS Standards and new IPSAS, and maintain close alignment between PBE Standards and IPSAS?

The IPSASB's work programme and the impact on the development of PBE Standards in New Zealand

- 4.31 The close alignment between IPSAS and IFRS when the ASF was first introduced meant that the IPSASB could leverage off the work of the IASB. However, the IPSASB's work programme has recently entered a new phase, which is more focused on major projects to develop new or revised standards to address public sector-specific issues (such as "non-exchange" revenue and expenses, concessionary leases and measurement bases specific to the public sector). While work on these public sector specific issues is welcomed, the process of developing an IPSAS on such topics, without an IFRS Standard to use as a base, is a much more challenging task, which the IPSASB is undertaking with limited resources.
- 4.32 Furthermore, the IPSASB's strategy aims to address the needs of a wide range of current and future constituents – many of which are in the process of adopting (or have yet to adopt) accrual accounting, as many jurisdictions currently use cash accounting rather than accrual accounting. The current state of public sector accounting globally is reflected in IPSASB's strategic objective for 2019-2023, which involves increasing the adoption of accrual-based IPSAS.³⁵

³⁴ The IPSASB has since finalised this project, issuing IPSAS 41 *Financial Instruments* in August 2018

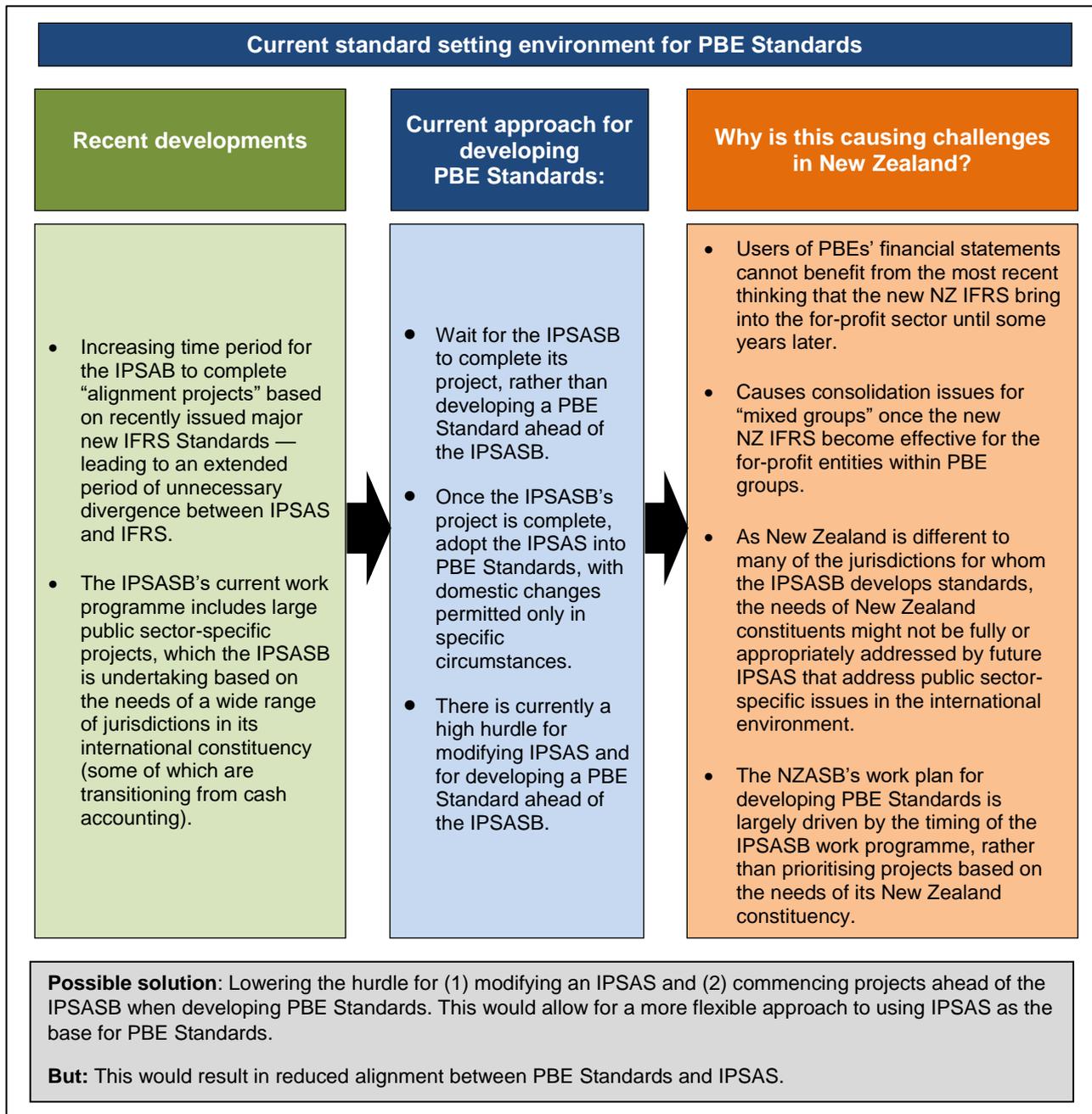
³⁵ According to the [IPSASB's Strategy and Workplan 2019-2023](#), the IPSASB's overarching objective for 2019-2023 is "Strengthening Public Finance Management (PFM) globally through increased adoption of accrual-based IPSAS". This is to be delivered through "developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector" and "raising awareness of IPSAS and the benefits of accrual adoption".

- 4.33 New Zealand is different to many of the other jurisdictions that form the IPSASB’s constituency, for the following reasons.
- (a) New Zealand PBEs – particularly in the public sector – have a long-history of preparing general purpose financial reports (GPFR) on an accrual basis;
 - (b) “Mixed groups”, consisting of a PBE parent and for-profit subsidiaries, are common in New Zealand;
 - (c) New Zealand constituents consider it important that transactions of the same substance across the PBE and for-profit sector be accounted for on a similar basis (i.e. the removal or avoidance of unnecessary differences between the two sectors is considered important); and
 - (d) In New Zealand, PBE Standards apply not just to public sector PBEs but also to NFP PBEs.
- 4.34 Therefore, the needs of New Zealand constituents and the issues they consider important might not be fully or appropriately addressed by the IPSASB’s future standards that address public-sector specific issues in the international environment.
- 4.35 This is an issue because, while the current PBE Policy Approach allows the NZASB some flexibility to modify an IPSAS to reflect New Zealand-specific matters when developing a PBE Standard based on that IPSAS, there is currently a relatively high hurdle for doing so.
- 4.36 Another consequence of the current PBE Policy Approach is that the timing of when PBE-specific issues of importance to New Zealand are addressed is largely dependent upon the IPSASB’s work programme and the time taken to complete its projects in an international environment.
- 4.37 For example, we have been aware of challenges experienced by New Zealand PBEs regarding the determination of whether revenue arises from exchange or non-exchange transactions, and whether “restrictions” or “conditions” apply when considering revenue recognition. Furthermore, there is currently no guidance in PBE Standards on the recognition and measurement of non-exchange expenses, which has resulted in some diversity in practice. These implementation challenges have not been addressed by the NZASB because the IPSASB has active projects on revenue and non-exchange expenses, and the application of the PBE Policy Approach has resulted in waiting for the IPSASB to finalise these projects before introducing any changes in New Zealand. We note the IPSASB’s projects on revenue and non-exchange expenses are still ongoing at the time of writing.
- 4.38 The above developments raise the following questions about the XRB’s strategy for developing PBE Standards, moving forward.
- (a) Whether the policy for developing PBE Standards should prioritise local considerations to ensure that PBE Standards are “fit for purpose” for the New Zealand environment – which could be achieved by the NZASB having more flexibility than it currently does to develop a PBE Standard ahead of the IPSASB and/or to modify an IPSAS when developing a PBE Standard; or
 - (b) Whether maintaining close alignment between PBE Standards and IPSAS is more important?

Summary: The challenges of maintaining close alignment with IPSAS

4.39 The following diagram summarises the challenges arising from the current approach of maintaining close alignment with IPSAS when developing PBE Standards.

Figure 4: Challenges arising in the current standard setting environment for PBE Standards



4.40 Given the current challenges of maintaining close alignment with IPSAS, this suggests that moving to a more flexible approach to how IPSAS is used to develop PBE Standards would be beneficial. However, some may argue that close alignment with IPSAS is important, and that too many differences between an IPSAS and a corresponding PBE Standard may make it difficult for the New Zealand public sector entities to explain the standards they are applying to international bodies. In the future, if more Governments across the world adopt IPSAS, it may become increasingly important for the financial statements of the New Zealand Government and other large public sector entities to clearly explain the basis for preparing their financial statements in contrast to “pure” IPSAS adoption. However, current information suggests that there is still a significant amount of change required globally before adoption of “pure” IPSAS is sufficiently wide-spread for this to be a major concern.³⁶

4D. Options for how IPSAS is used when developing PBE Standards

4.41 Given the concerns discussed in the previous section regarding the current way in which IPSAS is used when developing PBE Standards, this section discusses possible approaches to using IPSAS that the XRB could take when developing future PBE Standards, and the advantages and disadvantages of each approach. The approaches are:

- (a) **Option 1:** Continuing with the **current policy of maintaining relatively close alignment with IPSAS** (i.e. the “status quo”); or
- (b) **Option 2:** A **more flexible approach** to using IPSAS as the base for developing PBE Standards.

4.42 We are seeking constituents’ views on their preferred option.

Option 1: Continuing the current approach of maintaining close alignment with IPSAS (status quo)

4.43 The current approach to using IPSAS in the development of PBE Standards is set in the NZASB’s PBE Policy Approach, which is discussed in [section 4B](#).

4.44 In brief, this approach would involve continuing to maintain close alignment between PBE Standards and IPSAS where possible, with limited divergence in specified circumstances (for example, to add guidance for NFP PBEs, to remove options not relevant to New Zealand, and to ensure the scope of a standard is consistent with New Zealand legislation).

4.45 Although this approach would not resolve the challenges discussed earlier (see [section 4C](#) above), it would maintain relatively close alignment between IPSAS and PBE Standards. Hence, this option would be preferable if close alignment with IPSAS is regarded as being more important.

Option 2: A more flexible approach in using IPSAS as the base for developing PBE Standards

4.46 Under a more flexible approach, the standard-setting process for the future development of the existing suite of PBE Standards would be focused on local considerations, rather than maintaining close alignment with IPSAS. The use of IPSAS would be positioned as a means to an end (i.e. developing standards for PBEs in New Zealand), not as an objective in itself.

³⁶ Please refer to [Appendix D](#) for more information on the current and expected future adoption of IPSAS around the world.

4.47 More specifically, applying a more flexible approach in the future could include the following:

- (a) When a new or amended IPSAS is issued, the **NZASB would consider whether or not to incorporate that IPSAS into PBE Standards and what modifications might be needed** when doing so, based on an assessment that would focus on local considerations (e.g. would the change to PBE Standards improve the quality of financial reporting in New Zealand and would the benefits outweigh the costs for New Zealand PBEs), rather than focusing on maintaining close alignment with IPSAS.

Hence, instead of the current PBE Policy approach – which includes a rebuttable presumption that the IPSAS will be adopted in New Zealand, places a high hurdle on rebutting that presumption, and limits the extent of New Zealand modifications to that IPSAS – the NZASB would consider whether or not to adopt the IPSAS (and, if adopted, the extent of modifications required) based on whether doing so would be in the best interests of New Zealand PBEs and users of their financial statements.

- (b) When a new or amended IFRS Standard is issued on a topic that is also relevant to the PBE sector, the **NZASB would consider whether to develop an equivalent new or amended PBE Standard based on the new IFRS Standard** (based on the costs and benefits of doing so), rather than waiting for the IPSASB to complete an alignment project.

For example, if the delay in developing an equivalent new or amended PBE Standard would cause significant problems in New Zealand (e.g. for mixed groups), then it may be more beneficial to develop a new or amended PBE standard instead of waiting for the IPSASB. Conversely, if the delay would not cause significant problems, then it may be more cost-effective to wait for the IPSASB to address the topic.

4.48 This more flexible approach would help resolve the challenges discussed earlier, but a likely consequence is that, in the future, there would be less alignment between PBE Standards and IPSAS than exists today. Hence, this option may be preferable if resolving these challenges are more important than maintaining IPSAS alignment. This option would be preferable if the future development of PBE Standards should be more focused on local considerations rather than international considerations.

Question for respondents

SMC 1: Importance of close alignment between PBE Standards and IPSAS

3. 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?
Please provide reasons for your response.
4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under [Option 2 above](#)?
6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

5. SMC 2: Importance of maintaining harmonisation with Australia for for-profit Tier 2 disclosures

5A. What this SMC is about

- 5.1 This chapter discusses the importance of keeping the disclosure requirements for New Zealand Tier 2 for-profit entities harmonised with the Australian Reduced Disclosure Regime.
- 5.2 We are seeking constituents' feedback on this specific matter because, while the ASF's approach of developing Tier 2 for-profit standards that are harmonised with Australia seems to be operating as intended, recent developments regarding Australia's policy for developing Tier 2 for-profit disclosure requirements may affect this position. In addition, there are developments at the international level that could result in the IASB developing an approach that would be suitable for Tier 2 for-profit disclosures for both New Zealand and Australia – allowing both countries to adopt an international approach.
- 5.3 However, the outcome of the Australian and IASB projects are not yet known. The XRB is seeking feedback on this matter now, to help future XRB considerations of whether and how to respond to developments in Australia and internationally.
- 5.4 This SMC does not include a review of the ASF's approach to setting standards for Tier 1 for-profit entities. As explained in [Chapter 2](#), it is important for New Zealand for-profit entities in Tier 1 to be able to state compliance with IFRS Standards, especially given the large scale of IFRS Standards adoption around the world. Also, research points to the benefits of applying IFRS Standards internationally and in New Zealand, and it seems that NZ IFRS is meeting the needs of users of Tier 1 for-profit financial statements.
- 5.5 While this SMC considers the policy for determining disclosure requirements for Tier 2 for-profit entities, it does not include a review of the approach to determining recognition and measurement requirements for such entities. We are not aware of unintended consequences arising from the ASF's approach of using the same recognition and measurement requirements in both Tier 1 and Tier 2 for for-profit entities. Furthermore, although the potential changes in the Australian reporting environment could affect disclosure requirements for Tier 2 for-profit entities in Australia, they will not impact on recognition and measurement requirements for these entities. Hence, recognition and measurement requirements for Australian Tier 2 for-profit entities would remain harmonised with New Zealand.
- 5.6 Because this review focuses on the ASF, being the XRB's strategy for developing accounting standards, this DP does not discuss specific RDR disclosure concessions in particular standards.

Why are we not re-considering the adoption of *IFRS for SMEs* for Tier 2 for-profit entities?

- 5.7 The *IFRS for SMEs* Standard is a self-contained standard developed by the IASB for private sector SMEs that are not "publicly accountable" (as defined by the IASB, i.e. their equity or debt instruments are not traded on a public market, and they are not holding assets in a fiduciary capacity for a broad group of outsiders as their primary business).

- 5.8 While the *IFRS for SMEs* Standard is based on IFRS Standards, some of the recognition, measurement and disclosure requirements in that standard differ from IFRS Standards.
- 5.9 During the development of the current ASF, the XRB Board considered whether Tier 2 for-profit entities should apply the *IFRS for SMEs* Standard. The XRB Board noted that while there has been significant uptake of the *IFRS for SMEs* Standard internationally, there were mixed views about its usefulness as a differential version of IFRS Standards. The major concern was the recognition and measurement concessions that it contains. This can result in a different “picture” about the financial performance and position of an organisation depending on whether the entity is applying IFRS Standards or the *IFRS for SMEs* Standard. The different recognition and measurement requirements would result in financial reporting being more costly for groups that have subsidiaries in both Tiers 1 and 2. In Australia, the AASB had reached similar conclusions when considering the merits of using the *IFRS for SMEs* Standard.
- 5.10 Therefore, rather than adopting the *IFRS for SMEs* Standard, the XRB Board decided that Tier 2 for-profit entities should apply NZ IFRS RDR, with the same recognition and measurement requirements as in “full” NZ IFRS, but with disclosure concessions, because:
- (a) preparers and users need to be familiar with only one set of recognition and measurement requirements;
 - (b) the comparability of financial information between tiers is enhanced;
 - (c) the preparation of consolidated financial statements where a group comprises entities in both tiers is simplified; and
 - (d) the movement of entities between tiers is easier and less costly.
- 5.11 The above reasons for not adopting the *IFRS for SMEs* Standard in New Zealand are still valid.
- 5.12 Consequently, this matter does not re-consider the adoption of the IASB’s *IFRS for SMEs* Standard.

5B. The XRB’s current strategy of harmonised Tier 2 disclosure requirements

What is NZ IFRS RDR and who applies these standards?

- 5.13 Under the current ASF, for-profit entities in Tier 2 must apply NZ IFRS with Reduced Disclosures Requirements – NZ IFRS RDR. NZ IFRS RDR include the same recognition and disclosure requirements as “full” NZ IFRS, but they also include disclosure concessions, which are harmonised with the Australian RDR concessions.
- 5.14 Examples of disclosure concessions in NZ IFRS RDR include reduced disclosures for financial instruments (including in relation to expected credit losses, hedge accounting and risks relating to financial instruments), reduced fair value disclosures (for example, disclosures on the fair value hierarchy are not required), opening-to-closing balance reconciliations for the comparative period are not required for property, plant and equipment and certain other assets, and no requirement to provide disclosures on standards issued but not yet effective.

- 5.15 All for-profit entities that have a statutory obligation to prepare financial statements in accordance with GAAP (or other standards issued by the XRB) and do not meet the criteria to be in Tier 1, must prepare their financial statements in accordance with NZ IFRS RDR (unless they choose to opt up to Tier 1 and apply full NZ IFRS).
- 5.16 Therefore, the for-profit Tier 2 population includes certain companies and partnerships (e.g. “large” companies as defined in the Companies Act 1993), retirement villages, for-profit subsidiaries of local councils and other entities that have a statutory requirement to prepare GPFR. These entities are in Tier 2 only if:
- (a) These entities are **not** “publicly accountable”, as defined in XRB A1. That is:
 - their equity or debt instruments are **not** traded on a public market;
 - they do **not** hold assets in a fiduciary capacity for a broad group of outsiders as their primary business; and
 - they are **not** an “FMC reporting entity” with “higher level of public accountability” under the Financial Markets Conduct Act 2013 (this means that certain entities that issue shares or bonds to the public, certain managed investments schemes, registered banks and licenced insurers must be in Tier 1 and cannot be in Tier 2); and
 - (b) These entities are **not** “public sector” for-profit entities with expenses above \$30m.

Policy of harmonisation with Australia

- 5.17 While meeting user needs, balancing the costs and benefits of reporting and basing standards for for-profit entities on IFRS Standards are foundational elements of the ASF, harmonisation with Australia for for-profit accounting standards was also a key issue considered in the development of the ASF.
- 5.18 Harmonisation with Australia for for-profit entities was considered important for the following reasons:
- (a) Consistency with Government policy, namely the Closer Economic Relations and Single Economic Markets initiatives.³⁷
 - (b) The number of for-profit entities with trans-Tasman reporting obligations.
 - (c) The majority of respondents to the consultation on the Framework confirmed the importance of harmonisation with Australia when developing accounting standards for entities in the for-profit sector.
- 5.19 The above reasons for harmonisation with Australia are still applicable today. However, as noted above, there are recent changes in the Australian financial reporting environment that might impact on our future approach, as explained below.

³⁷ In 2009 (when work on the ASF commenced), the Prime Ministers of Australia and New Zealand endorsed the [Single Economic Market Outcomes Framework](#), whose proposed outcomes included “[For-]Profit entities are able to use a single set of accounting standards and prepare only one set of financial statements” and “Trans-Tasman companies have to prepare only one set of financial statements to one set of standards”. These outcomes were also included in the [Memorandum of Understanding Between the Government of New Zealand and the Government of Australia on the Coordination of Business Law](#).

5C. Recent developments in Australia and internationally relating to Tier 2 disclosure requirements

5.20 While the ASF's approach to developing RDR concessions for Tier 2 for-profit entities appears to be operating as intended in New Zealand, recent developments in Australia and internationally may have an impact on the ASF's future approach. These recent developments are discussed below.

Recent developments in Australia regarding the Tier 2 RDR regime

5.21 Australia is currently considering reforms to its financial reporting framework. One of these reforms, which affects the Australian Tier 2 RDR regime, is discussed below:

- Currently, an Australian entity that has a statutory requirement to prepare financial statements in accordance with Australian Accounting Standards (AAS) is able to determine whether it is a "reporting entity" or not. This determination is done by self-assessment, using criteria set out in the Australian standard SAC 1³⁸ ("reporting entity criteria").
- If the entity assesses itself as a "reporting entity", it must prepare GPFR in accordance with AAS (which are based on IFRS Standards), with RDR disclosure concessions being available to entities in Tier 2 (harmonised with New Zealand).
- However, if the entity assesses itself as not being a "reporting entity", the entity can prepare "special purpose" financial reports (SPFR). Typically, entities preparing SPFR provide only limited disclosures.
- As part of a broader project on the Australian financial reporting framework, the AASB proposes to remove the ability for entities with statutory reporting obligations to self-assess whether to comply with AAS. This means that all entities with a statutory requirement to prepare financial statements will need to prepare GPFR that comply with AAS in full (if they are in Tier 1) or with AAS with RDR (if they are in Tier 2).

5.21 This proposed change in the Australian framework would mean that some entities who currently provide very limited disclosures in their special purpose reports will be required to report in accordance with AAS with RDR.³⁹

5.22 As part of consulting with constituents on the proposed change, the AASB consulted on whether the current RDR would be appropriate for entities that are eligible for Tier 2. As a consequence of feedback received, the AASB is now working on proposals for a new disclosure regime for Tier 2 for-profit entities. If and when finalised, this new approach would replace the existing RDR disclosure requirements.

5.23 Hence, the above developments in Australia are likely to result in changes to the disclosure requirements for Tier 2 for-profit entities in Australia, thereby impacting on trans-Tasman harmonisation. The XRB will therefore need to consider how to respond to the developments in Australia. However, those considerations may also be impacted by international developments, discussed in the next section.

³⁸ [Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity](#)

³⁹ Some entities will be removed from the Australian statutory reporting framework, as the statutory size thresholds have recently been increased.

Recent developments at the IASB

- 5.24 The IASB has a research project on SMEs that are subsidiaries of entities that apply IFRS Standards. This project was added to the IASB's research agenda in response to feedback from some constituents suggesting that the IASB consider permitting subsidiaries to apply IFRS Standards but with reduced disclosures. They argued that using the *IFRS for SMEs* Standard is not attractive to some of these subsidiaries because, for consolidation purposes, they need to report to their parent in accordance with the recognition and measurement requirements of IFRS Standards. For their own financial statements, they would prefer to use those recognition and measurement requirements, but with less onerous disclosures. They argued that this approach would reduce costs, without removing information needed by the users of the subsidiaries' financial statements.
- 5.25 In response to this feedback, the IASB added a research project that will assess whether it would be feasible to permit SMEs that are subsidiaries to apply the recognition and measurement requirements in IFRS Standards with the disclosure requirements in the *IFRS for SMEs* Standard.⁴⁰
- 5.26 There are linkages between the IASB project, the abovementioned reforms currently underway in Australia, and the XRB's consideration of when and how to respond to these developments. For example, the AASB project would provide useful input into the IASB project. In addition, if the IASB were to proceed with its project, then in the future, it might not be necessary for either New Zealand or Australia to have a local approach to setting disclosure requirements for Tier 2 for-profit entities, as both New Zealand and Australia could instead adopt the IASB's requirements for SMEs that are subsidiaries. Such an outcome would both ensure trans-Tasman harmonisation and reduce standard-setting costs in New Zealand and Australia.

Concluding comments on recent developments relevant to for-profit RDR

- 5.27 While the ASF's approach to developing accounting standards for Tier 2 for-profit entities seems to be operating as intended to date, the recent developments outlined above indicate that the XRB may need to revisit its approach in the ASF to setting disclosure requirements for Tier 2 for-profit entities. That is:
- (a) The AASB project could impact upon trans-Tasman harmonisation of disclosure requirements for Tier 2 for-profit entities.
 - (b) However, depending on the outcome of the IASB's project on "SMEs that are subsidiaries", it might be possible for both Australia and New Zealand to move to a new approach based on requirements established by the IASB, which would bring us back to a position in which there is trans-Tasman harmonisation of disclosure requirements for Tier 2 for-profit entities.
 - (c) Nevertheless, assuming that the reforms proposed by the AASB are introduced in Australia before the IASB finalises its project on "SMEs that are subsidiaries", there could be a period of time when the Tier 2 for profit disclosure requirements in New Zealand will not be harmonised with Australia.

⁴⁰ For further information, see [Agenda Paper 31, IASB March 2019 meeting](#).

- 5.28 Given that both the AASB's project and the IASB's project are at early stages, it is not yet known what the outcome of these projects will be. This makes it difficult for the XRB to make any decisions about whether, when and how the XRB should respond to these developments. For example, if developments in Australia result in a loss of trans-Tasman harmonisation (at least to some extent) of the disclosure requirements of Tier 2 for-profit entities, the XRB will need to consider if similar changes should be introduced in New Zealand. However, if an international solution is also likely, but not until after changes are introduced in Australia, another matter to consider is whether it is more cost-effective for New Zealand to delay changes until that international solution becomes available, to avoid two rounds of changes.
- 5.29 This review of the ASF presents an opportunity to seek input from constituents on issues that will be relevant to the XRB's future considerations. In particular, this review provides an opportunity to consult with constituents as to the importance of maintaining alignment between the Tier 2 for-profit disclosure requirements in New Zealand and those in Australia.

Question for respondents

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?
Please provide reasons for your response.
8. 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?
9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

6. SMC 3: Do the PBE tier size criteria need to be revisited?

6A. What this SMC is about

- 6.1 A key element of the ASF is the tiered approach, that is, the use of different accounting requirements or standards for each tier that are appropriate for the entities concerned, to reflect the cost and benefits of reporting. A key driver for the development of the tiered approach was the introduction of new statutory financial reporting requirements for registered charities, which encompasses a broad population of entities of different sizes.
- 6.2 The tier eligibility criteria for a PBE is based on its level of “public accountability”⁴¹ and size, with the size criteria based on the entity’s level of reported expenses.⁴²
- 6.3 As discussed in [Chapter 2](#), the XRB is not aware of any significant unintended consequences or concerns arising from the application of the PBE tier size thresholds in practice. However, as the tier size criteria for PBEs have remained unchanged since the ASF was first introduced in 2012, the XRB considers it appropriate to “check in” with constituents as to whether the PBE tier size criteria needs to be revisited at this time.

Scope of this SMC

- 6.4 In considering the extent in which the XRB is in a position to revisit the PBE size criteria at this time, we note the following matters.

What we cannot change: The Tier 4 size threshold

- 6.5 It is important to note upfront the XRB does not have the authority to amend the PBE Tier 4 size criteria. The size criterion for a PBE to be eligible for Tier 4 (total operating payments below \$125,000) is determined in legislation – namely, the FRA 2013. Other legislation, such as the Charities Act 2005, make reference to the FRA 2013 with respect to this threshold.⁴³
- 6.6 Therefore, the XRB cannot increase this \$125,000 threshold to allow more registered charities (or other PBEs) to move down to Tier 4.

⁴¹ While all PBEs are broadly considered to have some form of “public accountability”, when applying the tier eligibility criteria, public accountability refers to a narrower definition used for financial reporting purposes. “Public accountability” is defined in paragraphs 7-13 of XRB A1 [Application of the Accounting Standards Framework](#). Additional information is provided in the next section of this Chapter.

⁴² Except for the tier size threshold between Tier 3 and Tier 4, which is based on operating payments, rather than expenses.

⁴³ The Financial Reporting Act 2013 (section 46) refers to entities with total operating payments above \$125,000 as “specified not-for-profit entities”. The Charities Act 2005 requires registered charities that are “specified not-for-profit entities” to prepare financial statements in accordance with GAAP (for PBEs, this means the requirements of Tier 1, Tier 2 or Tier 3, as applicable), while registered charities that are not “specified not-for-profit entities” must report either in accordance with GAAP or in accordance with the “non-GAAP” standard issued by the XRB, i.e. the Tier 4 standard (cash accounting). Certain other Acts have similar requirements.

- 6.7 The Department of Internal Affairs (DIA) noted in its Discussion Paper on the review of the Charities Act 2005⁴⁴ that some small charities (especially in Tier 4) are struggling to meet their current reporting requirements. Because Tier 4 is the lowest level of reporting requirements for registered charities, the DIA's Discussion Paper asked for feedback on the possibility of exempting very small charities from the requirement to report in accordance with accounting standards issued by the XRB. Such a change can only be made by the Government (not the XRB), through legislation. The ASF is focused on developing appropriate reporting requirements for those entities with a statutory requirement to prepare financial statements in accordance with standards issued by the XRB.
- 6.8 Nevertheless, when considering this SMC, it is important to be aware of recent developments in legislation that may impact the future reporting requirements of PBEs. These recent developments are summarised in [section 6C](#) of this chapter.

Separate review of PBE Tier 3 and Tier 4 reporting requirements

- 6.9 We are aware of some challenges faced by Tier 3 and Tier 4 PBEs when applying our Simple Format Reporting Requirements developed specifically for these smaller-sized charities — potential improvements have already been brought to our attention. We are also conscious of the large number of registered charities eligible to report under Tier 3 or Tier 4 PBE reporting requirements (approximately 95% of registered charities are eligible to report under these Tiers). The NZASB, therefore plans to conduct a separate standards-level review of the Tier 3 and Tier 4 Simple Format Reporting Requirements shortly after the completion of the targeted review of the ASF.

Basis for measuring the PBE size criteria

- 6.10 The PBE size criteria are currently based on annual expenses. During the development of this targeted review of the ASF, the XRB considered whether there should be an additional size criterion of total assets.
- 6.11 The XRB has reached a preliminary view that we should not consider whether to introduce an asset-based threshold to the PBE tier size criteria at this time. Although we have heard concerns that some charities with large asset holdings are able to report in Tier 4 (due to having low operating payments), we are not considering the introduction of an asset-based tier size threshold for the following reasons.
- (a) When the ASF was developed, the XRB decided not to use asset-based tier size thresholds because PBEs with high levels of asset holding would typically hold “endowment or heritage-type assets rather than productive ones”⁴⁵, and basing tier size thresholds on this type of assets was not considered useful. Also, using both assets and expenses as tier size thresholds would introduce additional complexity into the ASF.
 - (b) Furthermore, the concern identified above relates to Tier 4 entities and, as noted earlier, the Tier 4 size criterion is determined in legislation. Therefore, if the XRB adds an asset size criterion into the Tier 4 eligibility criteria, this would conflict with the legislation-based size criterion for Tier 4.

⁴⁴ [Modernising the Charities Act 2005](#) – Discussion Paper, Department of Internal Affairs, February 2019

⁴⁵ Paragraph 95 of the September 2009 ASRB Discussion Document: [Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting](#)

6B. The current PBE tier size criteria

- 6.12 As discussed in [Chapter 2](#) the ASF currently has four tiers of reporting requirements for PBEs. In this section we discuss how the XRB decided on each tier size threshold.
- 6.13 Consistent with the requirements in the for-profit sector, if a PBE has public accountability (a defined term in the standard XRB A1)⁴⁶ it must report in Tier 1. In all other cases, eligibility to report under a particular tier is based on the PBE's size, which is determined with reference to expenses (or in the case of Tier 4, operating payments). This allows smaller PBEs to report under a lower tier of reporting, with more simplified accounting requirements. However, a PBE may choose to "opt up" to a higher tier.
- 6.14 The table below shows the size eligibility criteria for each PBE tier and the applicable accounting requirements for each tier. All figures are in annual terms.

Tier	Tier Criteria	Standards used
1	Expenses ⁴⁷ over \$30 million (or has public accountability)	Full PBE Standards ⁴⁸
2	Expenses between \$2 million and \$30 million	PBE Standards RDR ⁴⁹
3	Expenses less than or equal to \$2 million	Simple Format Reporting – Accrual
4	Operating payments less than \$125,000, and allowed by legislation to be in Tier 4	Simple Format Reporting – Cash

- 6.15 The XRB saw significant advantages in adopting a tier approach and few disadvantages. As noted earlier, the advantages related to establishing an appropriate matching of the benefits and costs of reporting. The main perceived disadvantage was the risk that the reporting requirements for lower tiers may not generate sufficient information to meet minimum user-needs. This risk has been managed by the NZASB monitoring over time the user needs of the smaller Tier 3 and Tier 4 PBEs. As noted earlier, a separate post-implementation review of the Tier 3 and Tier 4 Simple Format Reporting Requirements is planned to commence after the completion of this review of the ASF.

⁴⁶ Public Accountability is a defined term in paragraphs 7-13 of XRB A1 [Application of the Accounting Standards Framework](#). In general, a PBE is considered to have public accountability if it has issued debt or equity instruments in a public market or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Please see XRB A1 for the full definition.

⁴⁷ Total expenses as recorded in the financial statements for the reporting period.

⁴⁸ Tier 1 PBE Standards comprise International Public Sector Accounting Standards (IPSAS) based standards modified as appropriate for New Zealand PBEs, together with additional standards as necessary and other applicable authoritative notices.

⁴⁹ RDR refers to Reduced Disclosure Regime – all recognition and measurement requirements are consistent with Tier 1, the only difference is reduced disclosure requirements.

Basis for measuring the size of a PBE

- 6.16 For the purpose of applying the PBE size criteria, the XRB Board concluded that expenses was the most appropriate measure of PBE size. Total expenses for the reporting period was generally well aligned to the PBE's level of activities and less subject to one-off factors – unlike revenue, which is often subject to significant fluctuations in the PBE sector, with PBE often revenue including donations and other “unexpected” inflows.

Determining the expense levels for each tier

- 6.17 A key judgement when developing the PBE tier criteria was determining at what size levels did the relative costs and benefits of GPFR warrant different reporting requirements. The basis for establishing the size criteria for each of the four PBE tiers in the ASF is discussed below.

Tier 1: Expenses over \$30 million⁵⁰

- 6.18 The \$30 million threshold is consistent with the legislative definition of a “large” entity in the FRA 2013, which is used in the Companies Act 1993 and certain other Acts (usually applicable to for-profit entities) to determine which entities need to prepare GPFR.⁵¹
- 6.19 We are not aware of any proposals by the Government to change the \$30 million threshold in the FRA 2013. However, the Government is required to determine by 2022 whether this threshold should be increased to reflect inflation.⁵² If the threshold in the FRA 2013 definition of “large” increases, the XRB would consider whether the PBE tier size threshold for Tier 1 should also increase.
- 6.20 However, although it was originally bench-marked to the legislative definition, there is no requirement for the Tier 1 size threshold to be remain aligned with the legislative threshold for “large”. Therefore, if feedback on this DP suggests that the Tier 1 threshold should be adjusted, the XRB would be able to do so regardless of whether and how the Government adjusts the legislative threshold for “large” in the FRA 2013 (and regardless of inflation).

Tier 2: Expenses between \$2 million and \$30 million

- 6.21 The \$30 million threshold was explained above, and the \$2 million threshold is explained below.

⁵⁰ The ASF also uses \$30 million expenses as the size criterion to define a Tier 1 public sector for-profit entity. This ensure that both PBEs and for-profit entities in the public sector are applying a similar level of reporting requirements.

⁵¹ The size threshold for “large” in the FRA 2013 is based on total revenue (and total assets) rather than total expenses; however, as noted earlier, the XRB decided to use expenses rather than revenue (or assets) when setting size thresholds for PBEs.

⁵² According to section 48 of the FRA, this review must be completed “on or before the date that is 8 years after the date on which [section 48] comes into force”. Section 48 (along with most of the FRA) came into force on 1 April 2014. Therefore, the review of the thresholds in the FRA's definition of “large” must occur on or before 1 April 2022.

Tier 3: Expenses less than or equal to \$2 million

- 6.22 The \$2 million threshold was originally based on the legislative threshold below which a company was considered an “exempt company” under the (now repealed) Financial Reporting Act 1993.⁵³ When the ASF was developed, this “exempt company” threshold was considered an appropriate proxy for a small PBE.⁵⁴
- 6.23 However, the “exempt company” regime was subsequently removed from legislation with the introduction of the FRA 2013. Therefore, this PBE size threshold of \$2 million no longer has a direct link to current legislation. This provides a basis for considering if the \$2 million size threshold should be revisited.

Tier 4: Operating payments less than \$125,000, and allowed by legislation to be in Tier 4

- 6.24 Certain entities are permitted by their governing legislation to prepare their GPFR using non-GAAP standards (cash-based standards issued by the XRB), if they are not a “specified not-for-profit entity” as defined in the FRA 2013 – that is, if the combined total operating payments of the entity and all its controlled entities do not exceed the legislative size threshold of \$125,000.⁵⁵ The XRB developed the Tier 4 standard *PBE Simple Format Reporting – Cash* to cater for such PBEs.
- 6.25 As discussed earlier, the \$125,000 threshold is established by legislation, therefore, the XRB does not have the remit to consider any changes to this threshold.
- 6.26 We note under section 48 of the FRA 2013, by 2022 at the latest, the Government will need to determine whether to adjust the Tier 4 criterion for inflation.⁵⁶ While inflation has recently been low, it is possible that the \$125,000 threshold will increase in 2022. If that happens, this would mean that certain PBEs that are currently in Tier 3 will be able to move down to Tier 4.

The distribution of PBEs across the tiers: testing the tier size thresholds when the ASF was first developed

- 6.27 When developing the ASF, the XRB Board decided that for NFP PBEs (particularly registered charities), it is appropriate for the distribution of entities across the tiers to be weighted heavily towards Tier 3 and Tier 4, which allow entities to report under Simple Format Reporting Requirements. In 2013, soon after the ASF was first published, Charities Services data showed that about 97% of registered charities would be eligible to report in Tier 3 or Tier 4. The XRB Board considered this distribution to be appropriate. Please refer to [Appendix E](#) for further information on the distribution of PBEs across the tiers.

⁵³ Section 6A of the Financial Reporting Act 1993. Please note that the threshold in that Act was \$2 million total turnover (gross operating revenue), whereas in the ASF uses expenses to determine PBE tier size criteria.

⁵⁴ Paragraph 92 of the September 2009 ASRB Discussion Document: [Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting](#)

⁵⁵ Section 46 of the FRA 2013. An entity is a specified not-for-profit entity if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are \$125,000 or more.

⁵⁶ According to section 48 of the FRA, this review must be completed “on or before the date that is 8 years after the date on which [section 48] comes into force”. Section 48 (along with most of the FRA) came into force on 1 April 2014. Therefore, the review of the \$125,000 threshold must occur on or before 1 April 2022.

6C. Recent developments in the reporting environment

6.28 The following recent developments relating to legislation that determines which entities (“who”) must prepare GPFR is worth noting. While these developments are not in themselves indicative as to whether the PBE tier size criteria should be revised, they provide useful context for the discussion on this matter.

- (a) Review of the Charities Act 2005: As previously discussed, the Government is currently reviewing the Charities Act 2005. In its [Discussion Paper on this subject](#), one of the questions asked by the DIA is whether reporting requirements for small charities should be reduced.⁵⁷ Therefore, this review may result in an increase of the \$125,000 threshold that allows PBEs to be in Tier 4, or in the exemption for very small charities from the requirement to comply with accounting standards issued by the XRB.
- (b) Legislative reforms for Incorporated Societies: The Government is also currently considering reforms to the Incorporated Societies Act 1908. These reforms include proposals to introduce new statutory requirements for incorporated societies that are not registered charities to report in accordance with accounting standards issued by the XRB (these entities currently have no statutory GAAP reporting requirements). The Incorporated Societies Bill is expected to progress through the parliamentary process in the second half of 2019. When any new statutory reporting requirements for incorporated societies that are not registered charities are closer to being finalised, the XRB will consider whether any amendments to the ASF and underlying PBE Standards are required.

6D. Application of the PBE tier size criteria

6.29 This section contains the following information:

- (a) The spread of PBEs across the four tiers: We included this information to illustrate what the PBE landscape currently looks like, and to help determine whether the spread of PBEs across the tiers gives rise to any reasons to adjust the PBE tier size thresholds. For example, if the spread of PBEs among the tiers changed significantly since the ASF was developed, or if the spread of PBEs across the tiers appears inappropriate, this could be a trigger for considering adjustments to the tier size thresholds.
- (b) Observations on the application of the accounting requirements of each PBE tier: This includes information on whether we are aware of any significant challenges experienced by public sector and NFP PBEs when applying the accounting requirements in each tier. If such challenges exist, this could be a trigger for considering adjustments to the PBE tier size criteria.

6.30 As shown below, we are not aware of any issues resulting from the spread of PBEs across the tiers or significant challenges to implement the accounting requirements of each tier that would require the PBE tier size criteria to be adjusted. However, we want to “check in” with constituents whether they are aware of any significant challenges or unintended consequences that would require adjusting the PBE tier size criteria.

⁵⁷ [Modernising the Charities Act 2005](#) – Discussion Document, Department of Internal Affairs, February 2019, p.20

Application of the PBE tier size criteria by public sector PBEs

Spread of public sector PBEs across the tiers

6.31 Table 11 shows the number of public sector PBEs that report in each tier – with the majority (82%) of public sector PBEs reporting in Tier 2. This is mainly because the Ministry of Education requires schools that are eligible for Tier 3 and Tier 4 to “opt up” to Tier 2. Table 12 shows that if schools are excluded from the population of public sector PBEs, the distribution of entities among the tiers is relatively even.

Table 11:		
All public Sector PBEs		
Tier 1	Approx. 210	7%
Tier 2	Approx. 2,580	82%
Tier 3	Approx. 220	7%
Tier 4	Approx. 130	4%
Total PBEs	Approx. 3,140	100%

Table 12:		
Public sector PBEs excluding schools		
Tier 1	Approx. 210	28%
Tier 2	Approx. 190	25%
Tier 3	Approx. 220	29%
Tier 4	Approx. 130	17%
Total PBEs	Approx. 750	100%

(Source: Office of the Auditor-General)

6.32 The above data shows that if the XRB was to adjust the tier size thresholds, this is unlikely to significantly impact the distribution of public sector PBEs among the tiers, given the Ministry of Education’s requirements of schools to opt up to Tier 2.

Application of the accounting requirements of the PBE tiers

6.33 We are not aware of any significant unintended consequences from the application of the PBE tier size criteria by public sector PBEs. Furthermore, as noted in [Chapter 2](#), in 2016 the Auditor-General noted that the tiered approach of the ASF is likely to help smaller entities to achieve a balance between the costs and benefits of reporting.

Application of the PBE tier size criteria by NFP PBEs

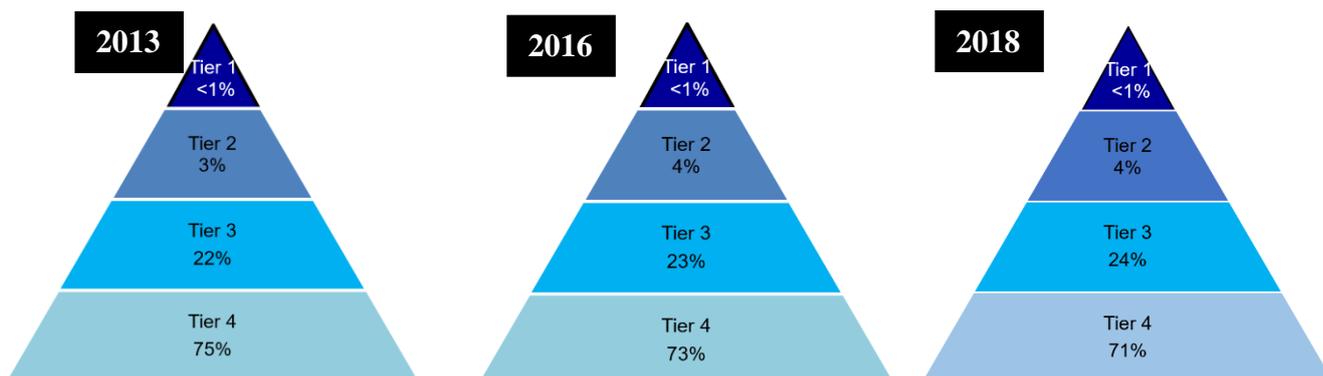
6.34 While the statutory requirement to prepare GPFR applies to several types of NFP entities, the largest group of such entities is registered charities (which are required by the Charities Act 2005 to prepare GPFR). Therefore, the following is a summary of our observations from the implementation of the PBE tier size criteria by registered charities.

Spread of registered charities across the tiers

6.35 The diagrams below show the proportion of registered charities eligible to report in each of the four PBE tiers (based solely on expense data from the Charities Services register)⁵⁸ since the ASF was introduced. While these diagrams do not take into account public accountability, this is not expected to have a material impact on the percentages shown on the next page.

⁵⁸ Tiers 2, 3 and 4 are rounded to the nearest percentage.

Figure 5: Proportion of registered charities eligible to report in each PBE tier (based on expenses)



6.36 The data illustrates that:

- (a) The proportion of registered charities eligible to report under each tier (based on total expenses) has not changed significantly from when the ASF was first introduced.
- (b) With 95% of registered charities being eligible for Tier 3 or Tier 4 in 2018, the distribution of charities is still heavily weighted towards Tiers 3 and 4, which the XRB considered appropriate when the ASF was developed.
- (c) While the decrease in the percentage of charities that are eligible for Tier 4 (and resulting increase in the percentage of charities eligible for Tier 3) provides an argument for possibly increasing the Tier 4 size threshold of \$125,000 operating payments, the XRB is unable to change this threshold as it is set in legislation.

6.37 Given that the accounting requirements in the Tier 3 standard are significantly simplified as compared to the requirements of PBE Standards RDR in Tier 2, we would have some concerns if there was a substantial percentage of entities within Tier 2 with annual expenditure just over the \$2 million size threshold. In this scenario, there would be a need to question whether it was reasonable that a small excess in size requires such a significant increase in reporting requirements, based on cost-benefit considerations. However, our analysis in [Appendix E](#) shows that this situation does not currently exist.

6.38 Furthermore, even if the XRB were to increase the \$2 million threshold between Tier 3 and Tier 2 to as high as \$10 million, according to our analysis this would not have a significant impact on the spread of registered charities across the PBE tiers. Please refer to [Appendix E](#) for further details.

6.39 We have also observed that a significant number of registered charities eligible for Tiers 3 and 4 are choosing to opt up to a higher tier. Please refer to [Appendix E](#) for more detail. The ASF allows PBEs to opt up into higher tiers if they wish to do so – which might be the case if a PBE perceives the benefits from the more rigorous requirements of the higher tier to exceed the costs of opting up. For example, charities eligible for Tier 4 often opt up to Tier 3 so that they can apply accrual accounting, which they may perceive as more beneficial than cash accounting. The fact that many charities are opting up to a higher tier indicates that this element of flexibility in the ASF is operating as intended. Furthermore, the number of charities choosing to opt up seems to indicate that the current PBE tier size thresholds do not result in overly onerous accounting requirements for registered charities.

Application of the accounting requirements of the PBE tiers

6.40 The table below shows the uptake (per Charities Services compliance reviews) and successful application (per the DIA’s discussion document *Modernising the Charities Act 2005*) by charities of the accounting requirements in each tier in 2018.

Table 13: Rates of uptake and successful application of accounting standards by registered charities

Tier	Uptake of standards (data from Charities Services compliance reviews) ⁵⁹	Percentage of charities that “successfully met the minimum reporting requirements” (per DIA discussion document) ⁶⁰
1	100%	100%
2	100%	91%
3	95%	81%
4	71%	58%

6.41 The above statistics show high rates of uptake and successful implementation of the relevant standards among charities in Tiers 1–3, and while the equivalent rates for Tier 4 are lower, they represent an improvement on previous years (and, as discussed earlier, the XRB has no remit to change the tier size threshold between Tier 3 and Tier 4).

6.42 As mentioned above, we are aware of the DIA’s observations about some small charities struggling to meet their reporting requirements – however, we are unable to change the \$125,000 Tier 4 threshold or to exempt charities in Tier 4 from their reporting requirements. Other than this, we are not aware of any significant challenges or unintended consequences from the application of the PBE tier size criteria by NFP PBEs.

Summary of discussion on the PBE tier size criteria

6.43 Based on the information in this chapter, we note the following salient points about the PBE tier size criteria.

- The lower size threshold of \$125,000 total operating payments (between Tier 3 and Tier 4) is set in legislation, so changing this threshold is outside of the XRB’s remit.
- The upper size threshold of \$30m total expenses (between Tier 1 and Tier 2) is based on consistency with the size threshold used in legislation for determining whether an entity is “large”. However, the two thresholds do not necessarily need to be remain aligned.
- The middle size threshold of \$2m (between Tier 2 and Tier 3) was historically linked to a legislative definition of “small”, but that legislative definition no longer exists.
- The above points suggest that the XRB could reconsider the \$2m threshold (between Tier 2 and Tier 3) or the \$30m threshold (between Tier 1 and Tier 2), if there is evidence to suggest these thresholds are no longer appropriate.

⁵⁹ See [Figure 2](#) in Chapter 2.

⁶⁰ [Modernising the Charities Act 2005](#) – Discussion Document, Department of Internal Affairs, February 2019, p.20

- We are not aware of any significant unintended consequences arising from the application of the PBE tier size criteria, and while there have been some developments in the financial reporting environment since the ASF was introduced, they do not necessarily indicate that the \$30m or \$2m thresholds need to be revised.
- Furthermore, increasing the \$2m threshold (between Tier 2 and Tier 3) to \$10m would not significantly changes the number of charities eligible for Tier 2 or 3 respectively.
- However, in addition to the matters discussed above, we are keen to receive constituents' feedback on their awareness of any significant unintended consequences or recent developments that suggest that a change in the PBE tier criteria is needed.

Question for respondents

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

10. 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?
11. 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 limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.
12. Do you have any other comments on the tier size criteria for PBEs?

Questions for respondents

Chapter

General comments

- | | | |
|---|---|-------------------|
| 1 | 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? | 3 |
| 2 | Do you have any other comments about the ASF? | 3 |

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

- | | | |
|---|---|-------------------|
| 3 | 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?

Please provide reasons for your response. | 4 |
| 4 | If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why? | 4 |
| 5 | If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP ? | 4 |
| 6 | Do you have any other comments on the way IPSAS are used as the base for PBE Standards? | 4 |

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

- | | | |
|---|---|-------------------|
| 7 | How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Please provide reasons for your response. | 5 |
| 8 | 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? | 5 |
| 9 | Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements? | 5 |

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

- | | | |
|----|--|--------------------------|
| 10 | 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? | <u>6</u> |
| 11 | 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 limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be. | <u>6</u> |
| 12 | Do you have any other comments on the tier size criteria for PBEs? | <u>6</u> |

About you: Respondent information

To help us to better understand the context for your responses to the matters raised in this Discussion Paper, **please include in your submission some information about yourself or the organisation that you represent.**

Questions for preparers of financial statements (*all other respondents, please go to Question 5*)

- 1 What type of entity is your organisation?
 - (a) A for-profit entity in the private sector
 - (b) A for-profit entity in the public sector
 - (c) A public sector PBE
 - (d) A not-for-profit PBE

- 2 Is your organisation part of a “mixed group” (i.e. a PBE whose subsidiaries or parent are for-profit, or a for-profit entity whose subsidiaries or parent are PBEs)?
 - (a) Yes
 - (b) No

- 3 Under which standards do you prepare financial statements?
(If you prepare consolidated financial statements, please indicate which standards you use for the group financial statements and for any other entities within the group that have a statutory reporting obligation.)
 - (a) For-profit Tier 1 (NZ IFRS)
 - (b) For-profit Tier 2 (NZ IFRS RDR)
 - (c) PBE Tier 1 (PBE Standards)
 - (d) PBE Tier 2 (PBE Standards RDR)
 - (e) PBE Tier 3 (PBE Simple Format Reporting – Accrual)
 - (f) PBE Tier 4 (PBE Simple Format Reporting – Cash)

- 4 Does your organisation have any of the following (please select all that apply)
 - (a) Australian parent
 - (b) Australian subsidiary/subsidiaries
 - (c) Financial reporting obligations in Australia

Questions for other respondents

- 5 Which of the following best describes you, or the organisations you represent?
- (a) Investor
 - (b) Lender
 - (c) Individual donor or member of a not-for-profit (NFP) organisation
 - (d) Organisation providing funds to public sector and/or NFP PBEs
 - (e) Adviser (to preparers of financial statements and/or to users of financial statements)
 - (f) Auditor
 - (g) Regulator
 - (i) Other (please specify)
- 6 Which entities' financial statements are you most interested in? (please select all that apply)
- (a) For-profit entities in the private sector that are
 - (i) Large
 - (ii) Medium
 - (iii) Small
 - (b) For-profit entities in the public sector that are
 - (i) Large
 - (ii) Medium
 - (iii) Small
 - (c) Public sector PBEs that are
 - (i) Large
 - (ii) Medium
 - (iii) Small
 - (d) Not-for-profit PBEs that are
 - (i) Large
 - (ii) Medium
 - (iii) Small

Appendix A: The External Reporting Board (XRB)

Who we are

The XRB is an independent Crown Entity responsible for accounting standards and auditing and assurance standards in New Zealand.

The XRB was originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013.

The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance standards framework that:

- (a) engenders confidence in New Zealand financial reporting
- (b) assists entities to compete internationally
- (c) enhances entities' accountability to stakeholders.

The XRB aim is to ensure New Zealand is considered positively by our international counterparts and that our own specific local requirements can be considered when new standards are being developed.

You can find more information about XRB's outcome goal and how it links to the Government's overarching outcome goal, in our [Statement of Intent](#).

The XRB organisation consists of:

- (a) the XRB Board itself (XRB Board);
- (b) the New Zealand Accounting Standards Board (NZASB);
- (c) the New Zealand Auditing and Assurance Standards Board (NZAuASB), and;
- (d) our staff.

What we do

Our work is focused on:

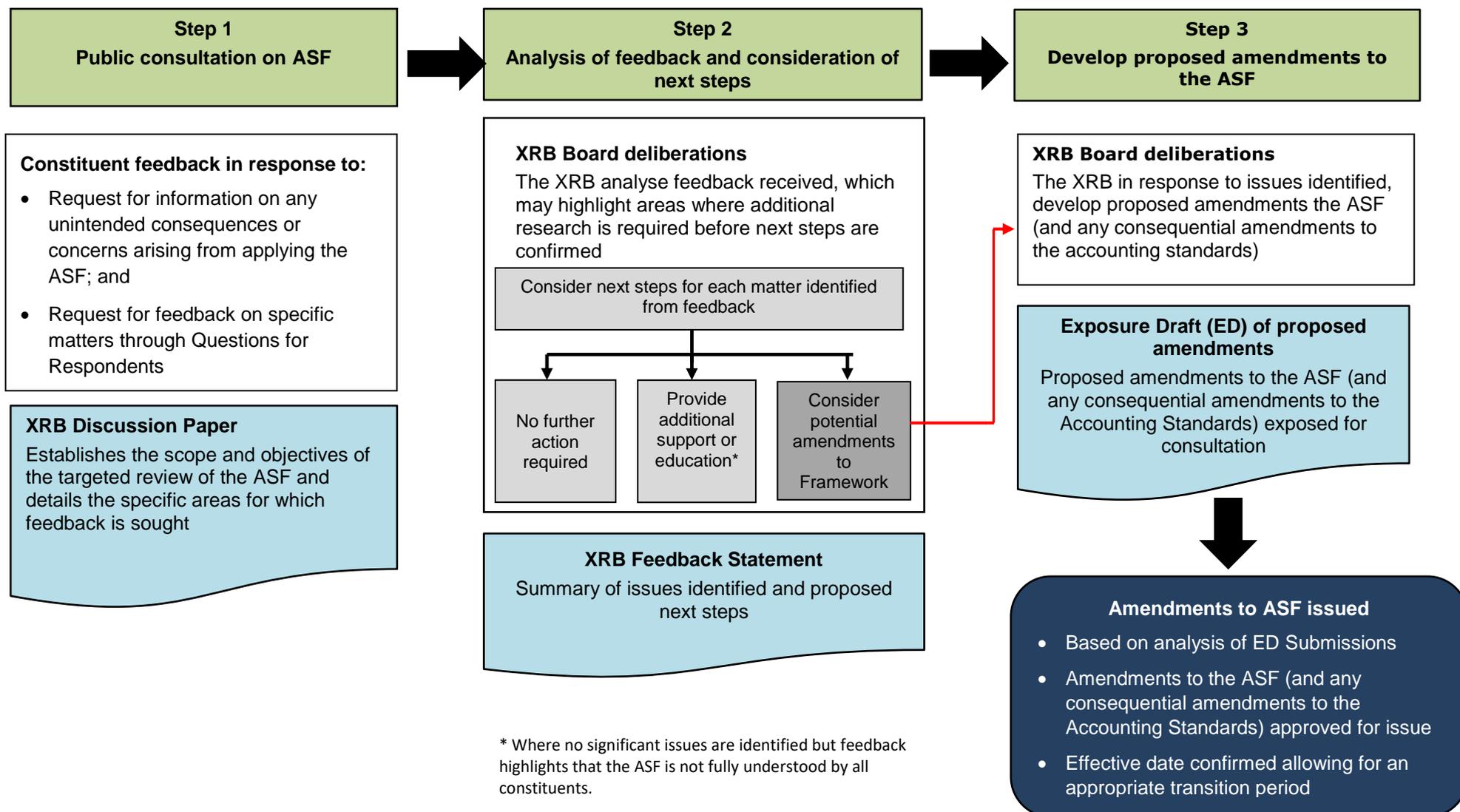
- (a) developing a financial reporting strategy for New Zealand;
- (b) preparing and issuing accounting standards;
- (c) preparing and issuing standards for assurance practitioners, and;
- (d) liaising with national and international organisations that have similar standard setting functions.

The XRB standard-setting approach is to adopt international standards which are modified to reflect unique New Zealand conditions. We also look to harmonise our standards with Australia to the extent appropriate. This approach is designed to ensure we keep pace with international practice and also reduce our standard-setting costs.

International collaboration is a key role for the XRB. We work with international accounting and assurance bodies to ensure the standards we set are consistent and focused on global competitiveness.

Appendix B: Next steps in the targeted review of the ASF

Following the closing period on this DP, the next steps in the targeted review of the ASF are summarised below.



Appendix C: Research on the benefits of IFRS Standards adoption

Some recent research on the benefits of IFRS Standards adoption includes:

1. The research paper "[The Case for Global Accounting Standards: Arguments and Evidence](#)"⁶¹, published in 2012, provides a comprehensive summary of the academic research available at the time on the benefits of IFRS Standards adoption. Some of the benefits of mandatory IFRS Standards adoption noted in this paper are improved efficiency of capital markets and increased cross-border investment.
2. A [2015 report by the Japanese Financial Services Agency](#)⁶² discusses IFRS Standards adoption in Japan, where (at the time) companies accounting for 18.5% of the total market capitalisation have voluntarily chosen to adopt IFRS Standards. The most common reasons to adopt IFRS Standards were improved business management (including an enhanced ability to manage international subsidiaries) and improved comparability. This was despite an increase in administration activity and increased costs, which were noted as some of the disadvantages of IFRS Standards adoption.
3. In New Zealand, recent research on the adoption of IFRS Standards includes the 2016 paper "[The economic consequences of IFRS adoption: Evidence from New Zealand](#)".⁶³ This paper notes a "significant negative association between IFRS adoption and the cost of equity capital" in New Zealand (i.e. reduced costs of capital), which in turn "suggests that IFRS is a higher quality set of accounting standards than pre IFRS New Zealand GAAP".
4. Furthermore, in 2016 the XRB published the research report [Information Needs of Users of New Zealand Capital Markets Entity Reports](#).⁶⁴ This research aimed to understand the extent to which current financial reports under NZ IFRS meet the information needs of the key users of New Zealand Tier 1 for-profit entities, and to identify what improvements may be necessary to satisfy the diversity of user needs. The research included a focus on whether the information needs of users of for-profit entities operating in the New Zealand domestic capital market differ from those of users of for-profit entities operating in international capital markets.

The research involved a survey of representatives of the following "user groups": investors, lenders, "intermediaries" (including advisers, analysts, brokers and fund managers) and regulators.

Key findings from the research include the following.

- (a) Most respondents (79%) use financial reports in making various types of decisions. Furthermore, most respondents (76%) indicated that all information in financial statements prepared by Tier 1 entities (under NZ IFRS) is useful.
- (b) Only 24% of respondents indicated that some information in the financial statements of Tier 1 for-profit entities is not useful. These respondents were of the view that some note disclosures could be simplified or shortened (or even placed online only).

⁶¹ By Ann Tarca, Academic Fellow – Research, IFRS Foundation

⁶² IFRS Adoption Report, Japanese Financial Services Agency, April 2015

⁶³ By Muhammad Nurul Houqe, Reza M. Monem and Tony van Zijl

⁶⁴ A [summary](#) of this research report is also available from the XRB website.

- (c) Less than half of all respondents indicated that they would like to see some additional information in the financial statements of Tier 1 entities (including enhanced segment reporting, comparison between actual results and budgets/targets, more detailed cash flow information and more information on loans and borrowings). However, the majority (54%) of respondents did not think that additional information to be provided in the financial statements of Tier 1 entities.
- (d) In terms of their responses, respondents who were interested in entities operating in the New Zealand market only were not significantly different to those who were interested in entities operating in international capital markets.

Appendix D: Information on the adoption of IPSAS around the world

- The following are some key statistics on the implementation of IPSAS around the world, based on the [International Public Sector Financial Accountability Index – 2018 Status Report](#), published by IFAC and CIPFA in 2018. The statistics are based on data about 170 jurisdictions.

Current implementation of IPSAS

- Only **25%** of governments currently prepare their financial statements on the **accrual basis**. The **cash basis** is used by **30%** of governments, while **45%** recognise some transactions on a cash basis and some on an accrual basis (i.e. **transitioning to the accrual basis**).
- Of the **37 governments** who prepare financial statements on **the accrual basis**, **51%** made use of **IPSAS**, either directly or indirectly. Specifically:⁶⁵
 - 5 governments (13.5%) adopt IPSAS directly;**
 - 5 governments (13.5%),** including New Zealand, **adopt IPSAS indirectly through domestic standards** (that is, IPSAS is implemented through a national endorsement project, adjusting for specific jurisdictional features);
 - 9 governments (24%) apply national standards that use IPSAS as a reference point;** and
 - 18 governments (49%) did not make use of IPSAS** in the ways described above (that is, 2 governments (6%) applied national standards based on IFRS, and 16 governments (43%) applied other national financial reporting standards).
- The table below lists the governments that apply the accrual basis and make use of IPSAS:

Table D1: Use of IPSAS by governments that apply the accrual basis

Ways in which governments are making use of IPSAS	Countries
IPSAS adopted directly	Cayman Islands, Nigeria, Peru, Switzerland, Tanzania
IPSAS adopted indirectly through domestic standards	Lithuania, New Zealand, Panama, Philippines, Turkey
National standards use IPSAS as a reference point	Austria, Chinese Taiwan, Cook Islands, Ecuador, Estonia, Korea, Paraguay, Spain, Sweden

Expected future implementation of IPSAS

- It is expected that **by 2023**, of the governments included in this survey, **65%** will prepare financial statements on the **accrual basis**, with **17.5%** of governments still reporting under the **cash basis** and another **17.5%** in the process of **transitioning to the accrual basis**.

⁶⁵ Percentages relate only to governments that apply the accrual basis, not all governments surveyed.

6. [According to the IPSASB’s more recent estimates](#), of the **98 governments** that are expected to report under the **accrual basis** in **2023**, it is expected that **74 governments (76%)** will make use of **IPSAS**. The following table compares the expected use of IPSAS against the current use.

Table D2: Current and expected future use of IPSAS

Government’s financial reporting framework	Currently	Expected by 2023
IPSAS adopted directly	5 governments (13.5%)	31 governments (32%)
IPSAS adopted indirectly through domestic standards	5 governments (13.5%)	14 governments (14%)
National standards use IPSAS as a reference point	9 governments (24%)	29 governments (28%)
Not making use of IPSAS in the abovementioned ways	18 governments (49%)	24 governments (26%)

7. The [International Public Sector Financial Accountability Index – 2018 Status Report](#) and the [IPSASB website](#) provide further details.

Appendix E: The spread of registered charities across the four PBE tiers

1. To support the discussion in Chapter 6 on whether the PBE tier size criteria should be revisited, this appendix provides additional information about, and analysis of, the spread of registered charities across the four PBE tiers of the ASF.
2. This appendix focuses on registered charities as a proxy for the NFP PBE population, for the following reasons.
 - (a) There is an absence of aggregate information available for other NFP PBEs, but given that registered charities make up approximately 95% of the PBE NFP population by number of entities, this data provides a reasonable proxy for providing an understanding of the current spread of NFP PBEs by size based on expenditure and the impact of any changes to the current size thresholds.
 - (b) The majority of public sector PBEs are schools, and all schools are required by the Ministry of Education to report in accordance with Tier 2. Therefore, changing the tier threshold is unlikely to significantly affect the proportion of public sector PBEs reporting under each tier.

Testing the tier size thresholds when the ASF was first introduced

3. When the ASF was introduced, the XRB Board tested whether the PBE tier size criteria were appropriate by applying these criteria to registered charities, using the financial information available for each of the approximately 23,000 registered charities at this time.⁶⁶ The total population of NFP PBEs with a legislative requirement to prepare GPFR in accordance with accounting standards issued by the XRB is substantially made up of mostly registered charities, when assessed by the number of entities in the sector.⁶⁷
4. For Public Sector PBEs⁶⁸ with a legislative requirement to prepare GPFR, it was recognised that most public sector entities would be large-to-medium in size with some smaller entities such as reserve boards, cemeteries and schools. It was also noted that central government agencies often have the authority to establish the financial reporting requirements for certain public sector entities.⁶⁹ It was considered that the tier size criteria, developed based largely on registered charities' data, was equally appropriate for public sector PBEs. For the purpose of simplicity and understandability, it made sense to have the same tier size criteria for both NFP and public sector PBEs.
5. The proportion of registered charities in each tier when the ASF was first introduced (based on Charities Services expenditure data) is summarised below. The XRB Board considered it appropriate that 97% of registered charities be required to prepare GPFR in accordance with Simple Format Reporting Requirements being either accrual based (Tier 3) or cash based (Tier 4).

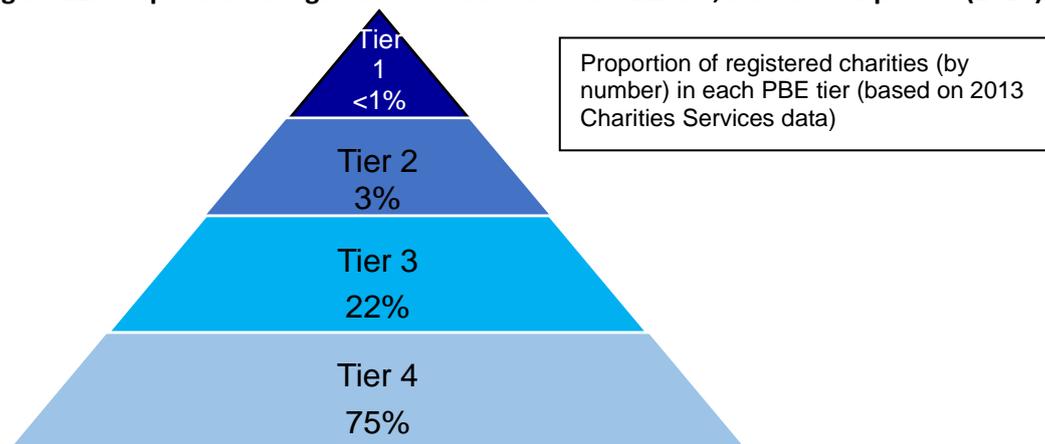
⁶⁶ Based on annual financial statements filed with Charities Services in accordance with the Charities Act 2005.

⁶⁷ There are some other NFP PBEs that are not registered charities but nevertheless have a statutory requirement to prepare GPFR (for example Friendly Societies under the Friendly Societies and Credit Unions Act 1982). It was considered appropriate that the tier criteria developed based on registered charities data was equally appropriate for these other PBE NFPs.

⁶⁸ PBEs that are public entities are defined in the Public Audit Act 2001, and includes all Offices of Parliament

⁶⁹ For example, the Ministry of Education annually sets the basis in which all schools are required to be prepare their GPFR, regardless of the school size.

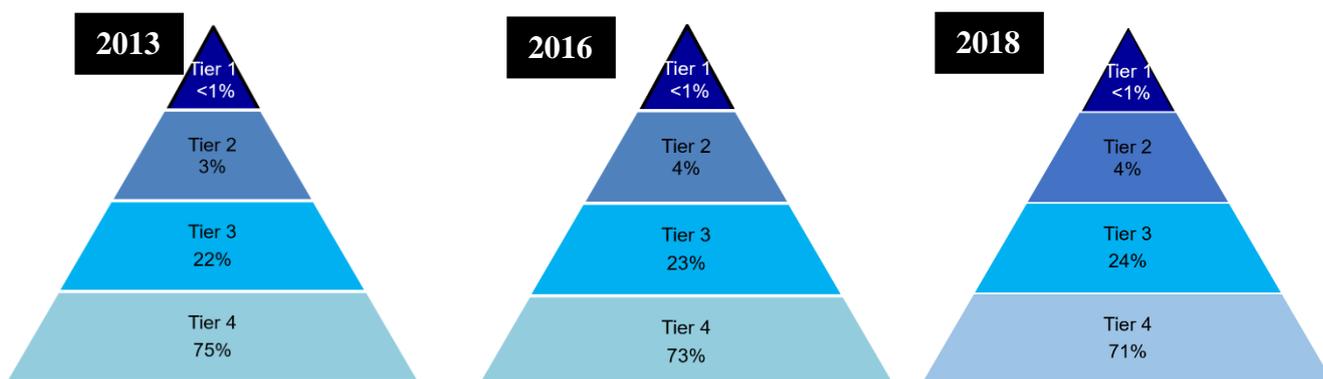
Figure E1: Proportion of registered charities in each PBE tier, based on expenses (2013)



Application of the PBE tier size criteria

- The diagrams below show the proportion of registered charities eligible to report in each of the four PBE tiers (based solely on expense data from the Charities Services register)⁷⁰ since the ASF was introduced. While these diagrams do not take into account public accountability, this is not expected to have a material impact on the percentages shown below.

Figure E2: Proportion of registered charities in each PBE tier, based on expenses (2013)



- The above data shows that the distribution of registered charities across the four tiers has not changed significantly since the ASF was first introduced.
- While the decrease in charities eligible to report in Tier 4 and the resulting increase in charities eligible to report in Tier 3 could be an argument for potentially raising the Tier 4 threshold of \$125,000 operating payments, the XRB is unable to change this threshold (only the Government can do so, through legislation).

⁷⁰ Tiers 2, 3 and 4 are rounded to the nearest percentage.

9. Another observation from the application of the PBE tier size criteria is that some charities in Tiers 3 and 4 choose to opt up to a higher tier. For example, charities eligible to report under Tier 4 (which requires reporting under the cash basis) often opt up to Tier 3 so that they can apply accrual accounting. The table below compares the tiers that the charities are eligible to report under based on their total expenses (disregarding public accountability, therefore the number of entities required to report in Tier 1 may be understated, but not significantly), and the tiers that the charities have chosen to report under.

Table E1: Number of registered charities eligible to report in each tier (based on expenses) compared with the actual number of registered charities reporting in each tier in 2018

Tier	Number of charities eligible to report in each tier (based on expenditure data)	Number of charities choosing to report in each tier (based on annual return data)	Difference
1	79	148	69 ⁷¹
2	940	1,346	406
3	5,782	8,575	2,754
4	17,112	13,844	(3,386)
Total	23,913	23,913	-

(Source: Charities Services database)

10. The above table shows that a significant number of charities that are eligible for Tier 4 (PBE Simple Format Reporting – Cash) opting up to Tier 3 (PBE Simple Format Reporting – Accrual) or higher tiers. The table also shows a smaller but still significant number of charities opting up from Tier 3 to Tier 2 (PBE Standards based on IPSAS, with Reduced Disclosure Requirements). The ASF allows PBEs to opt up into higher tiers if they wish to do so – which might be the case if a PBE perceives the benefits from the more rigorous requirements of the higher tier to exceed the costs of opting up. The fact that many registered charities are opting to up to a higher tier illustrates that PBEs are using this element of flexibility within the PBE tier structure as intended.

Analysis of the PBE size thresholds (specifically between Tier 2 and Tier 3)

11. Given that the accounting requirements in the Tier 3 standard are significantly simplified as compared to the requirements of PBE Standards RDR in Tier 2, we would have some concerns if there was a substantial percentage of entities within Tier 2 with annual expenditure just over the \$2 million size threshold. In this scenario, there would be a need to question whether it was reasonable that a small excess in size requires such as significant increase in reporting requirements, based on cost-benefit considerations.

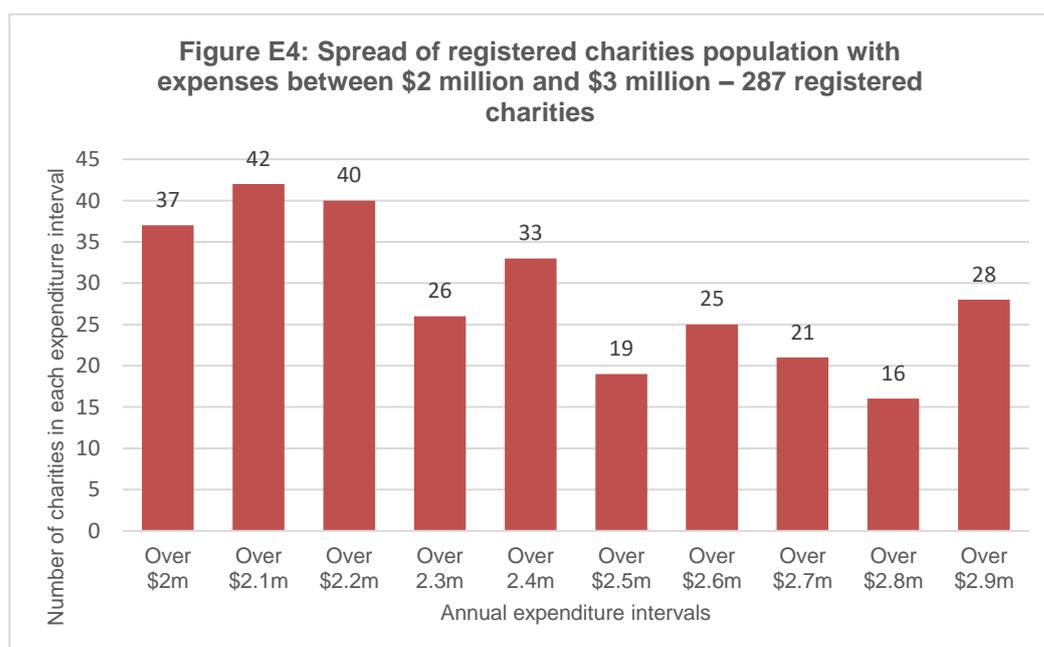
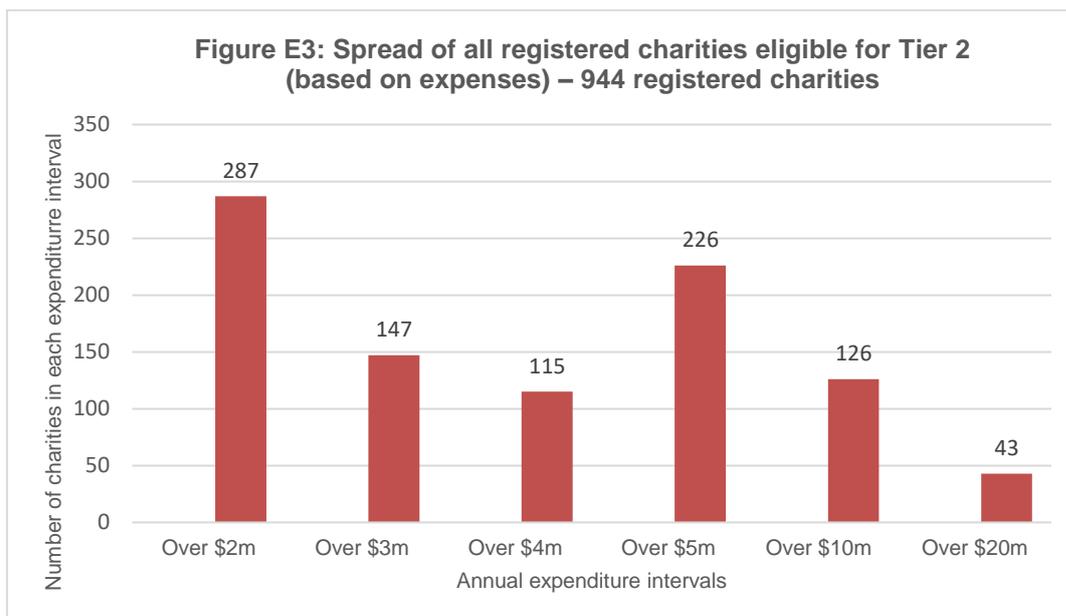
⁷¹ The likely reason for this difference is partly due to charities opting up to Tier 1 from a lower tier, and partly because the actual number of charities reporting in Tier 1 includes charities that are publicly accountable (as defined in XRB A1) with reported expenses less than \$30 million.

12. To determine whether this situation exists for NFP PBEs, this section provides the following analysis of the registered charities tier population (using publicly available financial information for each of the approximately 27,000 registered charities on the Charities Services Register):

- spread of Tier 2 registered charities by expenses; and
- sensitivity analysis — impact on the tier population from changes to the Tier 2 size threshold.

Spread of Tier 2 registered charities by expenses

13. To explore whether the size criterion between Tier 2 and 3 needs to be adjusted we have considered the spread of registered charities eligible to report in Tier 2 based on the expenses size criterion.⁷²



⁷² Based on Charities Services data – last annual return for each registered charity as at March 2019.

14. The two bar charts set out the spread of charities within Tier 2. Graph 2 indicates that 18% of Tier 2 charities have expenses between \$2 million and \$2.5 million and 30% of Tier 2 charities have expenses between \$2 million and \$3 million. Further, 58% of Tier 2 charities have expenses between \$2 million and \$5 million.

Sensitivity analysis — impact on the tier population from Tier 2 size threshold changes

15. To further explore whether the size criteria between Tier 2 and Tier 3 needs to be adjusted, we have considered the spread of entities within Tier 2 and used recent charities services data to assess the impact of a range of scenarios if the Tier 2 size threshold was changed.
16. The table below demonstrates the impact of setting the threshold between Tier 2 and Tier 3 at \$3 million, \$5 million or \$10 million.

Table E2: Impact of changing the threshold between Tier 2 and Tier 3

Tier	Number of registered charities (proportionate %)			
	Tier 2 @ \$2m	Tier 2 @ \$3m	Tier 2 @ \$5m	Tier 2 @ \$10m
1	79 (0.33%)	79 (0.33%)	79 (0.33%)	79 (0.33%)
2	946 (3.93%)	657 (2.73%)	396 (1.64%)	160 (0.66%)
3	5,821 (24.18)	6,110 (25.38%)	6,371 (26.46%)	6,607 (27.44%)
4	17,228 (71.56%)	17,228 (71.56%)	17,228 (71.56%)	17,228(71.56%)
Total	24,074 (100%)	24,074 (100%)	24,074 (100%)	24,074 (100%)

17. The table shows that under the current ASF there is only a small number of registered charities (close to 4%) who are required to report under Tier 2. The scenarios demonstrate that as you increase the size threshold even fewer charities would be required to report under Tier 2 and would drop back down into Tier 3. However, the difference in number of entities under each scenario is arguably marginal.

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