

# Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework

## Summary Document July 2019



This Summary Document accompanies the Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework*, issued by the External Reporting Board (XRB) for public consultation in July 2019.

The full Discussion Paper, which provides further background information and discussion, can be accessed through the link below.

[Press for access to full Discussion Paper](#)

This document summarises the information provided in the full Discussion Paper on:

- What is the New Zealand Accounting Standards Framework (ASF)?
- Where does the ASF fit within the broader New Zealand reporting environment?
- Why is the XRB undertaking the Targeted Review of the ASF?
- What is not within scope of the Targeted Review of the ASF?
- What specific areas of the ASF is the XRB seeking your feedback on?
- How to have your say
- Next steps

**The closing date for submissions is 15 November 2019**

[How to have your say](#)

## What is the New Zealand Accounting Standards Framework?

In New Zealand, certain entities are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. The Statutory Financial Reporting Framework established by the Government determines which entities are subject to this requirement (sometimes called the “**who**” question).

[Press for further information on the Statutory Financial Reporting Framework](#)

The [New Zealand Accounting Standards Framework](#) (the ASF) sets out the XRB’s strategy for developing and issuing accounting standards that are appropriate for those entities that have a statutory requirement to prepare financial statements in accordance with accounting standards issued by the XRB (sometimes called the “**what**” question).

The development of the ASF began in early 2009 in conjunction with Government reforms that led to the enactment of the Financial Reporting Act 2013 and associated amendments to other legislation.

The ASF was first issued in April 2012 after a comprehensive consultation process and updated for minor amendments in December 2015. The ASF became effective on a “rolling basis” across the three key sectors in New Zealand, as shown below:

Sector	When did the ASF become effective	Number of years the ASF has been effective
Public sector PBEs <sup>1</sup>	1 July 2014	4 – 5 years
For-profit entities <sup>2</sup>	1 April 2015	3 – 4 years
Not-for-profit PBEs <sup>3</sup>	1 April 2015	3 – 4 years

### Key objectives of the New Zealand Accounting Standards Framework

The ASF has two key underlying objectives.

1. 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 public benefit entity (PBE) sectors; and
2. To **balance the costs and benefits** of reporting — by establishing appropriate accounting requirements based on the nature and size of the entity

### Key elements of the New Zealand Accounting Standards Framework

The ASF has three key elements.

<b>Multi-standards approach</b>	Different suites of accounting standards for two distinct sectors: <b>for-profit entities</b> and <b>PBEs</b>
<b>Tiered approach</b>	Different accounting requirements for each tier based on cost-benefit considerations: <ul style="list-style-type: none"> <li>• For-profit entities – <b>2 tiers</b></li> <li>• PBEs – <b>4 tiers</b></li> </ul>
<b>Basis for developing each suite of accounting standards</b>	<ul style="list-style-type: none"> <li>• For-profit entities — accounting standards are based on International Financial Reporting Standards (<b>IFRS Standards</b>).</li> <li>• PBEs — accounting standards are based primarily on International Public Sector Accounting Standards (<b>IPSAS</b>) for Tiers 1 and 2 and the <b>XRB’s Simple Format Reporting Requirements</b><sup>4</sup> for Tiers 3 and 4.</li> </ul>

[Press for further information on the ASF](#)

<sup>1</sup> **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.

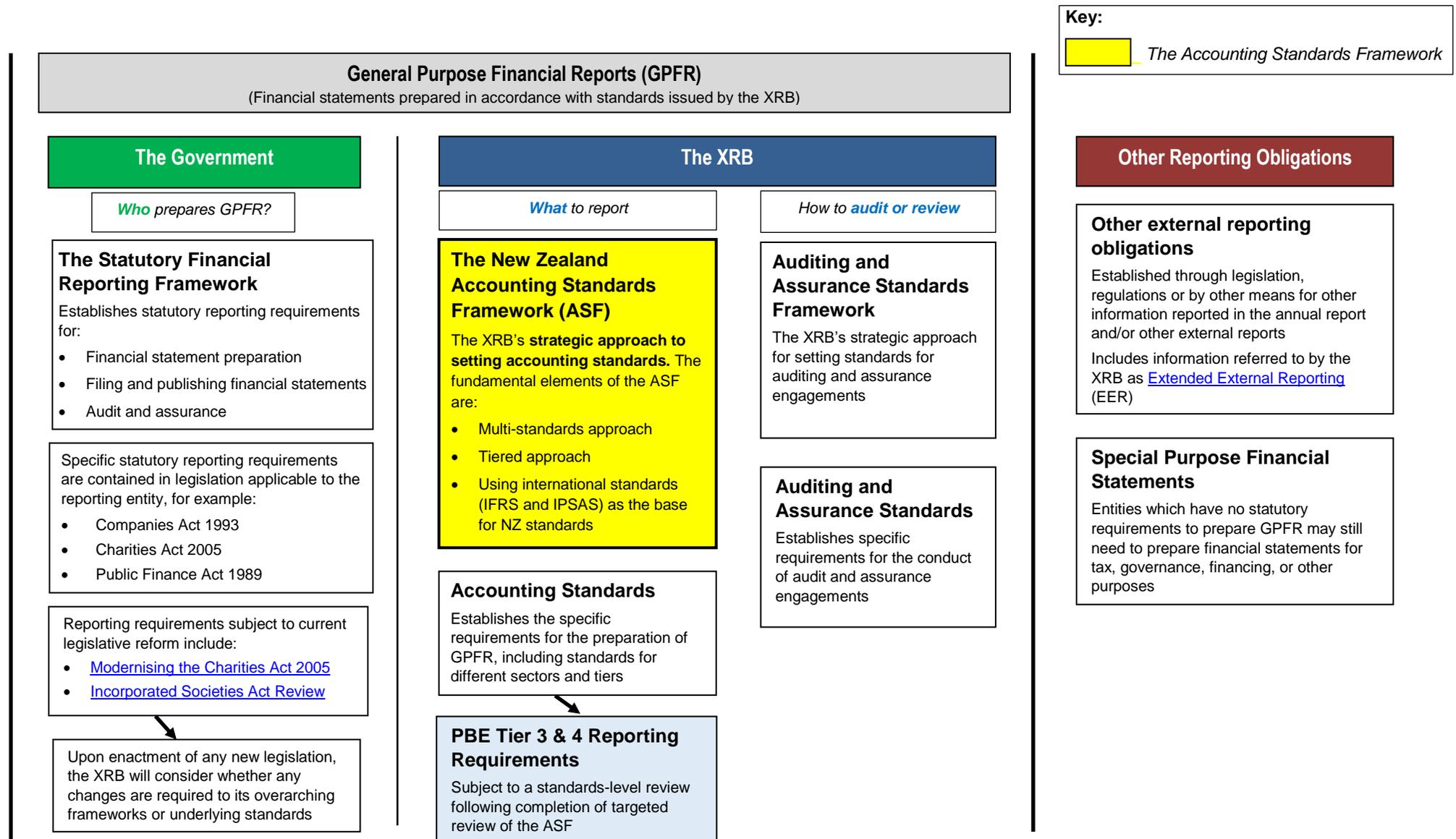
**Public sector PBEs** are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

<sup>2</sup> **For-profit entities** for financial reporting purposes are reporting entities that are not PBEs.

<sup>3</sup> **Not-for-profit (NFP) PBEs** are PBEs that are not public sector PBEs (e.g. registered charities).

<sup>4</sup> This term refers to the Tier 3 and Tier 4 PBE Accounting Requirements.

## Where does the ASF fit within the broader New Zealand reporting environment?<sup>5</sup>



<sup>5</sup> This diagram is a high-level overview of the New Zealand reporting environment and is not intended to be comprehensive.

## Why is the XRB undertaking a targeted review of the New Zealand Accounting Standards Framework?

Now that the ASF has been effective for 4–5 years for many entities, the XRB considers it timely and important to “check-in” with users of the ASF and other stakeholders to receive feedback on whether the ASF is functioning as anticipated and is achieving its original objectives.

This feedback will help the XRB Board consider whether refinements to the ASF are required to ensure it remains fit-for-purpose.

## What are the objectives and scope of the review?

### This is not a first-principles review

It is too soon to conduct a first-principles’ review of the ASF. The ASF was first issued in 2012 and introduced significant change for many entities. Also, we are not aware of 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-standards, multi-tiered approach, or which international standards are used as a base for developing standards in New Zealand.**

The XRB expects to review these fundamental elements once the ASF has been effective for at least 10–15 years.

### Key objectives of the targeted review of the New Zealand Accounting Standards Framework

The key objectives are to check-in with you on whether:

- (a) the ASF is **functioning as anticipated** and achieving its desired objectives (see p.2);
- (b) there are any **unintended consequences** or concerns to date arising from the implementation of the ASF; and
- (c) any refinements to the ASF are needed because of any **new developments or emerging issues** since the ASF was first developed.

The XRB is keen to receive feedback on:

**Are you aware of any developments in the financial reporting environment or any unintended consequences that would require refinements to the ASF?**

[How to have your say](#)

### Specific matters on which we are seeking your feedback

As well as seeking general feedback from you on whether the current ASF is functioning as anticipated, the XRB has identified three specific matters where we would appreciate your comments:

- (a) The importance of maintaining **close alignment between PBE Standards** (for NFP and public sector PBEs in Tiers 1 and 2) and International Public Sector Accounting Standards (**IPSAS**);
- (b) The importance of **harmonisation with Australia for Tier 2 for-profit disclosures**, and;
- (c) Whether the **PBE tier size criteria** (for NFP and public sector PBEs) need to be revisited.

A summary of each specific matter for comment (SMC) is discussed on pages 6-7 of this Summary Document.

[Press for further summary information on each SMC](#)

## What is outside the scope of the targeted review of the New Zealand Accounting Standards Framework?

### Matters outside of scope

The scope of this targeted review is limited to the ASF itself, being the XRB's strategy for developing and issuing accounting standards.

Below are the areas outside the scope of the targeted review.

Out of scope		Comment
⊘	The determination of <b>who</b> should have a <b>statutory requirement to report</b> in accordance with accounting standards issued by the XRB.	This is determined by the Government through legislation. It is outside of the XRB's remit.
⊘	The appropriateness of specific accounting requirements in <b>accounting standards</b> .	This targeted review is limited to the ASF, being the strategic framework used to develop accounting standards in New Zealand. It is not a review of the underlying individual accounting standards, or of auditing and assurance requirements. The XRB has other means for receiving feedback on individual accounting standards and assurance requirements.
⊘	<b>Audit and assurance requirements</b>	

[Press for further information on the XRB's rationale for the scope of the targeted review](#)



### Future post-implementation review of the Tier 3 and Tier 4 PBE Accounting Requirements

The XRB is aware that some Tier 3 and Tier 4 PBEs (especially registered charities) are experiencing challenges in implementing the Simple Format Reporting Requirements introduced as a result of the ASF.

The XRB 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.

## What specific aspects of the ASF is the XRB seeking your feedback on?

The XRB has identified three specific matters for comment (SMCs). Your feedback on these SMCs will assist the XRB in considering whether refinements to the ASF are required.

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

PBE Standards for Tier 1 and Tier 2 NFP and public sector PBEs are currently closely based on international standards – IPSAS – issued by the International Public Sector Accounting Standards Board (IPSASB). While this strategy was effective in establishing the PBE Standards and the XRB plans to continue using IPSAS when developing future changes to PBE Standards, there are some challenges in implementing the current strategy of maintaining close alignment between PBE Standards and IPSAS moving forward.

The XRB's current strategy focuses on maintaining close alignment between PBE Standards and IPSAS and, therefore, aims to avoid making changes to PBE Standards ahead of the IPSASB issuing final standards on the same topic. However, the time taken by the IPSASB to complete its projects to develop IPSAS based on recently-issued IFRS Standards<sup>6</sup> has been longer than expected. This leads to an extended period of unnecessary divergence between PBE Standards and the standards applied by for-profit entities in New Zealand (i.e. NZ IFRS). This delay is particularly problematic for “mixed groups”, which include both for-profit entities and PBEs in the same consolidated group.

Also, while the current strategy provides some flexibility to modify IPSAS requirements for New Zealand-specific considerations, there is a relatively high hurdle to jump before making such modifications. This can make it challenging to adequately reflect local considerations to ensure that PBE Standards are “fit for purpose” in New Zealand. The IPSASB's workplan now includes large public sector-specific projects. While work on these important topics is welcomed, the IPSASB is required to consider the needs of a wide range of constituents – including countries transitioning from cash accounting. Many of the IPSASB's constituents are very different to New Zealand constituents. Therefore, the needs of New Zealand constituents might not be fully or appropriately addressed by future IPSAS that address public sector-specific issues in the international environment.

Therefore, the XRB is considering whether its current strategy of maintaining close alignment between PBE Standards and IPSAS should be relaxed, to provide more flexibility in how IPSAS is used in the future when developing new or amended PBE Standards, including more flexibility on:

- the timing of when new or amended PBE Standards are introduced (e.g. not necessarily waiting for the IPSASB); and
- whether to adopt or modify the requirements of a new or amended IPSAS to reflect local considerations.

A more flexible approach is likely to result in less alignment between PBE Standards and “pure” IPSAS in the future, compared with the current strategy. Hence, the XRB is seeking feedback to help it consider whether to move to a more flexible approach.

When maintaining and enhancing the PBE Standards in the future:

**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?**

[Press for further information on this matter](#)

[How to have your say](#)

<sup>6</sup> For example, the IPSASB is currently working on projects to develop standards based on IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. Both IFRS 15 and IFRS 16 have recently become effective for for-profit entities.

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

For-profit entities that are required by law to prepare financial statements in accordance with standards issued by the XRB, but do not meet the criteria for Tier 1<sup>7</sup>, are in Tier 2. Under the ASF, for-profit entities in Tier 2 apply NZ IFRS with Reduced Disclosure Requirements (RDR). Currently, the disclosure requirements for Tier 2 for-profit entities are harmonised with Australia. However, the Australian Accounting Standards Board (AASB) is currently considering a new approach to setting Tier 2 disclosure requirements.

Furthermore, the International Accounting Standards Board (IASB) recently began a project on small and medium entities that are subsidiaries of entities that report under IFRS Standards (“SMEs that are subsidiaries”). This project may result in a set of accounting requirements that could be suitable as a replacement for the current Tier 2 regimes in both New Zealand and Australia. However, the IASB is unlikely to complete this project before the new approach to Tier 2 disclosures is introduced in Australia.

If the developments in Australia result in some loss of trans-Tasman harmonisation for Tier 2 for-profit disclosures, the XRB will need to consider introducing similar changes in New Zealand. Another matter to consider is whether it is more cost-effective for New Zealand to delay changes until an international solution becomes available, to avoid two rounds of changes.

To inform the XRB’s approach to maintaining and enhancing Tier 2 for-profit disclosure requirements within the environment described above, the XRB is keen to receive feedback on:

**How important is maintaining harmonisation with Australia for Tier 2 for-profit disclosure requirements?**

[Press for further information on this matter](#)

[How to have your say](#)

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

The PBE tier size criteria have not changed since the ASF was first introduced. The XRB is therefore taking this opportunity to check-in with constituents on whether there are any unintended consequences or recent developments that would require the PBE tier size thresholds to be revisited.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has public accountability <sup>8</sup>
2	Annual expenses between \$2 million and \$30 million
3	Annual expenses less than or equal to \$2 million
4	Annual operating payments less than \$125,000 (the XRB is unable to amend this)

It is important to note that the **XRB is unable to change the \$125,000 threshold for Tier 4, as this is determined by the Government in legislation.**

To allow the XRB to consider whether any refinements are required to the PBE tier size criteria, the XRB is keen to receive feedback on:

**Are there any unintended consequences or recent developments that would require changes to the PBE tier size criteria?**

[Press for further information on this matter](#)

[How to have your say](#)

<sup>7</sup> Tier 1 includes for-profit entities that are publicly accountable (defined in footnote 8 below) and public sector for-profit entities with expenses over \$30 million.

<sup>8</sup> In general, an entity 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 refer to XRB A1 [Application of the Accounting Standards Framework](#) for the full definition.

## How to have your say

The closing date for submissions is **15 November 2019**.

The XRB Board is seeking feedback on the **Questions for Respondents** raised in the Discussion Paper. You may choose to comment on all questions or select the questions which are of most interest to you.

We encourage submissions to be made by:

- completing the online submission form; or

[Press for online submission form](#)

- uploading your submission through our secure webpage at <https://www.xrb.govt.nz/reporting-requirements/targeted-review-of-the-accounting-standards-framework>

Please refer to the Discussion Paper for other methods to make a submission and further information on the submission process.

## Next steps

At the end of the public consultation period, the XRB Board will analyse the submissions received and consider whether certain aspects of the ASF require refinement.

Any refinements to the ASF would be issued for public consultation as a separate exposure draft. The XRB would also need to seek approval from the Minister of Commerce and Consumer Affairs for any amendments to the ASF.

[Press for further information on the next steps](#)

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