



Accounting Standards Review Board

PROPOSED APPLICATION OF ACCOUNTING AND ASSURANCE STANDARDS UNDER THE PROPOSED NEW STATUTORY FRAMEWORK FOR FINANCIAL REPORTING

Discussion Document

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Table of Contents

	Page
Executive Summary	5
Information and Questions for Submitters	9
List of Abbreviations	12
1. Introduction	14
1.1 Purpose of this Document	14
1.2 Overview of the MED and ASRB Discussion Documents.....	14
2. General Framework for the Application of Accounting and Assurance Standards	17
2.1 Introduction.....	17
2.2 Relevance of the MED Financial Reporting Framework	17
2.3 Operationalising User Needs and Cost-Benefit through Sectors and Tiers	19
3. Proposed Accounting Standards Framework: For-Profit Entities	25
3.1 Introduction.....	25
3.2 Key Factors in the For-Profit Sector	25
3.3 For-Profit Reporting Tiers.....	26
3.4 For-Profit Accounting Standards.....	28
3.5 Summary of For-Profit Proposals.....	30
4. Proposed Accounting Standards Framework: Public Benefit Entities	32
4.1 Introduction.....	32
4.2 Key Factors in the PBE Sector.....	32
4.3 PBE Sector Reporting Tiers.....	33
4.4 PBE Sector Accounting Standards	37
4.5 Summary of PBE Sector Proposals.....	42
5. The Proposed Assurance Framework	44
5.1 Introduction.....	44
5.2 Cost-Benefit Approach.....	44
5.3 Assurance Tiers and Levels	45
5.4 Assurance Standards.....	46
6. Related Issues and Comments	48
6.1 Introduction.....	48
6.2 General Framework Issues	48
6.3 Assessment against the Section 2 General Framework	50
6.4 Development and Implementation Issues	53

Appendix 1: Proposed Organisational Arrangements for the External Reporting Board.....	55
Appendix 2: Responses to Invitation to Comment on Proposed Revised Release 8	57
Appendix 3: Current and Proposed Accounting Standards for Entities with GPFR Obligations.....	59
Appendix 4: Approach of Other Jurisdictions	62

Executive Summary

Purpose of this Document

This ASRB Discussion Document is a companion to the Ministry of Economic Development's (MED) discussion document on "The Statutory Framework for Financial Reporting" (the MED Document). The MED Document considers the circumstances under which the law should impose requirements on entities to prepare, publish and obtain assurance on General Purpose Financial Reports (GPFR). The main focus of this document is on the accounting standards that should be used when preparing GPFR (by entities required to do so under the MED framework), and the level of assurance that should be provided on those reports.

The ASRB regards it as important that stakeholders are able to consider both the MED Document and the possible accounting standard and assurance arrangements that might accompany it all at the same time. Responses to this document and the ASRB's consideration of those responses will guide the future development and application of accounting standards in New Zealand.

The document considers four main issues:

- Some broad proposals for how the new body proposed in the MED Document to have future responsibility for accounting and assurance standards (a reconstituted ASRB called the External Reporting Board) might organise itself;
- Whether there should be tiers of reporting, and if so the qualifying criteria for each tier;
- The general nature of the accounting standards that should apply to each tier; and
- The assurance requirements that should apply to each tier.

External Reporting Board

Under the MED proposal the External Reporting Board (XRB) would be responsible for financial reporting strategy; the preparation and approval of accounting standards; and the preparation and approval of auditing and assurance standards. The Board's view is that these functions require different skill sets and focus and the XRB should be structured accordingly. Its tentative proposal is that this should include the establishment of two standard setting boards which would be responsible for the development, approval and promulgation of accounting and assurance standards respectively.

Framework for Tiers and Standards

The MED's Primary Principle (information to meet user needs) and associated indicators (public accountability, economic significance and separation of ownership and management), provides the framework to address reporting tiers, and accounting and assurance standards requirements. While users and their information needs can be categorised in numerous different ways, the Board's view is that the distinction currently used between for-profit and public benefit entity (PBE) sectors is a useful and cost effective basis for doing so. It is often also useful to recognise the difference between public and not-for-profit entities within the PBE sector, as the users and their needs are not always the same. In this context, and in light of the strong for-profit focus of the International Financial Reporting Standards (IFRS), the Board's tentative proposal is that New Zealand should move to a sector-specific set of financial reporting requirements to better reflect the difference in users and their needs.

The Board's tentative proposal is that, in line with current practice, tiers should be used to recognise the variability in the cost-benefit of information provided to users. In relation to

the number and criteria for tiers, the Board's tentative proposal is that they should be established on a sector-specific basis to allow for different user needs, differing cost-benefit considerations and other sector-specific constraints to be taken into account. The Board also proposes that entities should be able to 'opt-up' from one tier to another i.e. apply the requirements of a higher tier if they so choose.

For-Profit Sector Reporting

In relation to for-profit entities, the MED Document only requires publicly accountable entities (defined as issuers and holders of assets in a fiduciary capacity), large entities (tentatively defined as two of: $\geq \$20\text{m}$ revenue, $\geq \$10\text{m}$ assets, ≥ 50 staff), and entities with a management/shareholder separation (tentatively defined as 10 or more shareholders unless the shareholders decide to opt-out of the reporting requirement) to prepare GPFR. This means that non-large companies (and other for-profit entities) will no longer be required to prepare GPFR and as a result the reporting framework does not need to address small for-profit entities. Accordingly, the Board's tentative proposal is to have a two-tier reporting framework for this sector.

The recently released International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) creates a distinction between publicly accountable entities (defined as issuers of securities traded in a public market or entities that hold assets in a fiduciary capacity as a primary business activity) and non-publicly accountable entities. The Board's tentative proposal is that the for-profit Tier 1 should comprise entities that meet the IASB public accountability definition. All other for-profit entities required to prepare GPFR would fall into Tier 2. This would include issuers of securities that are *not* traded in a public market, large non-issuer companies (including applicable State Owned Enterprises), and large non-company for-profit entities.

In relation to accounting standards, the Board's tentative proposal is that Tier 1 should be required to comply with (pure) IFRS rather than New Zealand equivalents. There are very few substantive differences between NZ IFRS and IFRS and the benefits of preparing New Zealand equivalents therefore probably don't justify the costs.

As far as Tier 2 is concerned, the Board has identified two alternative reporting options that could be applied: IFRS for SMEs; or New Zealand specific differential IFRS (broadly along the lines of the current Differential Reporting Framework). In considering these options the Board notes that IFRS for SMEs has been specifically developed as a version of IFRS for entities that are not publicly accountable (under the IASB definition). The adoption of IFRS for SMEs would allow these entities to assert compliance with appropriate internationally set standards, enhancing the credibility of their reporting. Further, there are significant cost-benefit advantages (from a standard setting perspective) in using international standards.

On the other hand the Board recognises that, as it has only recently been released, there is some uncertainty amongst constituents about the usefulness and relevance of IFRS for SMEs as a *differential* version of IFRS for application in New Zealand. In particular, the differing measurement and extensive disclosure requirements of IFRS for SMEs, means that its suitability for use as a differential version of IFRS (in contrast to being a parallel full version for non-publicly accountable entities) is still being assessed both in New Zealand and Australia. The alternative would be to use a domestically developed Differential IFRS framework, preferably developed jointly with Australia for application in both countries.

The Board is conscious of the complexity and importance of the Tier 2 reporting decision and is therefore keen to receive comments from respondents on the factors (and their relative weighting) that the Board should take into account when choosing between these two options for reporting by Tier 2 for-profit entities (IFRS for SMEs; or a New Zealand-Australia developed Differential IFRS option).

PBE Sector Reporting

The public accountability requirements of the MED Document mean that many small PBE entities will be required to prepare GPFR. This is because all public sector PBEs are publicly accountable, regardless of size, as are all registered charities (although under the MED Document not-for-profit entities with operating expenditure under \$20,000 would not be required to report). In light of this the Board's tentative proposal is that there should be three tiers for the PBE sector to cater for large, medium and small entities.

In terms of tier thresholds, the Board's tentative proposal is to use expenditure (rather than revenue, assets or employees) as the base in the PBE sector. This is because it is more reflective of underlying activity in most PBE entities than revenue (that can fluctuate with donation levels, for example). In terms of levels, the Board's tentative proposal is for Tier 1 to be expenditure \geq \$20 million (public sector) or \geq \$10 million (not-for-profit sector); Tier 2 expenditure between \$20 million-\$2 million (public sector) or \$10 million-\$1 million (not-for-profit sector); and Tier 3 expenditure under \$2 million (public sector) or under \$1million (not-for-profit sector). The different tier thresholds are designed to create a rough equivalency between the two PBE sectors based on a broad assumption about the lower level of personnel costs in not-for-profit sector entities (as they generally rely on volunteers).

In addition, the Board's tentative proposal is that all public sector entities that levy coercive revenue should be included in Tier 1. This is to reflect the higher public accountability obligations of these entities. PBEs that are issuers should fall into whatever tier is appropriate under the size and coercive revenue criteria provided that they should never fall below Tier 2. This is to ensure that the quality of reporting is adequate to meet their user's needs.

In terms of accounting standards for the PBE sector, the Board's tentative proposal is that a set of NZ PBE Accounting Standards be developed for use in the sector. Those standards would consist of (pure) IPSAS for public sector entities, together with a NFP Application for use in the not-for-profit sector, (Tier 1); and differential versions thereof for both public sector and NFP entities (Tier 2).

In relation to PBE Tier 3 entities, the Board's tentative proposal is that Simple Format Reporting be required. In broad terms this would require the use of accrual accounting, measurement bases aligned with the full PBE standards where applicable, and fundamental disclosures appropriate to the sector. Minimum requirements would include: a Statement of Financial Position and Statement of Financial Performance; and simple service performance reporting. A template type approach is envisaged.

Assurance Requirements

The Board's tentative proposal is that the same tier structure also be used to determine statutory assurance obligations. In order to match costs and benefits Tiers 1 and 2 would be required to obtain an audit engagement but Tier 3 would be able to have a review engagement. Under the MED Document not-for-profit entities with expenditure under \$100,000 would not be required to obtain assurance.

The XRB (via an operating Board of the XRB established for the purpose) will also be responsible for issuing standards to be applied by assurance providers in conducting audits and reviews. As there is little substantive difference between international assurance standards and New Zealand equivalents an option would be to use the pure standards where possible. This would include the International Standards on Auditing (ISAs), the International Standards on Review Engagements (ISREs) and relevant ethical pronouncements. These Standards would apply to all assurance providers, not just those

that are members of New Zealand Institute of Chartered Accountants as is the case currently.

Implementation and Transition Issues

The implications of applying (pure) international standards will need to be worked through carefully and appropriate safeguards put in place. In this context the Board's tentative proposal is that the XRB have a 'safeguard authority' to allow it to not approve the application of an international accounting or assurance standard that is inappropriate in a material respect in the New Zealand environment; and provision be made for the issuing of (a limited number of) additional New Zealand-specific accounting or assurance standards to deal with areas not covered by international standards but important in the New Zealand context (such as Summarised Financial Reports, or Prospective Financial Information).

This document outlines in only broad terms the accounting and assurance standards framework the Board considers might operate within the MED framework. Further development and consultation will be required if these proposals are to be progressed.

The adoption of a new accounting and assurance standards framework will require a transition process not dissimilar to that required for the adoption of NZ IFRS in the 2005 - 2007 period, although not as extensive in scope. This can be addressed over a period of two to three years as it is likely that it will take that long for any new framework to be put in place. However, there may be some aspects of the accounting standard proposals that can be progressed in the interim and these would be subject to consultation.

Information and Questions for Submitters

Invitation to Comment

The Board is seeking comments on all aspects of this discussion document and will carefully consider all submissions received. Respondents are encouraged to supplement their opinions by detailed comments, whether supportive or critical of the framework proposed, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish.

Questions in the discussion document are intended to provide a focus for consideration of the issues. Broader comments are also welcomed.

Submissions should be sent to:

General Manager
Accounting Standards Review Board
PO Box 12197
Wellington 6144
New Zealand

Email: admin@asrb.co.nz

It would be appreciated if respondents would include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments.

Respondents are asked to include, in their submission, on whose behalf the submission is being made (for example own behalf, a group of people, or an entity).

The closing date for submissions is Friday 29 January 2010.

Publication of Submissions, the Official Information Act and the Privacy Act

Other than submissions that may be defamatory, the ASRB intends publishing all submissions on its website <http://www.asrb.co.nz>. The ASRB will not publish your submission on the internet if you have any objection to its publication. However, it will remain subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

When making your submission, please state if you have any objections to the release of any information contained in your submission. If so, please identify which parts of your submission you are requesting 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).

Summary of Questions for Respondents

General Framework for the Application of Accounting and Assurance Standards

- Q1 Do you agree that the distinction between for-profit and public benefit entity sectors is a useful and cost-effective basis for classifying users and their information needs? If not what other basis would you suggest and why?
- Q2 Do you agree with the Board's view that the time has probably come for New Zealand to consider embracing sector-specific (rather than sector-neutral) accounting standards? If not, why not?
- Q3 Do you agree that: (a) using reporting tiers is a cost-effective way to recognise the cost-benefit principle; and (b) the criteria for tiers should be established on a sector-specific basis? If not, what alternative approaches do you suggest and why?

Proposed Accounting Standards Framework: For-Profit Entities

- Q4 Do you agree that the distinction between publicly accountable entities (as defined by the IASB) and other entities should be used as the criteria to establish the for-profit tiers? If not, what alternative would you suggest and why?
- Q5 Do you agree that, as small for-profit entities generally won't be required to prepare GPFR, only two reporting tiers are necessary in the for-profit sector? If not, what would you suggest and why?
- Q6 Do you agree that (pure) IFRS should be used for reporting by Tier 1 for-profit sector entities? If not, what alternative would you suggest and why?
- Q7 (a) What factors (and their relative weighting) do you think the Board should take into account when choosing between the two reporting options for Tier 2 for-profit entities (IFRS for SMEs; or a differential version of IFRS, ideally developed jointly with Australia)?
- (b) What concerns of a material nature (if any) do you have about applying IFRS for SMEs? What are the reasons for these concerns?
- (c) What benefits do you perceive would result from a differential framework that is jointly developed between New Zealand and Australia?

Proposed Accounting Standards Framework: Public Benefit Entities

- Q8 Do you agree that entity size (based on expenditure but not asset value), and in the case of public sector entities also the nature of the accountability relationship, should be used to allocate entities to the PBE sector tiers? If not, what alternative would you suggest and why?
- Q9 Do you agree that for the PBE Sector Tier 1 should comprise entities with expenditure \geq \$20 million (public sector) or \geq \$10 million (not-for-profit sector) plus entities that are leviers of coercive revenue (regardless of size)? If not, what alternatives would you suggest and why?
- Q10 Do you agree that Tier 3 should comprise entities with expenditure under \$2 million (public sector) or under \$1 million (not-for-profit sector)? If not, what alternative would you suggest and why?

- Q11 Do you agree that: (a) a set of NZ PBE Accounting Standards should be developed for use by PBEs; (b) as part of this IPSAS be used as the basis for reporting in the public sector; and (c) a NFP Application (building on IPSAS) be used as the basis for reporting in the not-for-profit sector? If not, what alternative would you suggest and why?
- Q12 Do you agree that: (a) the full PBE standards should apply to Tier 1; and (b) a differential version of the PBE standards should apply to Tier 2 in the PBE sectors? If not, what alternative would you suggest and why?
- Q13 Do you agree that 'Simple Format Reporting' should apply to Tier 3 entities in the PBE sectors? If not, what alternative would you suggest and why?
- Q14 Do you agree that PBEs that are issuers should continue to fall within the PBE sector requirements provided that they should never fall below Tier 2? If not, what alternative would you suggest and why?

The Proposed Assurance Framework

- Q15 Do you agree that the same tiers developed for accounting standard application should be used to determine assurance requirements? If not, what alternative would you suggest and why?
- Q16 Do you agree that a satisfactory matching of costs and benefits is achieved by requiring Tier 1 and Tier 2 entities to obtain audit engagements and Tier 3 entities to obtain review engagements? If not, what alternative would you suggest and why?
- Q17 Do you consider that pure ISA and pure ISRE should be adopted as the basis for providing assurance on GPFR? If not, what alternative would you suggest?

Related Issues and Comments

- Q18 Do you agree that the XRB should: (a) have a 'safeguard authority' over the adoption of international standards that are inappropriate in a material respect in the New Zealand environment; and (b) the 'inappropriate in a material respect' test should apply to IFRS, IPSAS, ISA and ISRE? If not, what alternative (if any) would you suggest and why?
- Q19 Do you agree that provision should be made for additional New Zealand accounting and assurance standards to address areas not covered by international standards? If not, what alternative would you suggest and why?

List of Abbreviations

The following abbreviations are used in this document.

AASB	Australian Accounting Standards Board
ACC	Accident Compensation Corporation
AcSB	Canadian Accounting Standards Board
ASB	UK Accounting Standards Board
ASRB	Accounting Standards Review Board
EQC	Earthquake Commission
UK	United Kingdom of Great Britain and Ireland
EU	European Union
FRA	Financial Reporting Act 1993
FRS	Financial Reporting Standards (issued under old GAAP)
FRSB	Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants
GAAP	Generally Accepted Accounting Practice
GPFR	General Purpose Financial Reports
GST	Goods and Services Tax
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISRE	International Standards on Review Engagements

ITC	Invitation to Comment
MED	Ministry of Economic Development
MED Document	Statutory Framework for Financial Reporting, Ministry of Economic Development
NFP Application	IPSAS modified for application in the not-for-profit sector
NZASB	New Zealand Accounting Standards Board (proposed)
NZAuASB	New Zealand Auditing and Assurance Board (proposed)
NZICA	New Zealand Institute of Chartered Accountants
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ IPSAS	New Zealand equivalents to International Public Sector Accounting Standard
NZ Preface	New Zealand Preface to New Zealand equivalents to International Financial Reporting Standards and Financial Reporting Standards
PBE	Public Benefit Entity
PSAB	Canadian Public Sector Accounting Board
PSB	Professional Standards Board of the New Zealand Institute of Chartered Accountants
SEM	Single Economic Market
SOE	State Owned Enterprise
SORP	Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) issued by the UK Charities Commission
SSAP	Statements of Standard Accounting Practice (issued under old GAAP)
The Board	Accounting Standards Review Board
XRБ	External Reporting Board (proposed for New Zealand)

1. Introduction

1.1 Purpose of this Document

1. This ASRB Discussion Document is a companion to the Ministry of Economic Development's (MED) discussion document on "The Statutory Framework for Financial Reporting" (the MED Document). That document considers the circumstances under which the law should impose requirements on entities to prepare, publish and obtain assurance on General Purpose Financial Reports (GPFR).¹
2. In discussing these issues the MED Document focuses on which entities should prepare GPFR (the 'who' question). This discussion document considers the accounting standards to be used in preparing GPFR by entities required to do so under the MED framework, and the level of assurance that should be provided on those reports (the 'what' question). It has been prepared by the ASRB for comment in parallel with the MED Document.
3. The Board is conscious that, under existing legislation, its role is primarily a review and approval one and that it has limited responsibilities in terms of financial reporting strategy. However, the Board regards it as important that stakeholders are able to consider both the MED Document and the possible accounting standards and assurance arrangements that might accompany it all at the same time. Accordingly, the Board has produced this companion document to outline its tentative proposals on the 'what' issues. In this context the Board acknowledges that it will be the External Reporting Board rather than the ASRB that will be responsible for finally determining and then implementing accounting and assurance standards arrangements (see paragraph 6).
4. This document has been developed for discussion purposes only. Although it contains some relatively clear proposals (so that stakeholders are able to consider and respond to them), these are only tentative proposals and the Board does not have final views on any of the matters covered. It also recognises that, assuming the MED Framework for Financial Reporting proceeds, further consultation on the 'what' proposals would be appropriate following enactment of the necessary legislative changes.

1.2 Overview of the MED and ASRB Discussion Documents

5. The MED Document addresses four main issues of relevance to this document: the institutional arrangements; the principles and indicators for a reporting framework; which entities should prepare GPFR; and which entities should be required to obtain assurance on those reports.
6. In relation to the institutional arrangements, the MED Document proposes that all standards-related responsibilities should be consolidated within one independent standards body: the External Reporting Board (XRB). The XRB would be an independent Crown Entity which would replace the ASRB and take over the standard setting functions that have until now been carried out by the New Zealand Institute of Chartered Accountants i.e. through the Financial Reporting Standards Board (FRSB) and the Professional Standards Board (PSB). The XRB would be responsible for financial reporting strategy; the preparation and approval of accounting

¹ General Purpose Financial Reports (GPFR) are those provided to meet the information needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs (NZICA NZ Preface). Note that in both this document and the MED document the requirement to prepare GPFR is distinguished from the requirement to have those reports audited. Any reference in this document to GPFR therefore relates to the preparation of unaudited GPFR unless specifically stated otherwise.

standards; and the preparation and approval of auditing and other assurance standards.

7. While the MED Document specifies the roles and functions of the XRB it acknowledges that how it organises itself is a matter for the XRB to determine. The ASRB's tentative proposals for the organisational arrangements for the XRB are outlined in Appendix 1. They include the establishment of two standard setting boards which would be responsible for the development, approval and promulgation of accounting and assurance standards: the New Zealand Accounting Standards Board (NZASB); and the New Zealand Auditing and Assurance Standards Board (NZAuASB).
8. In relation to the principle and indicators for a reporting framework, the MED Document suggests a primary principle (information to meet user needs) and three indicators to use in applying that principle (public accountability, economic significance, and separation of ownership and management).
9. These principles and indicators are considered in Section 2 of this document. That section applies the user needs principle to establish a framework for accounting and assurance standards based on distinguishing between for-profit and public benefit entity sectors², and between different tiers of entities.
10. In relation to which entities should prepare GPFR and obtain assurance on them, the MED Document applies the indicators to identify categories of entities that should report and obtain assurance. In broad terms the MED proposals are that³:
 - Entities that meet the public accountability indicator should be required to prepare GPFR, except for small private non-profit entities (defined as expenditure <\$20,000) on cost-benefit grounds, or unincorporated private non-profit entities unless they are registered charities (on practicality grounds);
 - Entities that meet the economic significance indicator should be required to prepare GPFR;
 - Entities that meet the separation indicator only (10 or more owners) should be required to prepare GPFR but the owners/members should be able to opt-out of the preparation requirements; and
 - Assurance should be required for all entities required to report. However, where only the separation indicator applies owners/members should be able to opt-out of assurance. In addition, not-for-profit entities with expenditure less than \$100,000 should not be required to obtain assurance (on cost-benefit grounds).

² The term "public benefit entities" describes entities whose primary objective is to provide goods or services for a community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for the financial return to equity shareholders. This category comprises the not-for-profit component of the public sector, and private not-for-profit entities.

³ Statutory Framework for Financial Reporting, Ministry of Economic Development, paragraphs 56 and 59.

11. The application of accounting standards to entities required to prepare GPFR is considered in Sections 3 and 4 of this document. Those sections consider the criteria that should be used to establish reporting tiers in the two sectors, and the general nature of accounting standards that should apply to each sector and tier. Section 5 considers the general level of assurance that should be provided by those entities required to do so under the MED Document and the audit and review standards that should be applied by providers of that assurance.
12. Finally, Section 6 of this document discusses general framework matters and some further development and timing issues.

2. General Framework for the Application of Accounting and Assurance Standards

2.1 Introduction

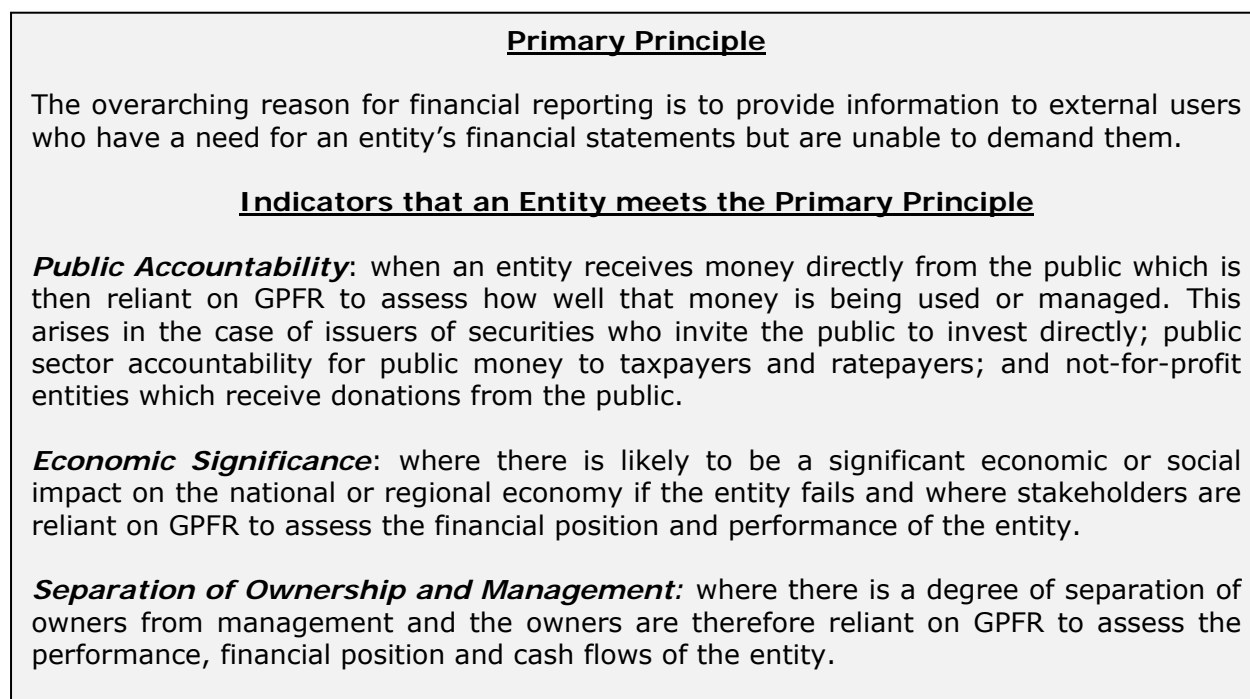
13. This Section provides a general framework to determine the application of accounting and assurance standards to entities required to prepare GPFR under the MED Document. It considers two main issues: the relevance of the MED Framework for Financial Reporting; and the use of sectors and tiers to reflect user needs in a cost effective way.
14. The application of this general framework to specific types of entities is addressed in Section 3 (for-profit entities) and Section 4 (public benefit entities).

2.2 Relevance of the MED Financial Reporting Framework

Primary Principle and Indicators

15. The MED Document proposes a basic framework for financial reporting based around the primary purpose of GPFR: to provide information to external users who would otherwise be unable to obtain that information. The MED framework is based around the Primary Principle and Indicators as summarised in Figure 1.

Figure 1: Primary Principle and Indicators⁴



⁴ Ibid, paragraphs 45 - 53

16. The Board considers the concept that information is provided to meet user needs is equally important when considering accounting and assurance standards i.e. in addressing 'what' as well as 'who' issues. The Principle means that standards should ensure that users get the information they need in a cost-beneficial way.
17. The Board's view is that the three Indicators are similarly relevant to the development and application of accounting and assurance standards. The Board considers that the Principle and Indicators should be applied in a consistent way to entities regardless of their legal form.

Cost-Benefit Approach

18. A second fundamental component of the MED Framework is that the financial reporting system should weigh the benefits of financial reporting against the associated compliance costs.⁵
19. A cost-benefit approach has been applied to financial reporting in New Zealand for some time and the Board considers that it should continue under the proposed framework. In this context costs and benefits can differ depending on the perspective brought to bear:
 - From a preparation perspective, the benefits of the information provided should outweigh the costs of collecting and reporting that information;
 - From an audit perspective, the benefits of assurance should outweigh the costs of providing that assurance; and
 - From a standard setting perspective, the benefits of developing standards should outweigh the costs of doing so.
20. The main benefits of GPFR flow from the ability of users to use GPFR information to make economic decisions and assess accountability. The provision of assurance on that information increases the confidence that users can have over that information and therefore its reliability.
21. The main costs of GPFR flow from specific accounting standard measurement, recognition and disclosure requirements, together with assurance obligations. In general, the more complex and sophisticated these requirements, the greater the costs of compliance.
22. It is often quite difficult to establish costs and (particularly) benefits for standards setting purposes. A broad approach to identifying benefits is therefore required, as summarised by the IASB: *"In assessing whether the benefits of a proposed standard are likely to justify the costs it imposes, standard-setters generally consider the practicability of implementing it and whether some degree of precision might be sacrificed for greater simplicity and lower cost, in addition to other factors. Standard-setters' assessment of whether benefits of providing information justify the related costs usually will be more qualitative than quantitative. Even qualitative information that standard-setters can obtain about benefits, in particular, and costs often will be incomplete."*⁶

⁵ See *ibid*, paragraph 4 for a discussion on the cost-benefit approach.

⁶ Discussion Paper: Preliminary Views on an Improved Conceptual Framework: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information; IASB 2006.

23. Given the difficulties involved, the cost-benefit concept needs to be operationalised at the application level. Entity size is generally useful in this regard. This is because the smaller the entity the smaller the number of users there are likely to be, and therefore the fewer the benefits that are likely to accrue from GPFR. On the other hand, the smaller the entity the greater will be the cost of preparing full GPFR (as a proportion of total entity costs). In order to match costs and benefits appropriately a reduction in GPFR requirements is therefore generally appropriate for smaller entities. The application of this concept is considered in Section 2.3 below.
24. Another factor that should be considered when operationalising the cost-benefit test is the importance of recognising the global environment in which many New Zealand entities now operate. Comparability of financial information with that produced in other jurisdictions (particularly in Australia – see the convergence discussion in section 6.3) can be important in raising capital and to overall international competitiveness. The minimisation of financial reporting compliance costs for entities with operations in different jurisdictions is similarly important to those entities. New Zealand financial reporting requirements need to recognise these factors. One cost-effective way of doing so is to take account of the availability of credible international standards. Using international standards also strengthens international linkages for New Zealand’s accounting profession, and reduces domestic standard setting costs.

2.3 Operationalising User Needs and Cost-Benefit through Sectors and Tiers

User Needs and Sectors

25. Different users have different information needs and it is important that these needs be reflected appropriately in reporting requirements. While users and their information needs can be dichotomised in numerous different ways the Board’s view is that the distinction currently used between for-profit and public benefit entity sectors is a useful and cost-effective basis for doing so.⁷
26. For the purposes of this document these two sectors are defined as follows:
- The public benefit entity (PBE) sector comprises entities whose primary objective is to provide goods or services for a community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders;⁸
 - The for-profit sector includes any entity that is not a PBE. This would normally include any entity which has earning a profit and/or a rate of return on assets as its primary objective. This includes for-profit subsidiaries of PBE parents (such as State Owned Enterprises).⁹

⁷ In the context of discussing who should report the MED Document uses four different sectors (for-profit, public sector, not-for-profit and Maori Asset Governance entities). While useful for that purpose, the Board considers that using that many sectors for accounting and assurance standards purposes would result in a framework that is too fragmented. It considers a two sector (profit, PBE/not-for-profit) dichotomy to be more cost effective although divisions within those sectors should be considered as necessary to reflect significantly different user needs. In addition, as becomes evident in Section 4, there are a relatively small number of not-for-profit entities in Tiers 1 and 2 and therefore the work involved in preparing a fully tailored set of standards for those few entities is not justifiable. Treating all PBEs as one sector and then establishing a variation to reflect the specific needs of the not-for-profit sector is a better approach from a cost-benefit perspective.

⁸ New Zealand Preface issued by the Financial Reporting Standards Board of NZICA, November 2008, paragraph 28.

⁹ See NZIAS 1, paragraph NZ AG 3.

27. The Board considers it is often useful to recognise the difference between public and not-for-profit entities within the PBE sector, as the users and their needs are not always the same. In this context:
- A public sector PBE entity is any taxpayer or ratepayer 'owned' entity that has a public benefit objective; and
 - A (private) not-for-profit entity is any entity with a public benefit objective that is privately owned. Broadly, these entities are of two general types: charities; and member-based entities (such as sports clubs).¹⁰
28. Table 1 provides an indicative description of user information needs based on the user needs indicators and the sectoral distinctions. This Table is not designed to be a definitive statement of user needs but rather to provide a broad reflection of indicative users and their information interests.¹¹
29. As is evident from the Table, users in different sectors and with different indicator interests are likely to have a combination of similar and differing information needs.
30. Users with common interests, like those concerned with economic significance, are likely to be interested in broadly the same information regardless of the sector the entity falls within. Similarly, there may be commonality between users within a sector. For example, in the for-profit sector the nature of the information required by both investors and owners is likely to be broadly similar.
31. On the other hand there can be quite different user needs between sectors. For example, service performance information will generally be important to PBE sector users but of less interest to for-profit users.
32. Significant differences can even occur within sectors. For example, in the not-for-profit sector donors are likely to be interested in the fundraising costs of charities and whether donations were used for the purposes intended. In member-based entities users will have a greater interest in things like the level of current and future members' fees, the services provided with those fees, the efficiency with which those services are produced, and the financial position of the entity.
33. The Board's view is that these differing sector user needs should inform accounting and assurance standard requirements at both the broad and specific level. At the broad level they should be used to determine the general focus and appropriateness of a set of standards. Specific standards should then address the particular information needs of the various users.

¹⁰ The exact distinction between these PBE sectors is a matter that would need to be confirmed as part of the work to further develop the framework outlined in this document; see paragraph 180.

¹¹ For a more extensive consideration of user needs see the IASB and IPSASB Conceptual Framework documents.

Table 1: Indicative User Needs

Indicator		Sector		
		For-Profit	Public Benefit ¹²	
			Public	Private (Not-For-Profit)
Public Accountability	<i>Users</i>	<i>Investors in Public Securities</i>	<i>Taxpayers and Ratepayers</i>	<i>Donors</i>
	Primary Interest	Security of/ return on investment	Levying and use of public money; delivery of services	Use of charitable donations; delivery of services
Separation of owners and management	<i>Users</i>	<i>Shareholders/ Owners</i>	<i>Taxpayers and Ratepayers</i>	<i>Members</i>
	Primary Interest	Financial performance; stewardship of investment	Financial performance; service priorities	Financial performance; service priorities; fee levels
Economic Significance	<i>Users</i>	<i>General Public</i>	<i>General Public</i>	<i>General Public</i>
	Primary Interest	Economic Impact	Economic Impact	Economic Impact

Question for Respondents

Q1 *Do you agree that the distinction between for-profit and public benefit entity sectors is a useful and cost-effective basis for classifying users and their information needs? If not what other basis would you suggest and why?*

Sector-Based Accounting Standards

34. Under current arrangements all GPFR reporting entities are required to comply with NZ IFRS (or a differential reporting version of it).¹³ However, the Board is aware that there is growing uncertainty about the desirability of this requirement.
35. The main driver behind the decision to develop New Zealand equivalents to IFRS (NZ IFRS) and to apply them to all GPFR entities was to try and maintain a single set of standards for application by all entities across all sectors.¹⁴ However, IFRS' predominant focus on for-profit entities is making this difficult to achieve. As a result there is a growing consensus that NZ IFRS is not well suited to deal with the information needs of non-capital market users, especially those in the PBE sectors.

¹² As defined in paragraph 26.

¹³ Except for entities provided with an exemption under ASRB Release 9 which may continue to use old FRS and SSAP Standards.

¹⁴ Prior to the adoption of IFRS in 2002 New Zealand had a sector neutral approach to setting standards, with the issues arising from, and the needs of users of, all sectors being considered as part of the process of developing a single set of standards applying to entities in all sectors.

36. In a recent report to Parliament the then Auditor General reiterated his concerns about the suitability of IFRS to public sector reporting: "... continuing to apply NZ IFRS is not in the long-term best interests of the majority of entities in the public sector".¹⁵
37. A similar view is held by the New Zealand Institute of Chartered Accountants (NZICA) Not-for Profit Sector Advisory Committee: "*The Committee does not consider existing NZ IFRS adequately addresses the needs of users of not-for-profit entities, as the international standards from which our standards are developed are issued solely for profit-oriented entities and primarily with the securities markets in mind*".¹⁶
38. A recent report of the Officers of Parliament Committee also noted concerns about the onerous nature of IFRS reporting requirements for small public sector entities referring in particular to cemeteries and reserve boards. The Board expects similar concerns to arise in the context of small not-for-profit entities which will have an obligation to report under the MED Document.
39. The Board itself has been concerned about these issues and in April 2009 issued an Invitation to Comment (ITC) on proposed changes to Release 8 (which covers the Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards). The key changes suggested in the proposed revised Release 8 (which has now been approved and released by the Board) reflected concerns about the current approach to modifying IFRS for Public Benefit Entities. Most respondents to the ITC expressed reservations about the suitability of IFRS as a basis for reporting outside a for-profit context (see Appendix 2 for a further discussion on comments by ITC respondents).
40. Given the level of debate, and its own reservations about the wider applicability of IFRS, the Board considers that the time has probably come for New Zealand to embrace sector-specific (rather than sector-neutral) accounting standards. Accordingly, the Board's view is that accounting standards other than IFRS should be considered for application by PBEs as a better means to meet user needs.
41. In doing so, the Board recognises that for the best part of twenty years New Zealand has essentially applied a sector-neutral approach to standard setting. This involved a common conceptual framework and a single set of standards. This approach served New Zealand well until 2002 when the decision was made to adopt IFRS. Since then sector neutrality has become increasingly difficult to maintain in a way that satisfactorily meets the diversity of user needs.
42. As laudable as a sector neutral approach may be, the international standard-setting community has not embraced it. In fact international standard setters are currently developing different (albeit related) sets of standards for different sectors: IFRS and IFRS for SMEs for for-profit entities; and International Public Sector Accounting Standards (IPSAS) for public sector entities.
43. This direction has been reinforced by the International Public Sector Accounting Standards Board's (IPSASB) decision to develop a conceptual framework to underpin the development of future IPSAS. The Project Brief for that project states that "*the objective of this project is not simply to interpret the IASB Framework for application*

¹⁵ The Auditor General's Views on Setting Financial Reporting Standards for the Public Sector, Office of the Auditor General, June 2009, paragraph 5.6.

¹⁶ Not-for-Profit Sector Advisory Committee Position Paper: New Zealand's Financial Reporting Standards Setting for Not-for-Profit Entities; New Zealand Institute of Chartered Accountants, May 2009; page 3.

to the public sector. Rather, the objective is to develop the IPSASB's own Framework using the work of the IASB and other standards setters as appropriate."

Question for Respondents

Q2 *Do you agree with the Board's view that the time has probably come for New Zealand to consider embracing sector-specific (rather than sector-neutral) accounting standards? If not, why not?*

Reporting Tiers

44. A sectoral approach focuses on user needs but it doesn't fully address cost-benefit issues. An additional framework component is required for that.
45. It is reasonable to conclude that, given the variety of both users and the information they require, the value of information to different users will vary.
46. In order to appropriately address costs and benefits, the accounting and assurance standards framework needs to recognise this variability. The most common way of doing this is through a system of differential reporting whereby the reporting - particularly disclosure - requirements are reduced for different groups of entities in a manner commensurate with the reduction in benefit accruing from the information.
47. Differential reporting has operated in New Zealand since the early 1990s and is widely accepted. The Board considers that it should continue under the new accounting standards framework and that it be given effect through the establishment of reporting tiers with the reporting/disclosure obligations reducing in each lower tier. The use of tiers is a cost-effective way of recognising the cost-benefit principle while also helping to ensure consistency.
48. A tiered reporting approach is also consistent with the framework established in the MED Document, which in fact explicitly assumes that reporting tiers will be adopted. Under the MED Document a key role of the XRB is to make recommendations to the Responsible Minister on the number of tiers and the associated qualifying criteria.¹⁷ The Minister can then either accept or reject those recommendations or refer them back for further consideration.
49. The exact number of tiers that should operate is a matter for judgement based on the range of cost-benefit variability. The Board's tentative proposal is that the number of tiers should be established on a sector-by-sector basis and in a way that reflects the cost-benefit considerations in each sector; with there being a maximum of three tiers. This is consistent with current practice where there are the full standards reporting requirement (Tier 1), the differential reporting version of those standards (Tier 2), and (for for-profit entities) the exempt company regime¹⁸ (an implicit Tier 3).
50. In terms of the criteria to be used to differentiate tiers, the Board's tentative proposal is that these should also be established on a sector by sector basis. This allows sector-specific factors and constraints to be taken into account.

¹⁷ Op cit, Ministry of Economic Development Part 3.3.

¹⁸ Under this regime, small companies (as defined by section 6A of the Financial Reporting Act, 1993) may produce simplified, fill-in-the-box type reports in accordance with the Financial Reporting Order 1994.

Question for Respondents

Q3 Do you agree that: (a) using reporting tiers is a cost-effective way to recognise the cost-benefit principle; and (b) the criteria for tiers should be established on a sector-specific basis? If not, what alternative approaches do you suggest and why?

Summary

51. In summary, the Board's tentative proposal is that application of accounting and assurance standards should:
 - Be sectoral-based to reflect differing user needs;
 - Involve the use of standards appropriate to the user needs of the sector concerned; and
 - Involve reporting tiers with the number of tiers, and their criteria, developed on a sector-by-sector basis.
52. The exact tier structure and the accounting standards requirements that might apply to each tier in each sector are discussed in the next two sections of this document. Section 3 considers these issues in the for-profit sector context and Section 4 for the PBE sector.

3. Proposed Accounting Standards Framework: For-Profit Entities

3.1 Introduction

53. The MED Document proposes that, after applying the Primary Principle and Indicators, (only) the following for-profit sector entities should be required to prepare GPFR:¹⁹
- All issuers of securities that invite the public to invest directly²⁰ (on the basis of public accountability);
 - Large non-issuer companies and other for-profit entities (on the basis of economic significance) with large tentatively defined as where any two of the following apply: the total assets ≥\$10 million; total turnover (gross operating revenue) ≥\$20 million; and full-time equivalent employees are 50 or more. This category includes large overseas-owned companies²¹ and large overseas-incorporated companies carrying on business in New Zealand where applicable;
 - Companies and other for-profit entities that are non-issuers and not-large but with ten or more shareholders (on the basis of separation between owners and managers), unless shareholders waive the requirement.
54. In addition, any entity not required to report may 'opt-in' to the reporting requirements.
55. This section proposes an accounting standards framework for application by for-profit sector entities that are required, or choose, to prepare GPFR.
56. In considering the framework it should be noted that the MED proposals on which entities should report represent a significant change from existing practice because:
- Non-large overseas owned or overseas-incorporated companies carrying on business in New Zealand, will no longer be required to prepare GPFR;
 - For-profit entities (no matter what their legal form) that are not issuers, are not large under the economic significance test, and have fewer than ten shareholders (or equivalent), will not be required to prepare GPFR. This means that small and medium for-profit entities with less than 10 shareholders will not be required to prepare GPFR unless they are issuers.

3.2 Key Factors in the For-Profit Sector

57. A major reason for the 2002 decision to adopt IFRS was to enable for-profit entities, particularly those operating in international capital markets, to be able to assert compliance with international standards. The Board considers that the determination of tiers and reporting standards in the for-profit sector needs to reflect this fundamental objective and that the IFRS requirements should therefore be the key determinant of financial reporting arrangements in this sector.

¹⁹ Ibid, Part 5.

²⁰ The MED Document defines issuers as comprising all registered banks, unit trusts, insurers, retirement villages, credit unions, participatory securities and other entities that issue securities as defined in the Securities Act; *ibid* footnote 13.

²¹ A company is regarded as overseas owned for this purpose if it has 25% or more overseas ownership – see *ibid*, paragraph 75.

58. The recently released International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) creates a distinction between publicly accountable and other entities. The Standard defines “public accountability” as follows: *“An entity has public accountability if:*
- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or*
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.*
- Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, or cooperative enterprises requiring a nominal membership deposit), they are not considered to be publicly accountable.”²²*
59. It is important to note that this IASB definition of public accountability and the definition of publicly accountable used in the MED Document are different. The key difference is that the IASB definition focuses on issuers of securities *that are traded in a public market* whereas the MED definition includes *all issuers* of securities i.e. securities that are both traded and not traded in public markets.²³
60. The Board’s tentative proposal is that this distinction between publicly accountable and non-publicly accountable entities should be used to establish the tier and related accounting standard requirements in the for-profit sector. This is necessary to ensure consistency with IASB requirements and to do otherwise could result in some for-profit entities being unable to assert IFRS compliance.

3.3 For-Profit Sector Reporting Tiers

61. The Board’s tentative proposal, based on the IASB distinction, is that in the for-profit sector:
- Tier 1 should consist of publicly accountable entities (as per the IASB definition) namely:
 - Issuers of securities traded in a public market; and
 - Entities that hold assets in a fiduciary capacity as a primary business activity; and
 - Tier 2 should consist of all other entities required to prepare GPFR under the MED proposals, namely:
 - Issuers of securities that are not traded in a public market;
 - Non-issuing for-profit companies that are required to prepare GPFR, including:

²² IFRS for SMEs; International Accounting Standards Board; Paragraphs 1.3 and 1.4; The IFRS for SMEs document can be found at the following web address: www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs+and+related+material/IFRS+for+SMEs+and+related+material.htm

²³ Exactly what constitutes being “traded” is a matter that would need to be established as part of the work to further develop the framework outlined in this document; see paragraph 180.

- Large overseas owned companies, large overseas-incorporated companies and large New Zealand owned non-issuer companies; and
 - Other non-issuer companies with ten or more shareholders (unless shareholders waive the requirement);
 - Any other for-profit entities required to prepare GPFR including large partnerships, trusts and other legal forms of for-profit entity; for-profit public sector entities such as State Owned Enterprises, Government Owned Companies, for-profit Council Owned Organisations; and large for-profit Māori asset governance entities.
62. An alternative approach would be to require all issuers (as defined in the MED Document i.e. all issuers regardless of whether their securities are traded in a public market or not plus entities that hold assets in a fiduciary capacity) to be in Tier 1. The argument for such an approach (which is the status quo) is that it would aid comparability between issuers because they would all be subject to the same reporting requirements. In other words there are benefits to users from requiring all issuers and fiduciary holders of assets to use the same tier.
63. The Board does not favour this alternative because it doesn't adequately take account of the preparation costs that would be imposed on small issuers – a problem that exists under current NZ IFRS requirements and which has been the subject of some debate. The Board considers that the comparability concern is addressed under its tentative proposal as large company debt and equity issuers, finance companies, banks, managed funds and other financial institutions (which between them comprise the bulk of issuers in New Zealand) would mostly fall into Tier 1 using the IASB definition distinction.
64. The Board's tentative proposal is that a Tier 3 is not necessary in the for-profit sector. As small entities are highly likely to have less than ten shareholders, they will not meet the separation test. This being the case they would not be required to prepare GPFR under the MED Document and there is therefore no need to provide a tier to address the relative costs and benefits of reporting for these entities.²⁴
65. In reaching this view, the Board is aware that there may be a few small for-profit entities that are publicly accountable (under the MED definition) and therefore required to prepare GPFR. A commonly cited example is small retirement villages that are issuers. The Board notes that it is highly likely that the securities of these small issuers will not be traded in a public market, and as a result these entities will fall under Tier 2. The Board considers that the public accountability obligations of these entities are such that they should be required to comply with the requirements of that Tier despite their small size.

²⁴ This being the case the question arises what standards for-profit entities that are not required to prepare GPFR (i.e. entities that are not issuers, are not large, and have fewer than ten shareholders) should use if they wish to report, or are required to do so for special purpose reasons (for example for tax purposes). Although this is a matter outside the Board's jurisdiction, it makes the following suggestions. As is the practice now, special purpose users (such as banks and the Inland Revenue Department) are in a position to specify the basis of reporting to them. In doing so they could, if they considered it appropriate, require reporting in accordance with a particular tier specified in the GPFR accounting standards framework. The Board considers guidance on financial statement preparation for voluntary reporters is a role for the accounting profession.

Questions for Respondents

- Q4 Do you agree that the distinction between publicly accountable entities (as defined by the IASB) and other entities should be used as the criteria to establish the for-profit tiers? If not, what alternative would you suggest and why?*
- Q5 Do you agree that, as small for-profit entities generally won't be required to prepare GPFR, only two reporting tiers are necessary in the for-profit sector? If not, what would you suggest and why?*

3.4 For-Profit Sector Accounting Standards

Tier 1 For-Profit Accounting Standards

66. IFRS have been developed by the IASB specifically for use by for-profit entities. Accordingly the Board's tentative proposal is that IFRS should apply to for-profit Tier 1 entities. An issue to consider, however, is whether pure IFRS or New Zealand equivalents (NZ IFRS) should be applied.
67. One of the reasons behind the original decision to develop NZ IFRS rather than to just adopt (pure) IFRS was to ensure that the standards were applicable to New Zealand circumstances. However, experience over the last six years has shown that the degree of modification to IFRS that is possible when creating NZ IFRS, while still being able to claim compliance with IFRS, is relatively minor. As a result the substantive differences between IFRS and NZ IFRS as they apply to for-profit entities are quite small.
68. This calls into question whether the costs involved in creating NZ IFRS (for for-profit entities alone) are worth the resulting benefits. The Board's view is that they probably are not, and that New Zealand standard setters are better to put their effort into contributing to standards at the development stage rather than into producing New Zealand equivalents.
69. The Board's tentative proposal is therefore that pure IFRS should be used for Tier 1 reporting in the for-profit sector. Adopting pure IFRS would have limited substantive impact on Tier 1 preparers but would help reduce standard-setting costs. It may also lead to benefits for New Zealand issuers operating in the global financial marketplace because it would remove any doubts about their compliance with IFRS.

Tier 2 For-Profit Accounting Standards

70. The Board has identified two alternative accounting standard options that could be applied to Tier 2: IFRS for SMEs; or a differential version of IFRS (broadly along the lines of the current Differential Reporting Framework).
71. In considering these options the Board notes that IFRS for SMEs has been specifically developed by the IASB as a version of IFRS for entities that are not publicly accountable (under the IASB definition). The use of the IASB distinction as criteria for the for-profit tiers means that there is a direct relationship between the entities in Tier 2 and the IASB standard created for their use (IFRS for SMEs). The adoption of IFRS for SMEs would allow these entities to assert compliance with appropriate internationally set standards, enhancing the credibility of their reporting. Further, in accordance with the cost-benefit tests outlined in Section 2, there are significant

cost-benefit advantages (from a standard setting perspective) in using international standards. Given these benefits, a strong argument can be made that IFRS for SMEs should be adopted for Tier 2 for-profit entities.

72. On the other hand the Board is aware that IFRS for SMEs has only just been released and that there is some uncertainty as to its usefulness and relevance as a differential version of IFRS for application in New Zealand. In particular, the differing measurement and extensive disclosure requirements of IFRS for SMEs, means that its suitability as a *differential* version of IFRS (in contrast to being a parallel full version of IFRS for non-publicly accountable entities) is still being assessed both in New Zealand and overseas. Australian standard setters, for example, are considering its appropriateness (compared to a differential framework), as well as whether both IFRS for SMEs and a Differential IFRS should operate in parallel (see Appendix 4 for a further discussion on the current Australian position on GPFR reporting).
73. Unlike IFRS for SMEs, a Differential IFRS framework would need to be developed and maintained locally, adding significantly to the standard setting costs. Should this end up being the preferred option the Board envisages that, in the interests of trans-Tasman convergence, New Zealand and Australian standard setting bodies would work together to develop a common Differential IFRS for application in both countries. Preliminary discussions between the relevant bodies to explore this possibility are currently underway (see Section 6.3 for a discussion on trans-Tasman convergence).
74. Should a Differential IFRS rather than IFRS for SMEs approach be adopted, it is likely that a question will arise as to whether entities which wish to voluntarily use IFRS for SMEs would be able to do so (in order to assert compliance). Although the Board's preference would be for only one reporting option to apply in Tier 2 (in the interests of comparability), it recognises that it could be unreasonable to prevent entities from applying IFRS for SMEs in these circumstances. Accordingly, should this scenario eventuate, Tier 2 entities could be permitted to use either IFRS for SMEs or the Differential IFRS option.
75. Overall then, while the Board sees advantages in adopting IFRS for SMEs, it recognises the uncertainty that exists among constituents as to whether this is the most suitable option at this time. The Board is conscious of the complexity and importance of the Tier 2 reporting decision and is therefore keen to receive comments from respondents on the factors (and their relative weighting) that the Board should take into account when choosing between these two options (IFRS for SMEs; or a Differential IFRS option, possibly developed jointly with Australia). In this context the Board is interested in any particular concerns (of a material nature) that respondents might have with IFRS for SMEs. It would also like to receive comment on the benefits that constituents perceive from a differential framework developed jointly between New Zealand and Australia.

Questions for Respondents

- Q6 *Do you agree that (pure) IFRS should be used for reporting by Tier 1 for-profit sector entities? If not, what alternative would you suggest and why?*
- Q7 (a) *What factors (and their relative weighting) do you think the Board should take into account when choosing between the two reporting options for Tier 2 for-profit entities (IFRS for SMEs; or a differential version of IFRS, ideally developed jointly with Australia)?*
- (b) *What concerns of a material nature (if any) do you have about applying IFRS for SMEs? What are the reasons for these concerns?*
- (c) *What benefits do you perceive would result from a differential framework that is jointly developed between New Zealand and Australia?*

3.5 Summary of For-Profit Sector Proposals

76. The Board's tentative proposals for tiers and accounting standards in the for-profit sector are summarised in Table 2.

Table 2: Proposed Application of Tiers and Accounting Standards in the For-Profit Sector

For Profit Sector		
	Broad Entities	Accounting Standards
Tier 1	Issuers of Securities Traded in a Public Market Fiduciary Holders of Assets	IFRS
Tier 2^a	Issuers of Securities Not Traded in a Public Market Large Non-Issuers ^b Large Non-Issuer Overseas Owned or Incorporated Companies ^b Non-Issuers with 10+ shareholders ^c SOEs, Government Owned Companies, For-Profit Council Owned Entities, and other for-profit public sector entities ^d Large For-Profit Māori Governance Entities	IFRS for SMEs ^e or Differential IFRS (which option yet to be determined)

^a Assumes that non-large entities are not required to prepare GPFR

^b Large as defined by Section 19A of the Financial Reporting Act.

^c Unless they choose to opt-out of GPFR under the MED proposals.

^d Under the MED Document all public sector entities regardless of size are required to prepare GPFR. All for-profit public sector entities would therefore fall within this tier, unless they are publicly accountable under the IASB definition in which case they would fall within Tier 1.

^e Entities in this Tier may elect to opt-up to Tier 1 (see Section 6.2).

4. Proposed Accounting Standards Framework: Public Benefit Entities

4.1 Introduction

77. The MED Document proposes that the following PBE sector entities should be required to prepare GPFR:²⁵

- All public sector entities (i.e. entities ultimately 'owned' by taxpayers or ratepayers) regardless of size (on the basis that they are all publicly accountable and/or the separation indicator applies);
- Registered charities and any incorporated not-for-profit entities that raise funds from the public (on the basis of public accountability), except entities that fall into this category and have operating expenditure under \$20,000 (excluding grants) which are exempted (on cost-benefit grounds);
- Large not-for-profit entities, with large defined as \$20 million or more of operating expenditure (on the basis of economic significance); and
- Not-for-profit entities with 10 or more members, unless the members waive the requirement (on the basis of separation between owners and managers), except entities that fall into this category and are unincorporated or have operating expenditure under \$20,000 (excluding grants) which are exempted.

78. In addition, any entity not required to report may 'opt-in' to the reporting requirements.

79. This section proposes an accounting standards framework for application by these PBE sector entities that are required, or choose, to prepare GPFR.

4.2 Key Factors in the PBE Sector

80. There are approximately 101,000 entities in the PBE sector.²⁶ An analysis of expenditure data for almost 100,000 of these entities (see Table 3) shows that the vast majority of PBE sector entities (perhaps as many as 98%) have expenditure of less than \$1 million. This highlights the large number of small entities in the sector.

81. The public accountability requirements of the MED Document mean that many small PBEs will be required to prepare GPFR. This is because all public sector PBEs are publicly accountable, regardless of size, as are all not-for-profit sector entities receiving funding from the public (including all registered charities). The PBE accounting standards framework needs to make appropriate provision for these small entities. Accordingly, the Board's tentative proposal is that there should be three reporting tiers in the PBE sector to cater broadly for large, medium and small entities respectively.

82. The Board considers that changes in the extent of separation of ownership and management are likely to parallel the size of PBE entities. Rather than establishing an additional complicating rule, the Board considers the size of entities in the PBE sector a reasonable proxy for the separation of owners and management.

²⁵ Op cit, MED, Parts 6 and 7.

²⁶ Based on data provided by the Office of the Auditor General (public sector) and Statistics New Zealand (not-for-profit entities). Around 60,000 of these are unincorporated and would not be required to prepare GPFR under the MED proposals (see *ibid*, paragraphs 129-132).

83. In addition to the small entity issue, the nature of PBE public accountability also needs to be taken into account. This is because the concept of public accountability is different in the public benefit sector than it is in a for-profit context.
84. In the public sector, the primary public accountability relationship derives from the levying of coercive revenue (taxes, rates, compulsory levies and other forms of non-exchange revenue) and the consequent accountability to taxpayers and ratepayers for how that coercive revenue is used. This primary accountability relationship is with the leviators of coercive revenue: the Crown, Local Authorities and other entities with coercive levying powers (such as ACC, EQC and the Fire Services Commission).
85. However, at a more general level taxpayers and ratepayers are also interested in the service delivery and ownership performance of government entities funded by that coercive revenue (such as Government Departments, Crown Entities, Schools, and Council Controlled Organisations). In some instances the governing bodies of these entities are also elected in whole or part by the community (for example with District Health Boards and School Boards of Trustees). This also creates a public accountability relationship, which is why all entities ultimately owned by taxpayers or ratepayers are publicly accountable in some way or other.
86. In the not-for-profit sector, public accountability derives from the receipt of public donations as entities receiving money from the public (in contrast to subscriptions from their members) are accountable for the use of those donations. Donors primarily want to know that their donations have been used for the agreed purposes.
27, 28
87. Another feature of public accountability in the public benefit sector is its collective nature. In the case of for-profit investors, an individual invests with an issuer and there is a direct relationship between the issuer (or holder of fiduciary assets) and the investor. In the public sector, taxpayers and ratepayers collectively fund public sector entities and the accountability relationship is therefore collective rather than individual. Similarly in the not-for-profit sector donors collectively fund the entity so the accountability relationship is generally collective rather than individual. This means that the performance risk to an individual (and therefore the direct benefit of GPFR to that individual) is more diffused than for an investor in public securities. This is particularly so in relation to public sector entities that are only funded by coercive revenue (rather than also levying it).
88. These factors mean that the nature of the public accountability relationship varies across different public benefit entities and this, as well as entity size, needs to be taken into account when establishing tiers.

4.3 PBE Sector Reporting Tiers

89. In light of the above factors the Board's tentative proposal is that the public benefit tiers should be established by reference to:
- Entity size; and
 - The nature of the accountability relationship.

²⁷ Large donors (such as grant distribution agencies) are often able to obtain information about whether funds were used for specified purposes through special purpose reports. GPFR is important to users which don't have the ability to obtain such reports.

²⁸ The Board acknowledges that registered charities are only one type of not-for-profit entity (albeit a key one). The remainder of the sector comprises member-based entities that rely predominantly on members' fees and/or trading revenue to fund their activities. The main indicators applying to these entities are economic significance and management separation.

Entity Size

90. In establishing size criteria a judgement needs to be made as to what constitutes 'large', 'medium' and 'small'. This judgement should be based on the relative costs and benefits of reporting in the sector. From a cost perspective, the cost of producing GPFR relative to an entity's total revenue and expenditure needs to be reasonable. From a benefit perspective, the public accountability benefits resulting from GPFR decrease as the entity size reduces because the agency costs, fiscal impact and (generally speaking) service impact of small entities is less than for larger ones. The issue then is the point at which the relative costs and benefits warrant a change in reporting requirements.
91. In this context the Board notes that a judgement has already been made about this in the Financial Reporting Act (FRA) in relation to large and small companies as follows:
- Small (any two of):
 - Total assets < \$1million;
 - Total turnover (gross operating revenue) < \$2 million; and
 - No more than five full-time equivalent employees;²⁹
 - Large (any two of):
 - Total assets ≥\$10 million;
 - Total turnover (gross operating revenue) ≥\$20 million; and
 - Full-time equivalent employees of 50 or more.³⁰
92. These measures are generally well accepted and the FRA definition of large is used in the current Differential Reporting Framework. The Board's view is that these measures provide a useful base for application in the PBE sector.
93. As far as an appropriate measure of size is concerned, the Board considers that the FRA measures (revenue, asset value and staff numbers) have some limitations in a PBE context. This is because PBEs are predominantly expenditure rather than revenue driven and there can be significant fluctuations in revenue from year to year, particularly for those entities dependent on donations. The vast majority of not-for-profit entities also rely primarily on volunteers to deliver their services and this makes employee numbers a poor measure of size.
94. By contrast gross operating expenditure is generally well aligned to PBE activity levels and less subject to one-off factors. The Board considers it a more useful basis for size differentiation in the PBE sector than either revenue or employee numbers.
95. Given its use in the current differential reporting framework the Board considered whether an asset value test should also be applied. The major argument for doing so is from an economic significance indicator perspective i.e. to ensure entities which have low levels of expenditure but which are asset rich are included. However, the Board's view is not to do so. This is because PBE entities with low expenditure and high value asset holdings typically have endowment or heritage-type assets rather than productive ones. These types of assets are not a good measure of economic significance as defined in the MED Document (which is operating expenditure based). In addition using an asset measure would add a degree of complexity that is

²⁹ Section 6A, Financial Reporting Act 1993.

³⁰ Section 19A, Financial Reporting Act 1993.

probably not warranted given the nature of the sector. The Board considers a simpler, more appropriate approach, is to just use expenditure.

96. Using the FRA levels as a base and applying them to expenditure, the Board's tentative proposal is that the following (GST exclusive) expenditure thresholds be used to establish PBE sector tiers:
- Tier 1: Expenditure \geq \$20 million (public sector) or \geq \$10 million (not-for-profit sector);
 - Tier 2: Expenditure between \$20 million and \$2 million (public sector) or \$10 million and \$1 million (not-for-profit sector);
 - Tier 3: Expenditure under \$2 million (public sector) or under \$1million (not-for-profit sector).
97. The lower tier levels for the not-for-profit sector are to reflect the fact that not-for-profit entities generally have very low staff costs as they rely on volunteers. The different amounts are designed to create a rough equivalency between the two PBE sectors based on a broad assumption about the lower level of personnel costs in not-for-profit sector entities.
98. In order to test these thresholds, the Board was able to review rough expenditure data for 99% (by number) of known entities in the PBE sector. This data is summarised in Table 3. It shows that the vast majority (99%) of PBE entities for which data is readily available will fall into Tier 3 on the basis of size - if they were required to report.
99. In considering this data it is important note that under the MED proposals unincorporated not-for-profit entities will not be required to prepare GPFR. There are approximately 60,000 such entities and it is expected that the vast majority of them will be small.³¹ This means that only around 40,000 of the 99,902 entities in Table 3 will be required to report and the expenditure distribution of those entities may be a little different than for the sector as a whole. Nevertheless, Table 3 provides a general indication of the likely broad allocation of PBE entities to tiers.

³¹ Op cit, MED paragraph 130.

Table 3: Distribution of PBE Entities by Expenditure

	Up to \$1m	\$1m-\$2m	\$2m-\$3m	\$3m-\$4m	\$4m-\$5m	\$5m-\$6m	\$6m-\$7m	\$7m-\$8m	\$8m-\$9m	\$9m-\$10m	\$10-\$20m	over \$20m	Total
Public Sector Entities (Data is for 74% of PBE entities in the Sector)	1,282	744	317	105	68	50	40	25	21	19	55	176	2,902
Not-for-Profit Entities (Data is for 100% of known entities in the Sector)	96,532	238	83	44	28	20	13	10	6	3	11	12	97,000
Total PBE Sector	97,814	982	400	149	96	70	53	35	27	22	66	188	99,902
Percentage	97.91%	0.98%	0.40%	0.15%	0.10%	0.07%	0.05%	0.04%	0.03%	0.02%	0.07%	0.19%	100%
	Tier 3	Tier 2										Tier 1	
Tier % Public Sector	70%	24%										6%	
Tier % NPF Sector	99.55%	0.44%										0.01%	

Sources: Public Sector data: Treasury, Ministry of Education, Local Government Websites, TEC Website; Not-for-Profit Sector: Statistics NZ; Composite data 2005-2009.

Nature of the Accountability Relationship

100. In relation to the nature of the accountability relationship the Board’s tentative proposal is that public sector entities that are leviers of coercive revenue should be allocated to Tier 1 regardless of their size. This reflects the primary public accountability that exists between levying entities and taxpayers/ratepayers. The Board’s view is that this accountability is of a different nature than the more general public accountability relationship that exists with other public sector entities, or with publicly accountable not-for-profit entities, and the level of reporting should reflect this.³² As a practical matter the distinction may not make too much of a difference, however, as most leviers are likely to be large in any case.

³² The Board is also proposing that PBE Issuers should never fall below Tier 2 to ensure the quality of reporting is suitable to satisfy that accountability relationship – see paragraphs 130-131.

Questions for Respondents

- Q8 *Do you agree that entity size (based on expenditure but not asset value), and in the case of public sector entities also the nature of the accountability relationship, should be used to allocate entities to the PBE sector tiers? If not, what alternative would you suggest and why?*
- Q9 *Do you agree that for the PBE sector Tier 1 should comprise entities with expenditure ≥\$20 million (public sector) or ≥\$10 million (not-for-profit sector) plus entities that are levers of coercive revenue (regardless of size)? If not, what alternatives would you suggest and why?*
- Q10 *Do you agree that Tier 3 should comprise entities with expenditure under \$2 million (public sector) or under \$1 million (not-for-profit sector)? If not, what alternative would you suggest and why?*

4.4 PBE Sector Accounting Standards

101. As outlined in paragraph 40, the Board's view is that accounting standards other than IFRS should be considered for application in the PBE sectors. After considering the options, the Board's tentative proposal is that a set of NZ PBE Accounting Standards, based on IPSAS, be developed for use by PBEs. The basis for this proposal is outlined in this section.

Appropriate PBE Accounting Standards

102. The Board has identified three main accounting standard options for PBEs: using relevant international standards other than IFRS; developing a New Zealand variation of relevant international standards; or developing a unique set of New Zealand PBE standards.
103. In considering these options the Board again starts with the cost-benefit presumption that New Zealand should adopt international standards whenever they are available, provided that they are credible. Standard setting costs are minimised and international comparability and credibility are maximised by doing so. However, the application of a single set of international standards to all PBE entities is problematic because no such set of standards exists. The two PBE sectors therefore need to be considered separately.

Accounting Standards for Public Sector Entities

104. There is a set of international standards that could be applied in the public sector: IPSAS which have been developed by the IPSASB specifically for public sector entities. IPSAS is therefore a candidate for use in that sector.
105. Changes arising from a review of the governance and role of (now) IPSASB in 2004, and the rapid development of IPSAS in recent years, have greatly enhanced the quality and relevance of IPSAS as a set of international standards. To further progress this, IPSASB is actively pursuing an IFRS convergence strategy with key deliverables expected in 2010. The objective of this strategy is to ensure that IPSAS reflects IFRS (but in a public sector context) and that there is no inappropriate

inconsistency between the two sets of international standards. As outlined earlier, IPSASB is also in the process of developing a conceptual framework for public sector reporting which will provide a strong underpinning for the development of further standards.

106. These developments have the potential to make IPSAS a credible alternative for New Zealand to consider within the next 2 to 3 years i.e. by the time the new financial reporting framework is ready to be implemented.
107. On the other hand the Board is aware of concerns about whether the governance arrangements for IPSASB are suitable for an independent standard setting body. As a Board of the International Federation of Accountants (IFAC), IPSASB does not have the same degree of independence as the IASB. Most of its members are nominated by professional bodies and there is no oversight body as there is for the IASB. This lack of independence, and the resulting exposure to the politics of national and international professional bodies, has the potential to affect the ongoing quality of IPSAS.³³
108. It is not in New Zealand's interests to adopt a set of standards if we don't have reasonable confidence about their future robustness. If we weren't to have confidence in IPSAS then the alternative is to develop a New Zealand set of public sector accounting standards (possibly using IPSAS as a starting point). While this would be a technically viable option, and would have the advantage of allowing us to customise standards purely to the New Zealand situation, the costs of developing and then maintaining separate public sector accounting standards could be significant.
109. The Board's preliminary view is that the first-best option is for New Zealand to work towards creating the right environment for credible, robust and high quality IPSAS standards to be developed on an ongoing basis. The Board considers that this is preferable to developing New Zealand public sector accounting standards on both cost-benefit and international credibility grounds (robust international standards are likely to have more credibility with rating agencies and others in the international community than uniquely domestic ones). Supporting IPSAS in the short-term is also likely to be the best way of encouraging sector neutrality at the international level over the longer-term.³⁴
110. Considering all these factors the Board's tentative proposal is that, subject to the satisfactory resolution of the IPSASB governance arrangements and the gaining of reasonable confidence that IPSAS is likely to be robust and sustainable, IPSAS should be used for GPFR by (public benefit) public sector entities.³⁵ Should satisfactory confidence on those issues not be attained, then the only other option (other than staying with IFRS) would be to develop a set of New Zealand specific public sector accounting standards (perhaps in conjunction with Australia).
111. If the IPSAS approach is adopted then the issue will be whether pure IPSAS or a New Zealand equivalent (NZ IPSAS) should be used. The Board recognises that the NZ

³³ Establishing appropriate governance arrangements for the IPSASB was one of the recommendations of the "Report of the Externally Chaired Review Panel of the Governance, Role and Organisation of the International Federation of Accountants Public Sector Committee" (the Likierman Report). That report, which was commissioned by IFAC resulted in various changes, including a change of name, to the IPSASB but the governance recommendations were not fully adopted.

³⁴ With this in mind, the Board has initiated discussions with IFAC about IPSASB governance matters. It is still too early to tell with any certainty where these discussions will end up. However, the Board is hopeful that the future governance arrangements for IPSASB will be clearer before any final decisions on the new reporting framework are likely to have to be made.

³⁵ This would be subject to the sovereignty safeguards outlined in Section 6.2.

IPSAS approach would allow some degree of adaptation to New Zealand circumstances, and consequently is favoured by the Auditor General³⁶. However, the cost of preparing such equivalents could be significant and the resulting benefits would need to justify the costs. The Board is not certain that the costs would be justified, particularly in light of the proposal contained in paragraph 155 that additional standards be issued to supplement IPSAS where necessary. These additional standards would allow any gaps in IPSAS to be addressed (as is done with the current New Zealand Standard on Prospective Financial Information for example).

112. The Board's view is that it is quite likely that there would end up being little substantive difference between IPSAS and NZ IPSAS and that standard setters are better to put their effort into supporting the development of IPSAS internationally, and into developing additional supplementary standards where they are necessary, than into producing New Zealand equivalents. This is likely to result in a better match of costs and benefits.
113. The Board acknowledges that this proposal to adopt IPSAS reflects an approach that is further developed from that outlined in the (now issued) revised Release 8. The ITC for the proposed revised Release 8 was designed to elicit initial views about the possible applicability of standards other than IFRS and as such was an interim step pending the preparation of the MED Document.³⁷

Accounting Standards for Not-for-Profit Entities

114. Unlike the public sector there is no generally accepted set of international standards designed specifically for the not-for-profit sector currently in existence. The Board considers it unlikely that such a set of international standards will be developed even over the medium term as there is no international body to drive it (other than perhaps IFAC which has not indicated any intention to do work in this area). The best chance is for some form of multi-jurisdictional standards to be developed through collaboration between interested countries (such as New Zealand, Australia, Canada and the UK). However, there is no sign of such collaboration at this point in time. This means that an alternative accounting standard solution needs to be used for not-for-profit PBEs.
115. This being the case, the major options appear to the Board to be:
 - Developing a set of New Zealand standards specifically for the not-for-profit sector;
 - Using standards developed for other sectors (IFRS or IPSAS);
 - Modifying other sectors' standards (IFRS or IPSAS) to make them more applicable to the not-for-profit sector; or
 - Adopting not-for-profit reporting practices in other jurisdictions; such as the "Accounting and Reporting by Charities: Statement of Recommended Practice" (SORP) issued by the UK Charities Commission.
116. As appealing as it may be, the Board has reservations about the first option - developing a set of New Zealand not-for-profit sector standards from scratch. The

³⁶ See Office of the Auditor General, op cit. Part 5 for a discussion on the Auditor General's views about accounting standard options for the public sector.

³⁷ Revised Release 8 was issued in August 2009 and the interim arrangements resulting from it will apply until any new arrangements flowing from these discussion documents come into force.

costs of doing so are likely to be considerable and will almost certainly outweigh the benefits, especially compared to the other options.

117. The Board is also hesitant about the fourth option – adopting requirements from another jurisdiction such as the UK SORP. The SORP has been developed to address the issues and needs of their particular jurisdiction. While there is certainly some commonality between user needs in New Zealand, the UK, Australia, Canada and elsewhere, our not-for-profit regulatory arrangements are different as is our reporting framework. In light of this, the Board is doubtful about whether the UK SORP, or any jurisdiction specific alternative, will be robust enough, comprehensive enough, sufficiently appropriate to the New Zealand context, or sufficiently integrated with other domestic reporting requirements.
118. The remaining options are to use standards developed for other sectors, or a sector modification thereof. In this regard the NZICA Not-For-Profit Advisory Committee favours using IPSAS as a base for not-for-profit reporting: *"In light of the perceived difficulties of three separate frameworks, our current preference would be for a separate conceptual framework and associated series of PBE standards. This material could be based on the material of the IPSASB"*.³⁸ Although some concerns were raised, respondents to the Release 8 ITC also generally supported using IPSAS rather than IFRS as the starting point for not-for-profit standards.
119. The application of unmodified IPSAS to the not-for-profit sector would be cost-efficient for standard setting. However, while the two PBE sectors have a lot in common from a user needs perspective (such as service delivery and non-financial performance aspects) there are also some significant differences. The most notable of these is that donors are a major GPF user in the not-for-profit sector and are interested in how their donations are being used; this is a somewhat different perspective from the coercive revenue interests of taxpayers and ratepayers. In addition, the not-for-profit sector has revenue, expenditure, asset and liability types not typically found in a public sector context – such as fundraising costs and endowment assets.
120. It is therefore necessary to consider whether unmodified IPSAS is sufficiently relevant and comprehensive to be appropriate for not-for-profit reporting purposes. The Board's initial conclusion is that it probably is not. Accordingly, the Board's tentative proposal is that IPSAS should be modified for application in the not-for-profit sector (hereafter referred to as the NFP Application).
121. The preparation of the NFP Application would allow both similarities and differences between the public and not-for-profit sectors to be addressed in a cost effective way. In this context the Board envisages that the NFP Application would address recognition, measurement and disclosure issues only where a different approach is required. For example, in the public sector, the measurement of non-exchange revenue is an issue dealt with in IPSAS. As this Standard would be applied in the same way in the not-for-profit sector the NFP Application would only need to provide additional guidance on additional types of non-exchange revenue (such as member's fees) with that guidance being based on the principles in the IPSAS. The NFP Application would, however, deal more fundamentally with transaction types not covered by IPSAS, for example fund-raising expenses.
122. Despite these potential benefits, the Board makes the NFP Application suggestion with some hesitation because it is conscious of the implications; in particular the standard-setting resources required for the NFP Application development process. This development will need to occur not just initially but on an ongoing basis. The

³⁸ Op cit; New Zealand Institute of Chartered Accountants, page 11.

Board recognises that this would be a significant commitment, particularly in light of New Zealand's standard setting history where only limited effort has been applied to accounting standards for not-for-profit entities. On the other hand the Board notes the development of the Not-for-Profit Financial Reporting Guide by the Public Benefit Entity Working Group of the FRSB which was published in 2007. That Guide will be a significant aid in developing the NFP Application.

123. Notwithstanding its reservations, the Board considers the arguments in favour of a NFP Application are reasonably compelling. The not-for-profit sector has some different GPFR user information needs. It needs appropriate accounting standards on which to base those reports and none of the existing international standards can really meet this test unless they are modified. On balance then, the Board considers that the benefits of developing a NFP Application probably do outweigh the costs of doing so.

Combined Set of PBE Standards

124. Despite the usefulness of an NFP Application, the Board recognises that there will be a strong commonality and high degree of overlap between the standards used by public sector and not-for-profit entities. Accordingly the Board's tentative proposal is that they be combined into a single set of New Zealand PBE Accounting Standards that would comprise IPSAS and the NFP Application. This approach allows the NFP Application to focus on the variations to IPSAS that are important for not-for-profit entities.

Application of PBE Standards to Tiers

125. In terms of the application of the PBE standards to the PBE Tiers, the Board's tentative proposal is that Tier 1 entities should be required to comply with the full set of PBE standards. For Public Sector entities this would comprise full IPSAS and for not-for-profit entities the full NFP Application.
126. In relation to Tier 2, the Board is conscious that IPSASB only issues one set of standards (IPSAS) and that there is no differential reporting version of it or an equivalent to IFRS for SMEs. This means that there is no readily available IPSAS-based differential reporting framework for use in Tier 2. The Board considers that there is a clear need for this internationally and has commenced discussions with IPSASB accordingly.
127. While the Board would welcome IPSASB developing an IPSAS-based differential reporting framework (or set of differential accounting standards) it is not clear, given the IPSASB's current work programme, that they will do so in the short-term. In the event such a development does not occur over the next 2 to 3 years, the Board considers the next most practical course of action would be for New Zealand to develop its own differential reporting.
128. The Board recognises that there will be standard-setting costs associated with developing a PBE differential reporting approach. However, the existing differential reporting framework and its application provides a good starting point for its development. Further, the benefits to Tier 2 preparers resulting from differential reporting requirements will almost certainly outweigh the standard-setting costs.
129. In relation to Tier 3, the Board considers that, in light of their small size and the costs and benefits associated with GPFR reporting by such entities, a relatively simple set of reporting requirements should apply to this Tier. It is suggested that this take the form of 'Simple Format Reporting'. In broad terms this would require

the use of accrual accounting³⁹, measurement bases aligned with the full PBE standards where applicable, and fundamental disclosures appropriate to the sector. Minimum requirements would include: a Statement of Financial Position; a Statement of Financial Performance; and simple service performance reporting. The use of a template type approach is also envisaged. In this way Tier 3 reporting requirements would end up being a simpler form of the PBE Differential Reporting Framework.

130. The Board is aware that there are some PBEs who are also issuers, most notably the Crown but also some local authorities and some not-for-profit entities. The key distinction made in this document is between for-profit and PBE sectors, not between issuers and non-issuers. Accordingly, the Board's view is that in these instances the fact that they are PBEs should prevail. This means that PBE entities that are issuers should continue to fall within the PBE sector requirements. In this context the Board notes that IPSASB has been aware of public sector issuers when developing IPSAS and therefore have allowed for those user needs as appropriate in the Standards.
131. As far as tiers are concerned the Board's tentative proposal is that PBE issuers should fall into whichever tier results from the application of the size and coercive levier criteria outlined above, provided that PBE issuers should never fall below Tier 2. This is because the Board considers that Tier 3 Simple Format Reporting will provide insufficient information to adequately meet user needs for these entities.

Questions for Respondents

- Q11 Do you agree that: (a) a set of NZ PBE Accounting Standards should be developed for use by PBEs; (b) as part of this IPSAS be used as the basis for reporting in the public sector; and (c) a NFP Application (building on IPSAS) be used as the basis for reporting in the not-for-profit sector? If not, what alternative would you suggest and why?*
- Q12 Do you agree that: (a) the full PBE standards should apply to Tier 1; and (b) a differential version of the PBE standards should apply to Tier 2 in the PBE sectors? If not, what alternative would you suggest and why?*
- Q13 Do you agree that 'Simple Format Reporting' should apply to Tier 3 entities in the PBE sectors? If not, what alternative would you suggest and why?*
- Q14 Do you agree that PBEs that are issuers should continue to fall within the PBE sector requirements provided that they should never fall below Tier 2? If not, what alternative would you suggest and why?*

4.5 Summary of PBE Sector Proposals

132. The Board's tentative proposals for tiers and accounting standards for the PBE sector are summarised in Table 4.

³⁹ The Board recognises that many small entities, particularly in the not-for-profit sector, are currently effectively operating on a cash basis. The requirement to prepare Simple Format Reports using accrual accounting will therefore have some implications for those entities. However, the Board considers the use of accrual accounting to be fundamental to GPFR and therefore a mandatory requirement.

Table 4: Proposed Application of Tiers and Accounting Standards to PBE Sectors

PBE Sectors			
	Broad Entities		Accounting Standards
	Public	(Private) Not-For-Profit	
Tier 1	Crown Local Authorities Other leviyers of coercive revenue ^a Other entities with expenditure ≥\$20m	Publicly accountable entities ^b with expenditure ≥\$10m Other entities with expenditure ≥\$10m	Full PBE Accounting Standards: <ul style="list-style-type: none"> • IPSAS (Public Sector entities) • NFP Application (not-for-profit sector entities)
Tier 2^e	Entities with expenditure ≥\$2m and <\$20m Entities with expenditure < \$2m which are issuers	Publicly accountable entities with expenditure ≥\$1m and <\$10m Other entities with ≥10 members ^c and expenditure ≥\$1m and <\$10m ^f Entities with expenditure ≥\$20k and <\$1m which are issuers	Differential PBE Accounting Standards
Tier 3^e	Entities with expenditure < \$2m	Publicly accountable entities with expenditure ≥\$20k and <\$1m ^d Other entities with 10+ members and expenditure ≥\$20k and < \$1m ^{d,9}	Simple Format Reporting

^a This would include ACC, EQC, Fire Services Commission and any other entities that are leviyers of coercive revenue.

^b In accordance with the MED Document publicly accountable entities comprise registered charities and any other not-for-profit organisation that receives funds from the public.

^c The term 'members' refers to individuals which own a not-for-profit entity i.e. shareholder equivalents. In many (but not all) cases members also pay a subscription or fee to belong to the organisation.

^d Under the MED Document not-for-profit entities with expenditure less than \$20,000 are not required to prepare GPFRR.

^e Entities in this Tier may opt-up to a higher tier if they so choose.

^f Unless these entities choose to opt-down or opt-out (see Section 6.2).

^g Unless these entities choose to opt-out under the MED Document proposals.

5. The Proposed Assurance Framework

5.1 Introduction

133. The MED Document considers which GPFR entities should be required, by law, to obtain some form of audit assurance. It concludes that assurance is generally required in order for users information needs to be fully met. Using this principle and the cost-benefit test it then proposes that the following entities should be required to have an assurance engagement completed:⁴⁰
- All issuers (as defined in the MED Document); all public sector entities; and all registered charities and other not-for-profit entities that are publicly accountable and which have expenditure \geq \$100,000 a year;
 - Any other entities that are required to publish for economic significance reasons (i.e. large overseas owned companies, large overseas-incorporated companies, large New Zealand owned non-issuer companies, and large not-for-profit entities); and
 - Any other entities with separation (i.e. non-issuer for-profit entities with 10 or more shareholders, and not-for-profit entities with 10 or more members) unless the owners/members opt-out of the assurance requirement. Not-for-profit entities with expenditure under \$100,000 are exempted from the assurance requirement.
134. In addition, any entity not required to have an assurance engagement completed may 'opt-in'.
135. In terms of the level of assurance required, the MED document proposes that the XRB be empowered to determine the level of assurance that should apply to entities required to have an assurance engagement completed.⁴¹
136. This section outlines a framework for determining the levels of assurance for entities that will be statutorily obliged to obtain some form of assurance under the MED proposals. It also considers the standards that should be used by assurance providers.

5.2 Cost-Benefit Approach

137. The Board accepts the general propositions in the MED Document that: without assurance, GPFR is of less value; without assurance users do not know whether they can rely on GPFR reports; and that there should be a presumption in favour of assurance unless users determine otherwise. For their information needs to be met, users need to have confidence that the information provided is reliable. Unless they have first-hand knowledge, this confidence can usually only be achieved by receiving independent assurance to that effect.
138. However, this presumption needs to be tempered with the costs of providing that assurance. In general terms the greater the degree of assurance, the more costly it is. The benefits resulting from that degree of assurance need to outweigh the costs of providing it.

⁴⁰ Ibid, paragraph 59.

⁴¹ Ibid, paragraph 59.6

139. In this context it is reasonable to suggest that users have different assurance needs in the same way as they have different information needs. This being the case the assurance framework should attempt to match those assurance needs to the information provided within an overall cost-benefit approach. The Board's suggestion is that this be done by using a tiered structure in the same way as proposed for accounting standards.

5.3 Assurance Tiers and Levels

140. Assurance tiers could be defined in a number of different ways. However, the Board's tentative proposal is that, in the interests of simplicity and consistency, the tiers used to define the application of accounting standards should also be used to define assurance requirements. Using the same tiers for both reporting and assurance purposes not only reduces the potential for confusion, it also ensures a consistent logic is being applied. The tiered accounting standards framework matches costs and benefits by simplifying GPFR requirements in line with decreases in user requirements and declining entity size. It is reasonable to presume that assurance needs reduce commensurately with these reductions in user benefits.

141. In terms of the level of assurance that should be required for each tier, the Board notes that there are two assurance levels recognised internationally: reasonable assurance (audit engagements⁴²) and limited assurance (review engagements⁴³). The Board's tentative proposal is that these two levels of assurance be applied as follows:

- Tier 1: Audit Engagement;
- Tier 2: Audit Engagement;
- Tier 3: Review Engagement.⁴⁴

142. The Board's view is that applying the levels of assurance to the tiers in this way is a reasonable reflection of the relative costs and benefits to users resulting from that assurance. It would result in a reduction in assurance requirements for small reporting entities.

143. It should be noted that under the MED proposals, not-for-profit entities with expenditure under \$100,000 will be exempted from the requirement to obtain assurance. Therefore, for assurance purposes Tier 3 for the not-for-profit sector only comprises entities with expenditure between \$100,000 and \$1 million. Not-for-profit entities with expenditure between \$20,000 and \$100,000 would continue to fall into Tier 3 for reporting purposes, however⁴⁵.

⁴² The NZICA *Explanatory Foreword to Engagement Standards* defines an audit as follows: "An audit is designed to provide a high, but not absolute, level of assurance, expressed positively in the auditor's report as reasonable assurance, that the information subject to audit is free of material misstatement" (paragraph 13).

⁴³ The NZICA *Explanatory Foreword to Engagement Standards* defines a review as follows: "A review is a limited assurance engagement designed to provide a moderate level of assurance ... The objective of a review engagement of financial information is to enable the reviewer to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the reviewer's attention to cause the reviewer to believe that the financial information does not present a true and fair view of the matters to which it relates" (paragraphs 15 and 17).

⁴⁴ Entities would be able to opt-up to a higher tier if they so choose; see Section 6.2

⁴⁵ Under the MED Document not-for-profit entities with expenditure under \$20,000 will not be required to prepare GPFR; op cit, MED, paragraph 126.

144. The Office of the Auditor General has some concerns about the application of limited assurance reviews in the public sector. One of these concerns is that there is a public expectation that a reasonable level of assurance can be taken from the work carried out by, or on behalf of, the Auditor-General. An audit, which is designed to provide reasonable assurance, is consistent with the public expectation of the role of the Auditor-General.
145. The Board is interested in receiving respondents' comments on this suggestion that all public sector entities, regardless of size, should be required to have an audit (rather than review) engagement.

Question for Respondents

- Q15 Do you agree that the same tiers developed for accounting standard application should be used to determine assurance requirements? If not, what alternative would you suggest and why?*
- Q16 Do you agree that a satisfactory matching of costs and benefits is achieved by requiring Tier 1 and Tier 2 entities to obtain audit engagements and Tier 3 entities to obtain review engagements? If not, what alternative would you suggest and why?*

5.4 Assurance Standards

146. Under the new arrangements the New Zealand Auditing and Assurance Standards Board, which will be part of the overall XRB structure (see paragraph 7), will be responsible for establishing the standards to be used by assurance providers. This function is currently carried out by the NZICA Professional Standards Board (in relation to its own members only) but under the MED Document will become the responsibility of the XRB.
147. In this context it is important to note that not all assurance providers are NZICA members. The Registrar of Companies has accredited members of various overseas professional bodies as well as some individuals to audit companies. Assurance providers in the not-for-profit sector are often volunteers and sometimes not NZICA members. The XRB-issued assurance standards will apply to all persons providing assurance on GPFR regardless of whether they are NZICA members or not. This will be the first time that all providers of assurance services in New Zealand will be required to comply with the same set of auditing and assurance standards.
148. In keeping with the cost-benefit presumption that New Zealand should adopt international standards whenever they are available, the Board's tentative proposal is that the International Standards on Auditing (ISA) and the International Standards on Review Engagements (ISRE) be adopted for this purpose.
149. NZICA currently requires its members to apply New Zealand equivalents to the ISA (ISA (NZ)) and one option would be to continue with this approach. However, there is very little substantive difference between the pure standards and the New Zealand equivalents and as a result it is not clear that the work involved in generating the equivalents is warranted on cost-benefit grounds. Accordingly the Board's tentative proposal is that pure ISA, and in the case of Review Engagements pure ISRE, should be adopted instead of using New Zealand equivalents (in much the same way as is

proposed for IFRS).⁴⁶ The Board envisages that the NZAuASB would be able to issue additional New Zealand standards to supplement the international standards as necessary (see paragraphs 155-157). The Board is particularly interested in respondent's views on this tentative proposal.

150. In addition to approving ISA and ISRE for application in New Zealand it is envisaged that the NZAuASB will also be responsible for issuing other assurance standards and framework documents. This would include International Auditing Practice Statements (IAPS), International Review Engagement Practice Statements (IREPS), International Standards on Assurance Engagements (ISAE) and International Assurance Engagement Practice Statements (IAEPS). Another issue that will need to be addressed under the new arrangements is the Board's role (compared to that of NZICA) in issuing statements of professional standards that will apply to all assurance providers, such as PS -1: Quality Control currently issued by NZICA and the international equivalent (ISQC -1) and in issuing relevant ethical pronouncements.

Question for Respondents

Q17 Do you consider that pure ISA and pure ISRE should be adopted as the basis for providing assurance on GPFR? If not, what alternative would you suggest?

⁴⁶ The Board recognises that the ISRE are somewhat out-dated and therefore probably couldn't be applied in their current state. A project is underway internationally to revise these Standards and the extent of completion will need to be taken into account before a final decision is made on their application.

6. Related Issues and Comments

6.1 Introduction

151. This section considers some general framework issues and assesses the proposals outlined in Sections 3 to 5 against the general framework established in Section 2. It then considers some further development and timing issues.

6.2 General Framework Issues

Sovereignty Safeguards

152. The adoption of pure IFRS brings with it the need to guard against the possibility that a standard may be issued by the IASB that is inappropriate in a material respect in the New Zealand environment. The Board recognises the need to mitigate this risk. A cost effective way of doing so would be for the New Zealand Accounting Standards Board (see paragraph 7) to have the capacity to recommend to the XRB that a particular IFRS/IFRS for SMEs (if that Tier 2 option is mandated) not be adopted, or be adopted with modifications, where it is in the national interest to do so. In keeping with the rationale for adopting IFRS in the first place, the threshold for using this 'safeguard authority' would need to be set at a high level as its application would undermine an entity's ability to assert IFRS compliance. It should therefore only be used in extreme situations.⁴⁷
153. The Board considers that a similar safeguard authority should be put in place for PBE Accounting Standards. The Board's tentative proposal is that this should apply in a similar manner suggested for IFRS i.e. only applied when a particular IPSAS is inappropriate in a material respect in the New Zealand context. An alternative approach would be to allow the safeguard authority to be used in a more section-specific manner thereby allowing a particular part of a standard (rather than the whole standard) to be not applied. The rationale for such an approach is that there is not the same imperative for PBEs to assert compliance with IPSAS as there is for for-profit entities to assert IFRS compliance. The Board would welcome respondents' views on this issue.
154. The Board also proposes that the safeguard authority should apply to international auditing and review standards. Although it is prudent to have such a provision, the Board considers it highly unlikely that it will ever be necessary to exercise such authority in the ISA/ISRE context.
155. It will also be necessary to allow for New Zealand accounting standards in addition to IFRS or IPSAS to be issued. This will be required to address measurement or disclosure areas that are important in the New Zealand context but which are not covered by IFRS, for example the current New Zealand Financial Reporting Standards on Summary Financial Reports, Prospective Financial Information and Disclosure of Information by Financial Institutions.
156. The Board's tentative proposal is that this be accommodated by allowing the NZASB to develop and approve additional New Zealand accounting standards but only in

⁴⁷ The Board's assumption is that the approval or revoking of Standards would continue to be subject to the Regulations (Disallowance) Act 1989 as if the giving or revocation of the approval is the making of a statutory regulation (section 33). Under those provisions the approval or revocation must be laid before the House of Representatives, and may be disallowed by resolution of the House within the respective time periods specified in that Act.

relation to areas not covered by the international standards.⁴⁸ Such an approach would not compromise an entity's ability to assert compliance with international standards as the NZ standards would impose additional, not alternative, requirements. The Board envisages that they would be issued sparingly.

157. The Board proposes that the additional standards approach should also apply to auditing and review standards.

Questions for Respondents

Q18 Do you agree that the XRB should: (a) have a 'safeguard authority' over the adoption of international standards that are inappropriate in a material respect in the New Zealand environment; and (b) the 'inappropriate in a material respect' test should apply to IFRS, IPSAS, ISA and ISRE? If not, what alternative (if any) would you suggest and why?

Q19 Do you agree that provision should be made for additional New Zealand accounting and assurance standards to address areas not covered by international standards? If not, what alternative would you suggest and why?

Opt-Up

158. The reporting tiers and accounting standards proposed in Sections 3 and 4 are based on the perceived needs of average users and the resultant cost and benefits. It is, of course, entirely possible that specific groups of users might need more sophisticated GPF than the average user to which their tier relates. The reporting framework should not prevent users, particularly owners, from requiring a higher standard of reporting than prescribed by the tier structure.
159. Accordingly, the Board envisages that the general application provisions accompanying the Accounting Standards would make it clear that entities can 'opt-up' to a higher standard of reporting (i.e. higher tier) if they choose to do so. In other words entities can report at any level they choose to providing that it is not below the minimum prescribed by the tiers and related accounting standards.
160. A similar set of arrangements would apply to assurance requirements. The proposed framework would establish the minimum level of assurance required but entities would be able to opt-up to a higher level of assurance if they choose to do so. This means Tier 3 entities would be able to obtain an audit rather than a review engagement if they wish to.

Application to Subsidiaries and Mixed Groups

Wholly Owned Subsidiaries

161. An issue of frequent debate is the reporting obligations of wholly-owned subsidiaries. Under the framework proposed in the MED Document wholly owned subsidiaries do not meet the separation test as they have fewer than ten shareholders. Consequently, they would not be required to prepare GPF unless they are issuers or

⁴⁸ These additional standards could apply to all or some entities depending on the subject matter covered by the Standard.

economically significant. The MED framework therefore removes the obligation to externally report for many wholly-owned subsidiaries.⁴⁹

162. Wholly owned subsidiaries that are required to prepare GPFR would be required to do so in accordance with the suggested framework. The opt-up process would allow parent entities to require wholly-owned subsidiaries in Tier 2 to use IFRS, thereby putting the whole group on the same reporting basis. This provides a mechanism to address situations where IFRS information required for consolidation is not required under IFRS for SMEs or Differential IFRS (depending on which option is mandated).

Mixed Groups

163. A related issue is which set of accounting standards a mixed group should use, for example a PBE entity with a for-profit subsidiary. The Board proposes that, in line with current practice, the standards relevant to the entity reporting should prevail. So, for example, the Crown would apply IPSAS when preparing its GPFR, whereas its SOE subsidiary would apply the appropriate for-profit standards.
164. The difficulty occurs when the requirements of the two sets of standards diverge, particularly in relation to measurement. This can make consolidation problematic or, at its extreme, cause the subsidiary to have to maintain two sets of accounting records. It should be noted that this issue is not new. The PBE requirements in current NZ IFRS already create this difficulty, although the suggested new framework has the potential to accentuate it.
165. The issue, however, may not be as significant as it might at first appear. This is because the IPSASB's programme of convergence with IFRS, and the suggestion that the NFP Application be derived from IPSAS, mean that there will, at least initially, be a strong substantive similarity between the different standards. To this extent IFRS and the NZ PBE Accounting Standards will have a 'shared heritage' (as one Release 8 ITC respondent put it). In addition a transaction-neutral approach is expected to apply generally across the framework except where that is inconsistent with the key needs of users. This will mitigate mixed group problems and enhance consistency.

Revision of Tier Thresholds

166. The Board envisages that a formal review of the tier thresholds would occur every five years and that this process should involve consultation with stakeholders.

6.3 Assessment against the Section 2 General Framework

Compliance with User Needs and Cost-Benefit Principles

167. The proposals are explicitly derived from a user needs approach. The use of sectors and tiers is designed to act as a cost effective proxy for different user needs and the cost-benefits of providing GPFR and assurance on that reporting. The framework reflects the concept that the size of an entity can appropriately be used as a proxy for the number of users; with the larger the size of an entity, the greater the benefits that are likely to accrue from GPFR and vice versa.

⁴⁹ Wholly owned subsidiaries may well continue to report for internal reporting or specific purpose reporting reasons and would need to be audited as part of the audit of the Group. However, these issues are outside the scope of GPFR reporting.

168. The proposals use appropriate international standards where possible to minimise accounting standard setting costs and improve international comparability and therefore credibility. They generally propose the use of New Zealand developed modifications or differential variations only where no generally recognised international standards exist. This reflects two concepts: that New Zealand standards need to recognise the global environment in which entities operate, enhance comparability, and minimise GPFR compliance costs; and that the availability of credible international standards should be taken into account when considering standard setting costs and benefits. The use of the two internationally recognised forms of assurance (audits and reviews) and the proposed use of ISA and ISRE is similarly based on these principles.
169. Where appropriate the proposals use a three (rather than two) tiered framework to accommodate smaller entities that are required to prepare GPFR. The third tier allows their reporting and assurance burden to be reduced to a level commensurate with their size. This reflects the concept that the cost of GPFR preparation and assurance should be reasonable compared to an entity's revenues and expenditures.

Sectors, Tiers and Fragmentation

170. The accounting framework consists of two broad reporting streams: for-profit entities applying IFRS; and PBEs applying NZ PBE Accounting Standards. In the PBE stream a NFP Application and Simple Format Reporting are also envisaged. Additional New Zealand standards for application across both streams are also provided for.
171. This is more complex than current arrangements and the Board acknowledges this. The core issues driving the complexity are: the differing user needs in each sector; the general desirability of using international standards; and the need for differential reporting and assurance requirements to better match costs and benefits. Given these constraints, it is hard to see how the level of complexity inherent in the suggested framework can be avoided.
172. A related issue is the degree of fragmentation (i.e. differing requirements for different entities). Although the sectoral approach is designed to ensure that entities with similar external user need characteristics have similar financial reporting and assurance requirements, the proposed framework appears reasonably fragmented compared to a single set of standards. This is notwithstanding the fact that the Board has deliberately restricted the number of sectors and tiers in the framework in order to minimise the degree of fragmentation that may occur.
173. However, as the two sets of accounting standards will 'share the same heritage' it is likely that fragmentation will be minimised. This is because IPSASB's convergence programme and the derivation of the NFP Application from IPSAS mean that there will be a substantive similarity between the sets of standards that make up the framework. Further, a transaction-neutral approach is expected to apply across the framework except where that is inconsistent with the key needs of users.
174. The use of standard IFAC assurance categories and their application to tiers will help ensure assurance consistency across and within sectors as well as internationally. This will also help to reduce fragmentation.

Trans-Tasman Convergence

175. On 20 August 2009 the Australian and New Zealand Prime Ministers issued a joint statement of intent to give a renewed focus on the practical benefits and outcomes from the Single Economic Market (SEM). The Prime Ministers agreed a framework of principles and a range of shared medium term practical outcomes for developing

cross border economic initiatives. The “outcomes framework” is designed to support an aspirational SEM agenda and articulates the goals to be achieved in specific areas while keeping open the options for achieving those outcomes. The outcomes framework includes five financial reporting proposals, four of which are relevant to this discussion document:

- Profit entities are able to use a single set of accounting standards and prepare only one set of financial statements;
- Not-for-profit entities are able to use a single set of accounting standards and prepare only one set of financial statements;
- Financial reporting standards bodies in Australia and New Zealand have functional equivalence; and
- Trans-Tasman companies have to prepare only one set of financial statements to one set of standards.⁵⁰

176. The Board acknowledges the importance of Trans-Tasman convergence and financial reporting proposals contained in the outcomes framework. The Board considers that the framework proposed in this document is consistent with the convergence objective and provides a useful basis for discussions with Australian counterparts on ways to progress the financial reporting outcome goals. Based on the current position the Board would expect to be able to make relatively quick progress on the convergence outcomes for for-profit entities. Further development, however, will be required before the convergence outcomes for not-for-profit entities can be progressed.
177. In this context Australian standard setters and other oversight bodies are currently considering some of the same accounting standards issues to those discussed in this document. This includes the application of IFRS for SMEs and whether a differential reporting option for companies should operate in parallel; the governance arrangements surrounding IPSASB and the long-term applicability of IPSAS; and the need for accounting standards for not-for-profit entities (see Appendix 4).
178. There is therefore a considerable degree of issue commonality between the two countries and as a result there are ongoing discussions and sharing of ideas on these issues occurring. This is being facilitated by the reciprocal membership of relevant bodies on either side of the Tasman and through the Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG). The Board envisages that the strong relationship between New Zealand and Australian standard setting bodies would continue under the new institutional arrangements and would form a useful vehicle to promote the achievement of the financial reporting aspects of the outcomes framework.

Other Jurisdictions

179. New Zealand and Australia are not the only countries considering the issues outlined in this document. Other jurisdictions with a similar standard setting heritage to New Zealand are addressing similar issues and the various approaches are summarised in Appendix 4. For the most part this summary reflects the state of development that exists in relation to sectoral and differential reporting approaches.

⁵⁰ For details see www.med.govt.nz/upload/69862/statement.pdf and www.med.govt.nz/upload/69857/outcomes.pdf

6.4 Development and Implementation Issues

Further Development Issues

180. This document outlines in only broad terms the sort of accounting and assurance standards framework the Board considers might operate within the MED framework. Further development will be required if these proposals are to be progressed. This would include:
- More clearly defining which entities would fall into which sector, particularly in relation to the two PBE sectors. The definition of a PBE and the guidance on that in the Appendix to NZ IAS 1 will need to be developed into the two new 'categories' for use with the new framework;
 - Further work to more clearly define the basis for tiers including the:
 - meaning of terms such as 'securities traded in a public market', 'fiduciary capacity', and 'leviers of coercive revenue';
 - quantitative bases for tier thresholds in the PBE sector;
 - Establishing arrangements for flexibility around tier levels to cater for entities operating close to tier thresholds (a starting point for this is provided in the current Differential Reporting Framework);
 - A full review of IPSAS to confirm the Board's tentative view that full adoption would be appropriate, together with continuing discussions with IFAC over the governance arrangements for IPSASB;
 - A fuller evaluation of the relative advantages and disadvantages of using IFRS for SMEs versus a New Zealand-Australia developed Differential IFRS for Tier 2 for-profit entities;
 - Establishing with greater clarity the content and formats for Simple Format Reporting for Tier 3 PBE entities including what simple service performance reporting comprises;
 - Establishing the format for differential reporting to be used taking into account both the existing approach and alternative options.
181. Once a final framework is agreed (and assuming it reflects the broad approach suggested) there will also be the need to develop the NZ PBE Accounting Standards including the NFP Application and the differential versions. As previously suggested, the development of these standards is an area of potential cooperation with Australia.
182. Another task will involve reviewing existing assurance standards (for both audits and review). In this context it is expected that the ISAs would be exposed for comment as a full package rather than as individual standards.

Transition Issues

183. The adoption of a new accounting and assurance standards framework will require a transition process not dissimilar to that required for the adoption of NZ IFRS in the 2005 -2007 period, although not as extensive in scope. For some entities (particularly those in the not-for-profit sector) it will require legal compliance with specific accounting standards for the first time, with all that implies for capability and

organisational culture. A reasonable time period will therefore be required for this transition.

184. The move from NZ IFRS to (pure) IFRS is unlikely to have any significant implications for for-profit entities. While, the move from NZ IFRS to IPSAS has the potential to impact the measurement and recognition of items in public sector GPFR and therefore key financial indicators, an initial study of the extent of compliance of the Financial Statements of Government with IPSAS indicates the impact on transition will not be significant. Nevertheless, the transition process will need to be managed in a coherent and transparent way.
185. There will also be a change in assurance levels (from audits to reviews) for some entities. This is another area where the transition and communication of the change will need to be managed so that users are not unnecessarily concerned or misled.

Timing

186. The further development of the framework and the subsequent development of necessary standards and transitional arrangements do not need to happen all at once or immediately. Rather they can be addressed over a period of two to three years as it is likely that it will take that long for the new framework to be put in place.
187. Before the move to the new financial reporting arrangements can occur the initial stakeholder discussions (this process) need to be completed, formal policy decisions need to be made by Government, legislation needs to be prepared and enacted, the new institutional arrangements (XRB and its Boards) established, the final accounting and assurance standards framework developed and agreed, and formal recommendations about tiers and accounting and assurance standard requirements made to the Responsible Minister by the XRB. Only at that point can any new standards be finalised and promulgated. Transition could not commence until after that has been completed.
188. There may be some aspects of the accounting standard proposals that can be progressed in the interim. The Board would consider this if there is general comfort with the tentative proposals outlined in this discussion document. Should the Board progress these aspects they would be subject to consultation processes.

Reporting by Entities Exempted under Release 9

189. The purpose of ASRB Release 9 was to provide temporary relief from the requirement to implement NZ IFRS for certain small entities that met specified criteria. The Release was issued in anticipation of the fundamental review of the financial reporting framework that is now occurring and the possibility that an alternative reporting regime for those small entities might be developed as part of that framework. The exempted entities were allowed to continue with the old New Zealand standards (FRSs and SSAPs) until the future direction of New Zealand reporting requirements was clarified.
190. This document, together with the companion MED document, represents a key step on the path to adopting a new financial reporting regime in New Zealand as envisaged at the time Release 9 was issued. The Board's intention is to leave Release 9 in place until a new framework has been agreed, developed and implemented. Exempted entities will be required to adopt the new framework in accordance with the transition approach applied to the implementation of the new framework. Release 9 will then be withdrawn.

Appendix 1: Proposed Organisational Arrangements for the External Reporting Board

MED Proposals

1. The MED Document outlines a new set of the institutional arrangements for establishing accounting standards and audit assurance requirements in New Zealand. It proposes that all standards-related responsibilities should be consolidated within one independent standards body. It therefore proposes that the ASRB be reconstituted and renamed as the External Reporting Board (XRB). The XRB would be an independent crown entity (as is the ASRB currently).⁵¹
2. The MED Document specifies the role of the XRB as being three-fold:
 - Establishing (and where appropriate recommending to Government) financial reporting strategy;
 - Preparation and approval of accounting standards, including any differential reporting thereof;⁵² and
 - Preparation and approval of auditing and assurance standards.
3. The MED Document acknowledges that how it organises itself is a matter for the XRB to determine. This appendix outlines the ASRB's tentative, high-level, proposals on the organisational arrangements for the XRB.

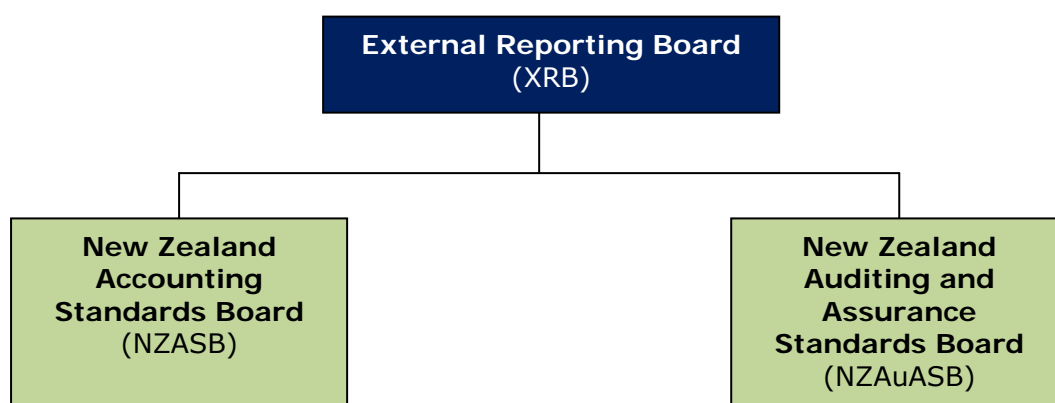
Possible Organisational Structure

4. The Board's initial view is that these functions require different (albeit generally related) skill sets. In order for financial reporting strategy to be appropriately addressed on an ongoing basis it would be important for this responsibility to be separated from the detailed standards setting work.
5. The Board's tentative proposal is therefore that the XRB be organised into operating boards with distinct responsibilities along the lines illustrated in Figure 1.

⁵¹ For details on the logic and rationale behind these proposals see: op cit, MED, Part 3.

⁵² As part of these arrangements the Exempt Companies Order 1994 would be revoked and the XRB would be empowered to design and approve standards for use by all entities required to prepare GPFR, including any small companies and other micro-entities that might be required to do so.

Figure 1: Possible Organisational Structure for the XRB



6. The operating boards would be part of the one legal entity and would be accountable to the governance board – the XRB.
7. Under this arrangement, the XRB would be responsible for general governance of the organisation, overall financial reporting strategy (including advising the government accordingly), standards strategy, and oversight of the operating boards. The skills required on the XRB would be predominantly strategic and governance in nature.
8. The NZASB and the NZAuASB would be responsible for the development (including exposure), approval and promulgation of accounting standards and auditing and assurance standards respectively. This would also involve participation in relevant international standard setting processes. The skills required on these Boards would be predominantly technical standard setting ones. The Boards would also need to comprise members who between them have a good understanding of for-profit and public benefit entity accounting/assurance issues.
9. The Board notes that issues relating to the funding of the XRB are yet to be addressed by MED.

Appendix 2: Responses to Invitation to Comment on Proposed Revised Release 8

1. The primary reason for the proposed revision to Release 8 was to propose changes to respond to concerns about the approach to modifying IFRS for PBEs.
2. In seeking comments about the Proposed Revised Release 8, the Board asked (among other things):
 - Do you consider that a single set of standards for all sectors remain the most appropriate approach to setting financial reporting standards in New Zealand currently?
 - Do you consider IFRS continue to provide an appropriate starting point for setting standards for PBEs?
 - What role do you think IPSAS should have in New Zealand standard-setting over the coming years?
 - Are there any issues relating particularly to the not-for-profit sector which are of concern to you in relation to the current standard-setting approach?
3. In overall terms respondents indicated strong support for the proposed revision and in particular the removal of the uniqueness criterion and the increased focus on entity differences; and the proposal to give greater attention to IPSAS. Commentary from respondents also supported a more significant change to the application of accounting standards for PBEs along the lines proposed in this discussion document.
4. There was no general consensus amongst the respondents as to whether a single set of standards for all sectors is the most appropriate approach. Some considered that a single set of standards has worked well in the past and that they felt that it is still the most desirable approach. Others took the view that there is increasing need for tailored standards for different sectors and that achieving this within a single set of standards is likely to become unwieldy and cumbersome.
5. In relation to whether IFRS are a reasonable starting point for setting PBE standards, there was general agreement that they are. However, respondents highlighted that IFRS have limitations in a PBE setting. In this context most submitters were supportive of the use of IPSAS for the public sector, many noting that the core set of IPSAS are derived from IFRS but adjusted to reflect the public sector context. While there were some doubts expressed as to the applicability of IPSAS in the not-for-profit sector, respondents closely involved in that sector suggested that there is scope to develop a robust set of financial reporting standards for the PBE sectors using IPSAS as the base.
6. A number of issues relating to not-for-profit sector reporting were identified by respondents. These included:

- The lack of an underlying conceptual framework for reporting in the sector;
- The importance of non-financial reporting;
- The need to balance the costs and benefits of GAAP-compliant reporting with the limited resources in the sector; and
- The need for easily accessible guidance material for preparers and auditors of not-for-profit entities.

Appendix 3: Current and Proposed Accounting Standards for Entities with GPFR Obligations

Class of Entity	Current Accounting Standards*	Proposed Accounting Standards
Issuer of Securities Traded in a Public Market	NZ IFRS	IFRS
Issuer of Securities Not Traded in a Public Market	NZ IFRS	IFRS for SMEs; or Differential IFRS (yet to be determined)
Non-Issuer Company (if GPFR required)	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)
Exempt Company	Simple Format Reporting	N/A: GPFR not required
Co-operative Company	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)
General Partnerships (if GPFR required)	N/A: GPFR not required	IFRS for SMEs; or Differential IFRS (yet to be determined)
Limited Partnership (if GPFR required)	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)
Building Society	NZ IFRS (including the Differential Framework if applicable)	IFRS
Friendly Society	NZ IFRS (including the Differential Framework if applicable)	IFRS
Retirement Villages (which are Issuers of Securities Not Traded in a Public Market)	NZ IFRS	IFRS for SMEs; or Differential IFRS (yet to be determined)
Industrial and Provident Society (for profit)	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)
Crown	NZ IFRS	NZ PBE Accounting Standards (IPSAS)
Government Department	NZ IFRS (including the Differential Framework if applicable)	NZ PBE Accounting Standards (IPSAS or Differential IPSAS, depending on size)

Class of Entity	Current Accounting Standards*	Proposed Accounting Standards
Crown Entity (for-profit)	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)
Crown Entity (PBE)	NZ IFRS (including the Differential Framework if applicable)	NZ PBE Accounting Standards (IPSAS Differential IPSAS, or Simple Format Reporting depending on size)
State Owned Enterprise	NZ IFRS (including the Differential Framework if applicable)	IFRS (if issuer of securities in public market; or holder of assets in fiduciary capacity) IFRS for SMEs; or Differential IFRS (yet to be determined) (others)
Government Owned Company	NZ IFRS (including the Differential Framework if applicable)	IFRS (if issuer of securities in public market; or holder of assets in fiduciary capacity) IFRS for SMEs; or Differential IFRS (yet to be determined) (others)
Local Authority	NZ IFRS	NZ PBE Accounting Standards (IPSAS)
Council Controlled Organisation	NZ IFRS (including the Differential Framework if applicable)	NZ PBE Accounting Standards (IPSAS Differential IPSAS, or Simple Format Reporting depending on size)
Council Controlled Trading Organisation (for-profit)	NZ IFRS (including the Differential Framework if applicable)	IFRS (if issuer of securities in public market) IFRS for SMEs; or Differential IFRS (yet to be determined) (others)
Cemetery Board	IFRS Differential Framework	NZ PBE Accounting Standards (Simple Format Reporting)
Registered Charity	Not Specified	NZ PBE Accounting Standards (NFP Application Differential Application, or Simple Format Reporting depending on size)
Incorporated Society	Not Specified	NZ PBE Accounting Standards (NFP Application Differential Application, or Simple Format Reporting depending on size)
Māori Incorporation (for-profit)	Not Specified	IFRS for SMEs; or Differential IFRS (yet to be determined)
Māori Trust Boards (for-profit)	NZ IFRS (including the Differential Framework if applicable)	IFRS for SMEs; or Differential IFRS (yet to be determined)

Class of Entity	Current Accounting Standards*	Proposed Accounting Standards
Māori Trust Boards (not-for-profit)	NZ IFRS (including the Differential Framework if applicable)	NZ PBE Accounting Standards (NFP Application Differential Application, or Simple Format Reporting depending on size)

* For entities covered by Release 9 the current accounting standards would comprise old FRSs and SSAPs.

Appendix 4: Approach of Other Jurisdictions

Introduction

1. New Zealand is not the only jurisdiction currently addressing GPFR reporting framework issues. A number of countries are in the process of considering the future of their local financial reporting requirements and in many cases this has resulted from the recent issuance of the IFRS for SMEs. This appendix briefly summarises developments in three jurisdictions with a similar standard setting heritage to New Zealand: Australia, the UK and Canada.

Australia

2. Australia has for many years followed a form of differential reporting based on the concept of a 'reporting entity'. The reporting entity concept is explained and defined in its Statement of Accounting Concepts (SAC 1: *The Definition of the Reporting Entity*). SAC 1 defines a reporting entity as: "An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising of a parent and all of its subsidiaries."
3. In May 2007, the Australian Accounting Standards Board (AASB) issued an Invitation to Comment on a proposed revised differential reporting regime: *ITC 12 Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*. Over recent months the AASB has been considering its position in the light of the finalised IFRS for SMEs and the comments that it received on ITC 12.
4. At its July 2009 meeting the AASB tentatively proposed a framework for differential reporting for for-profit, not-for profit public sector entities and not-for-profit private sector entities. It is understood that these tentative views are, however, being reconsidered following discussions of them between the AASB, the Financial Reporting Council (FRC) and the Australian Treasury. These discussions are ongoing and proposals will be further considered at upcoming meetings of the AASB and the FRC.
5. It is understood that changes will be focussed on how to reduce the burden of disclosure requirements on non-publicly accountable entities. It is also understood that the Australian Treasury is examining possible changes to various aspects of the law impacting on the financial reporting requirements of Corporations Act entities and that those changes are also likely to be aimed at reducing reporting burdens for some types of entities.
6. In relation to for-profit entities, the AASB had tentatively decided that a two-tier differential reporting regime was appropriate. The first tier, which would be applicable to all publicly accountable entities (as defined by the IASB) would consist of (full) IFRS as adopted in Australia. That decision seems not to have been challenged in subsequent discussions.
7. The second tier, which would be applicable to non-publicly accountable entities, is still being debated by the AASB. The AASB had been considering whether to allow a choice to apply either:
 - IFRS for SMEs; or

- An alternative domestic differential reporting regime comprising: full IFRS recognition and measurement requirements; plus modified disclosures to be determined by the AASB.

Non-publicly accountable entities would be free to choose to apply full IFRS (i.e. to opt up to tier one) and would be required to do so if they held out their financial statements as being full IFRS.

8. In relation to not-for-profit (i.e. PBE) public sector entities, the AASB had been considering a two-tier reporting system might apply as follows:
 - Tier One would comprise federal, state and territory governments which would apply full IFRS (as adopted in Australia);
 - Tier Two would comprise all other public sector entities which would have the choice of applying one of the following:
 - Full IFRSs (as adopted in Australia); or
 - IFRS for SMEs (as adopted in Australia); or
 - An alternative domestic differential reporting regime comprising: full IFRS recognition and measurement requirements; plus modified disclosures to be determined by the AASB.

However, the AASB consideration of public sector reporting is ongoing and it is understood that there are concerns that the changes to recognition and measurement in IFRS for SMEs would not necessarily be of benefit to the public sector, given the requirements for consolidated whole of government financial statements and the absence of a benchmark equivalent to the definition of “publicly accountable” employed in IFRS for SMEs.

9. In relation to not-for-profit (private) sector entities, the AASB had been contemplating whether there should be only one tier and that not-for-profit entities should have a choice of applying any of the following alternatives:
 - Full IFRSs (as adopted in Australia); or
 - IFRS for SMEs (as adopted in Australia); or
 - An alternative domestic differential reporting regime comprising: full IFRS recognition and measurement requirements; plus limited specified disclosures to be determined by the Board.

The current discussions between the AASB, the Financial Reporting Council and the Australian Treasury may lead to a different outcome, again focussed on relieving the burden of disclosures.

10. At its July 2009 meeting the AASB also initiated a project entitled “Disclosures by Private Sector Not-for-Profit Entities”. Initially, the Project will focus on disclosures that Australian Accounting Standards do not currently require of private not-for-profit sector entities but that should be required, having regard to the information needs of users of general purpose financial reporting. Initial consideration will be given to work being undertaken by the IPSASB and the New Zealand FRSB on service performance reporting.

11. The AASB has expressed its desire not to increase unduly the disclosure requirements for not-for-profit entities and has agreed that the Project should therefore also consider whether there are any existing disclosure requirements in Australian Accounting Standards which might not be justified from a cost-benefit perspective.
12. The AASB has also indicated its long term aspiration that IPSAS should be adopted for application by Australian public sector PBE entities. However, the AASB has not indicated a timeline for this aspiration and is not currently considering adoption of IPSASs.
13. As outlined in section 6.2 the Australian and New Zealand Prime Ministers issued a joint statement of intent on 20 August 2009 to promote a renewed focus on the practical benefits and outcomes from the SEM. The Prime Ministers signalled that this would be achieved through the creation of an outcomes framework to support an aspirational SEM agenda. A key element of the outcomes framework is the continuing work to harmonise financial reporting requirements in both countries. The various parties involved in Australian standard setting have indicated that Australia's approach to differential reporting will be progressed with this objective in mind.

United Kingdom

14. In August 2009 the UK Accounting Standards Board (ASB) released a consultation paper: *Policy Proposal: the future of UK GAAP*.⁵³ In that document the ASB proposes that the separate body of literature currently referred to as 'UK GAAP' would cease to exist. The ASB proposes to replace it with a three-tier differential reporting regime based on public accountability, broadly in line with the IASB's definition in the IFRS for SMEs.
15. The proposed future tier framework is as follows:
 - **Tier 1** – publicly accountable entities (as defined by the IASB) would be required to apply IFRS as adopted by the EU ('EU-adopted' IFRS);
 - **Tier 2** – all other UK entities - other than those that would fall into tier 3 - *could* apply IFRS for SMEs.
 - **Tier 3** – small entities *could* choose to continue to apply the Financial Reporting Standard for Small Entities (FRSSE), a stand alone differential reporting regime adopted in the UK some years ago.

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished, and those in Tier 3 would also have the option of using IFRS for SMEs.
16. The ASB proposals are intended to apply to all entities that are required to prepare financial statements that give a 'true and fair' view (other than public sector entities which fall outside the ASB's jurisdiction – see the discussion below). The ASB plans a change date for financial years no earlier than 1 January 2012.
17. In relation to the (private) not-for-profit sector the consultation document recognises the difficulty in applying IFRS to these entities and after canvassing the options to deal with this indicates a preference for developing a "public benefit (not-for-profit) standard". At this stage the ASB is open to whether such a standard should be comprehensive or be supplementary to IFRS and just cover variations from those standards applicable to not-for-profit entities.

⁵³ See <http://www.frc.org.uk/asb/press/pub2054.html>

18. The financial reporting requirements of Central Government entities in the UK are based on the Financial Reporting Manual prepared by the Treasury which is in turn based on IFRS. The Financial Reporting Advisory Board (FRAB) provides oversight over the development of that Manual. The UK central government is following a staged process of adoption of IFRS based requirements.
19. Local authorities in the UK currently follow a *Code of Practice for Local Authority Accounting* prepared under the ASB's Statement of Recommended Practice (SORP) regime. However from 2010-11, local authorities will be required to apply an IFRS based Code of Practice that will be prepared under revised governance arrangements involving oversight by the FRAB. This is designed to ensure greater consistency with central government accounting practice. Consultation on the first IFRS based Code of Practice has begun with publication of an Invitation to Comment and an Exposure Draft.
20. Both the IFRS based Financial Reporting Manual and the proposed IFRS based Code of Practice for Local Authorities incorporate a number of amendments to IFRS to reflect the public sector environment.

Canada

21. The Canadian Accounting Standards Board (AcSB) is following a Strategic Plan, issued early in 2006, in which it noted that 'one size does not necessarily fit all'. It has consequently decided to pursue separate strategies for publicly accountable enterprises; private enterprises (i.e. for-profit entities that are not publicly accountable); and not-for-profit organisations. The rationale for this was to reflect the different needs of users and cost-benefit considerations in each sector.
22. Publicly accountable enterprises are required to adopt IFRS from 2011.
23. In relation to private enterprises, in May 2009 the AcSB released an exposure draft entitled *Generally Accepted Accounting Principles for Private Enterprises* proposing separate standards for these entities. Under the exposure draft Private Enterprises would be permitted to follow either IFRS or the proposals in the exposure draft i.e. an alternative domestic set of for-profit reporting standards. This option-based approach is defined as "Canadian Financial Reporting Standards for Private Enterprises" (CFRS). In this context the AcSB does not plan to adopt IFRS for SMEs i.e. IFRS for SMEs would not form part of Canadian GAAP and would therefore not satisfy legal requirements.
24. The AcSB intends that any Private Enterprise should be able to use CFRS and there are no size or other qualifiers for use of the proposed standards. The standards are fully stand-alone in that they do not require reference to the IFRS standards applying to Publicly Accountable Enterprises for guidance.
25. Public sector entities in Canada fall under the jurisdiction of the Public Sector Accounting Board (PSAB). That Board has over many years developed a local body of reporting requirements applicable to public sector entities. PSAB does consider and participate in the work of IPSASB but has no current plan to adopt IPSASs or move away from the public sector standards on issue.
26. A strategic review is currently underway to determine the most appropriate basis of reporting for not-for-profit organisations. The AcSB and PSAB explored possible options in a recent Invitation to Comment. One possibility would be to allow not-for-profit entities to use the proposed CFRS but with the addition of specialised standards to address not-for-profit issues. These specialised standards would be

similar to an existing series of guidance included in current Canadian GAAP.⁵⁴ Other options include requiring not-for-profit organisations to follow the public sector standards of PSAB; or using those standards supplemented by standards addressing specific not-for-profit issues.

⁵⁴ The so-called “4400 series” of standards.