



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

ACCOUNTING STANDARDS FRAMEWORK: A MULTI STANDARDS APPROACH

Position Paper

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List of Abbreviations

The following abbreviations are used in this position paper.

AASB	Australian Accounting Standards Board
ASRB	Accounting Standards Review Board
FRSB	Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants
GPFR	General Purpose Financial Reports
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MED	Ministry of Economic Development
NFP	Not-for-profit
NZICA	New Zealand Institute of Chartered Accountants
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PBE	Public Benefit Entity
RDR	Reduced Disclosure Requirements
UK	United Kingdom of Great Britain and Ireland
XRB	External Reporting Board Organisation
XRB Board	Board of the XRB

Executive Summary

In September 2009 the Accounting Standards Review Board (ASRB) issued a discussion document outlining a proposed new accounting (and assurance) standards framework for general purpose financial reporting. During 2010 the ASRB considered in depth the feedback received, the evolving trans-Tasman and international accounting standard environment, and the accounting standards framework options. This Position Paper outlines the ASRB's conclusions on New Zealand's standards framework for general purpose financial reporting. Those conclusions have been endorsed and confirmed by the External Reporting Board (XRB Board) which came into existence as a reconstituted ASRB on 1 July 2011.

After reviewing submissions, the ASRB evaluated two broad accounting standards framework options: enhanced NZ IFRS equivalents (the single standard approach); and a multi-standards approach. Under the latter there would be one set of standards based on IFRS containing accounting standards for for-profit entities, and another set based on IPSAS containing accounting standards for public benefit entities (PBEs).

After considering the reports of working groups established for the purpose, the ASRB concluded that both options were technically viable.

The ASRB then considered cost-benefit issues and concluded that user-needs should be the primary criterion to assess the two options. The ASRB's view was that the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) focus on the needs of different user groups, although there is some overlap. The most significant difference is the IPSASB's inclusion of "service recipients" as well as "resource providers" in its developing conceptual framework. The different users results in a focus on different information needs. The ASRB considered that the emerging differences between the two conceptual frameworks will most likely increase the number of different reporting requirements over time. Incorporating these differences into a single set of standards would become increasingly difficult.

The ASRB therefore concluded that user-needs cannot be adequately addressed by a single set of accounting standards, and that a multi standards approach should be adopted. In reaching this conclusion the ASRB considered concerns about fragmentation, the implications for greater specialisation within the profession, and potentially more complex professional education requirements.

The ASRB's view was that the greatest weight needs to be given to meeting user needs. Although every effort should be made to minimise the fragmentation impact, this does not, in itself, provide a sufficient reason not to adopt a multi-standards framework. Further, the current framework is already not sector-neutral as New Zealand International Financial Reporting Standards (NZ IFRS) already contain sector specific requirements in the form of additional PBE specific paragraphs. The choice facing the ASRB/XRB Board and the constituency is not about sector neutrality, but the best way to reflect sector differences.

An important Government policy objective is the establishment of IFRS harmonised with Australia for for-profit entities. In conjunction with the (then) Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants and in consultation with Australian counterparts, the ASRB developed an accounting standards framework that meets this objective. That framework is outlined in a separate document – a Consultation Paper entitled *Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities*. The key aspects of that proposed framework are: two tiers; full NZ IFRS harmonised with Australia for Tier 1 entities; and a Reduced Disclosure Requirements (RDR) approach harmonised with Australia for Tier 2 entities.

The proposed framework for public sector and not-for-profit entities is outlined in a second Consultation Paper entitled *Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities*. Those proposals include the adoption of a suite of NZ PBE Accounting Standards using modified IPSAS, together with other standards as appropriate. The NZ PBE standards would also include appropriate modifications for the not-for-profit sector.

The ASRB acknowledged that a multi-standards approach differs from that adopted in Australia, although the Australian Financial Reporting Council has indicated a long-term intention to consider IPSAS.

However, the ASRB considered it appropriate for New Zealand to adopt a multi-standards approach at this time and in advance of Australia.

The adoption of the multi-standards approach reflects the ASRB/XRB Board's strategic level decision about the overall shape of the new accounting standards framework. The next step is to establish and agree the detailed elements of that framework. Specific proposals in that regard are contained in the two Consultation Papers identified above.

1. Introduction

1. In September 2009 the Accounting Standards Review Board (ASRB) issued a discussion document outlining a proposed new accounting and assurance standards framework for general purpose financial reporting in New Zealand (the Discussion Document)¹. That document accompanied a Ministry of Economic Development (MED) discussion document which outlined a proposed new financial reporting framework².
2. Submissions on the Discussion Document closed at the end of January 2010. Seventy-six submissions were received³. During 2010 the ASRB considered in depth the feedback received, the evolving trans-Tasman and international accounting standard environment, and the accounting standards framework options.
3. After much consideration and deliberation the ASRB concluded that user needs in the future cannot be adequately addressed by a single set of accounting standards applying to all entities required to prepare General Purpose Financial Reports (GPFR) under the framework proposed by the MED. Accordingly the ASRB concluded that the new accounting standards framework should consist of two sets of accounting standards: one applied by entities with a for-profit objective; and another applied by entities with a public benefit objective.
4. This Position Paper outlines the ASRB's decisions in relation to the multi-standards framework, including the basis for reaching that conclusion and the broad structure of that framework. Those conclusions have been endorsed and confirmed by the External Reporting Board (XRB Board) which came into existence as a reconstituted ASRB on 1 July 2011. The views and conclusions of the ASRB outlined in this paper should therefore also be considered to be the views and conclusions of the XRB.
5. This document outlines the ASRB/XRB Board's decisions on the overall structure of the accounting standards framework. The XRB Board is not seeking feedback on these decisions about the overall framework structure as these matters were consulted on in the Discussion Document. However, the XRB Board is seeking comments from the constituency on the detailed aspects of the framework. These are outlined in the two accompanying Consultation Papers, together with the specific issues the XRB Board would like responses on.

¹ The discussion document is entitled "Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting" and is available on the ASRB website:
http://www.asrb.co.nz/Site/Financial_Reporting/Discussion_Document.aspx.

² The MED document is entitled "The Statutory Framework for Financial Reporting" and is available on the MED website:
www.med.govt.nz.

³ A high level summary of respondent's views is available on the ASRB website at:
http://www.asrb.co.nz/Site/Financial_Reporting/Board_Deliberations.aspx

2. The Single vs Multi Standards Issue

2.1 Response to the Discussion Document

6. The starting point for the Discussion Document was the “primary principle” that the accounting standards framework should be focused on providing (financial and non-financial) information to meet the needs of users of general purpose financial reports (GPFR). The Discussion Document then suggested that:
- the distinction currently used between for-profit and public benefit entity (PBE) sectors⁴ is a useful and cost effective basis for categorising users and their information needs;
 - in light of the strong for-profit focus of the International Financial Reporting Standards (IFRS), New Zealand should move to a sector-specific set of financial reporting requirements to better reflect the difference in users and their needs; and
 - accordingly, the number of tiers, the criteria to classify entities into tiers, and the accounting standards to be applied by each tier, should be established on a sector-specific basis.
7. There was common agreement amongst the respondents to the Discussion Document that GPFR needs to be focused on meeting user information needs, that a sectoral distinction is useful when considering user needs, and that the current standards do not adequately address the diversity of these needs. In other words, there was broad agreement that the status quo is not satisfactory.
8. However, there were mixed views about whether a sectoral-specific approach was the best way to address these issues. Around 48% of respondents supported a multi-standards approach, 25% supported a single-standards approach, 24% expressed no view and 3% were equivocal. An analysis of responses by entity type indicated that the degree of support for a sectoral-specific approach appeared to be correlated to the extent to which the current framework was viewed as meeting or not meeting particular respondents’ needs. In this context the level of support for a multi-standards approach was influenced by the significant number of submissions from respondents who commented on not-for-profit reporting issues and who almost unanimously supported a multi-standards approach.
9. A number of respondents opposed to the sectoral approach expressed a desire to retain a sector-neutral approach if possible. In considering these comments the ASRB reflected on the fact that the current framework is already not sector-neutral as NZ IFRS already contains sector specific requirements in the form of PBE specific paragraphs. The move away from sector-neutrality effectively began with the decision in 2002 to adopt IFRS, although that wasn’t altogether clear at the time.
10. Therefore, the choice facing the ASRB/XRB Board and the constituency is not about sector neutrality, but rather whether sector differences are best reflected in a single or multiple set of standards. In this context issues such as transaction-neutrality, complexity, comparability and mixed groups⁵ exist regardless of whether there is a single or multiple set of standards. The matter to be considered is which option can deal with those issues in the most cost effective and understandable manner.
11. One respondent succinctly summarised the options available as follows:
- “In the absence of a sector-neutral approach internationally, and assuming it is not efficient for New Zealand to develop separately its own set of accounting standards for cost/benefit reasons, ... there are two simple choices for developing New Zealand accounting standards for all sectors. In our view the two options are:*

⁴ The Discussion Document also acknowledged that it is 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.

⁵ Mixed groups are entities with subsidiaries in different tiers and/or with a mix of for-profit and PBE objectives.

- *Continue to use the existing NZ IFRSs as the single set of accounting standards, making further modifications or introducing supplementary New Zealand standards to better meet the needs of users in all sectors; or*
- *Adopt a separate suite of standards designed for application in specific sectors (i.e. continuing with IFRS for the profit-sector and switching to IPSAS for the public sector and as a starting point for the not-for-profit private sector)."*

12. This dichotomy (enhanced NZ equivalents or NZ IFRS and IPSAS) was a good reflection of the overall view of respondents and the ASRB found it a useful way to think about the issue. Its deliberations were therefore focused around the viability and net cost-benefit of each of these options.

2.2 Viability of the Options

13. The ASRB commissioned three separate working groups to consider the viability of enhanced NZ equivalents, IPSAS and a NFP Application derived from IPSAS respectively.

Enhanced NZ Equivalents

14. The enhanced NZ equivalents option can be viewed as the single standards approach. It involves "the current approach done better" and would comprise IFRS converged as appropriate with Australia; plus additional paragraphs embedded in the relevant standards to reflect the specific requirements of PBEs (both public sector and not-for-profit); plus supplementary additional NZ standards (such as prospective financial statements) as required.
15. The key features of the enhanced equivalents approach (compared to the multi standards option) are that (a) standards are based on IFRS (rather than alternative standards for different sectors – such as IPSAS); and (b) any variations to those IFRS requirements for PBEs are embedded in individual standards as relevant.
16. An ASRB - FRFB Working Group considered the viability of this approach. The Working Group concluded the following:
- Language, application, accounting treatments and the need to address PBE specific issues are the key PBE sector concerns about the current NZ IFRS. These matters would need to be addressed in the enhanced NZ equivalents.
 - The specific technical accounting treatments, application and "filling the gaps" could all be adequately addressed in enhanced equivalents.
 - Language issues could be addressed to some extent under the equivalents option but it would be difficult to fully address them. It would also be difficult to address conceptual accounting differences (between IFRS and IPSAS) in the enhanced equivalents because of the way such issues permeate standards.
17. The ASRB concluded that an enhanced equivalents approach appeared viable. However, it recognised that as IFRS would be the base for the enhanced equivalents there would be a limit to how far they would be able to be adapted for PBEs, particularly if the additional PBE requirements were to be based on a different international conceptual framework. On the other hand fragmentation, and issues such as reducing sectoral specialisation, can be addressed more easily through a single standards approach.
18. Adopting the enhanced equivalents option would require a balancing of these two objectives. In this context the ASRB concluded that for the enhanced standards to be acceptable they would need to be of a quality sufficient to achieve a good standard of reporting by PBE entities.

IPSAS

19. Respondents to the Discussion Document raised three sets of issues relating to adopting IPSAS: technical viability; the degree of international acceptance; and the governance and funding arrangements for the IPSASB.

Technical Viability

20. A Working Group⁶ was established to advise on the technical suitability of IPSAS as an alternative to NZ IFRS for reporting by public sector PBEs. The Working Group considered three broad issues:
- The differences between current and likely future NZ IFRS and IPSAS;
 - The extent of effort that would be required of preparers to move from NZ IFRS to IPSAS; and
 - The extent to which concerns raised about the application of NZ IFRS in the PBE public sector would be addressed by IPSAS.
21. The Working Group concluded that:
- IPSAS is likely to be technically suitable as a set of accounting standards for the PBE public sector;
 - Constituency concerns that are driven by the language, orientation and for-profit focus of IFRS (and therefore NZ IFRS) would be addressed by adopting IPSAS. However, concerns about complexity and specific requirements in particular standards would only be partially addressed. This is because there is currently a substantive similarity between the two sets of standards resulting from the IPSASB's convergence programme with IFRS;
 - Given the likely future direction of IASB and IPSASB work programmes, it is highly likely that IPSAS will be more technically suitable for public sector reporting than (pure) IFRS over the medium and long terms;
 - The amount of effort required of most entities to apply IPSAS would be relatively modest and the cost of transitioning to IPSAS would be small in comparison to that incurred in transitioning to NZ IFRS; and
 - There are a small number of technical issues that would need to be considered and possibly addressed should a decision be made to adopt IPSAS.⁷
22. In considering the Working Group's report, the ASRB noted that many of the technical issues identified also exist under NZ IFRS (for example the lack of standards for prospective financial information and service performance) and that these issues would need to be addressed through additional New Zealand specific standards under either approach. However, a few issues, most notably the definitions of Government Business Enterprises and control in IPSAS, are more significant. Options for addressing these issues could include referring them to the IPSASB with a request to revisit the issues concerned, or adopting a modified version of IPSAS.
23. The ASRB concluded that, providing these issues can be adequately addressed, IPSAS was a viable option technically. It also noted the Working Group's view that the degree of difference between IFRS and IPSAS was likely to increase over time. Accordingly, the costs of transition would be minimised by making any change sooner rather than later.

⁶ The Working Group comprised staff of the ASRB, NZICA and the Office of the Auditor General.

⁷ The Viability of IPSAS Working Group report is available on the ASRB website: http://www.asrb.co.nz/Site/Financial_Reporting/Viability_of_IPSAS.aspx. A supplementary technical paper produced by the Working Group and containing a comparison of each IPSAS against the corresponding NZ IFRS is available at the same location.

International Acceptance

24. In relation to the international credibility of IPSAS, the ASRB noted that the visits to New Zealand of Professor Andreas Bergmann, Chairman of the IPSASB, during 2009 and 2010 have been helpful in improving understanding and awareness of IPSAS and the IPSASB work programme. It is clear from discussions with Professor Bergmann that there has been a larger uptake of IPSAS than most respondents were aware of. However, none of the other countries that New Zealand typically looks to in relation to public sector reporting practice (Australia, UK, and Canada) have adopted or are contemplating adopting IPSAS – although the UK has given IPSAS express status as second level authority after IFRS.
25. The choice for the ASRB was therefore either to wait another 3-5 years until the position with international acceptance is clearer (the follower option) or to take the step now (the leader option).
26. The ASRB concluded that concerns about the international adoption of IPSAS are less relevant to the viability decision than technical, governance and funding issues.

Governance and Funding

27. A number of respondents to the Discussion Document expressed reservations about the governance and funding arrangements of the IPSASB as follows:
 - *Governance:* The lack of an independent governance structure for the IPSASB along the lines established for the IASB. The view expressed was that it is important that standards setting should be carried out and be seen to be carried out independently of the interests of the profession and of the governments using the standards.
 - *Funding:* The relatively limited resources available to the IPSASB at both the Board and staff levels. The view expressed was that in order for the IPSASB to sustain high-quality standards, it needs a larger and broader funding base.
28. The ASRB was aware of these concerns and had raised them in the Discussion Document. The ASRB was also aware, however, that since the Discussion Document was released (September 2009) IPSASB and IFAC (as IPSASB's parent body) have been actively working to progress these matters.
29. The IPSASB has unanimously supported the introduction of an oversight regime and is working with the IFAC Board to seek feedback from constituents on alternative oversight options – a consultation paper was issued earlier this year (2011).
30. IFAC has confirmed the work of the IPSASB is part of its core business and recently provided additional funding for both IPSASB meetings and staff resources.
31. In light of this, the ASRB undertook some limited consultation with key stakeholders interested in public sector reporting issues, including the Treasury, the Auditor General, NZICA and the Deputy President of IFAC. The consensus from these discussions was:
 - General agreement that the governance and funding issues are being taken seriously by both IPSASB and IFAC and that the current momentum on these issues is encouraging and relatively comforting compared to the position 18-24 months ago;
 - A high level of confidence in the existing IPSASB, its current leadership, the work it is undertaking, and the quality of its output;
 - A view that the governance and funding concerns are not “make-or-break” issues in the way they were seen previously and should not prevent New Zealand moving forward in the direction of IPSAS if that is deemed the most appropriate approach;
 - Some on-going concern that, despite the positive “direction of travel”, the governance and funding issues have not at this time been resolved; and key aspects of the IPSASB conceptual framework are not yet clear (although again the indications are positive); and

- Given this, it is still premature to be confident that the risks surrounding the adoption of “pure” IPSAS have been adequately mitigated. Accordingly, the new arrangements need to allow for IPSAS to be modified for any aspects that are fundamentally unsuitable in the New Zealand context.
32. These stakeholder views coincided with those of the ASRB itself. Taking all the issues into account, the ASRB concluded that IPSAS was a viable option, but that if it was to be adopted the most appropriate first step would be to develop a suite of NZ PBE Accounting Standards based on a New Zealand modified version of IPSAS with a view to moving to “pure” IPSAS over the longer term. Such an approach would allow any risks associated with governance and funding to be managed as well as allowing the technical issues identified by the Working Group to be addressed.

NFP Application

33. A NFP Application Working Group, comprising members of the ASRB and the (then) NZICA Not-for-Profit Sector Advisory Committee, was established to assess the viability of the proposal to develop an NFP Application based on IPSAS for use by not-for-profit sector entities. Of those respondents that commented on the NFP Application issue, twice as many had favoured the proposal as had opposed it, and 86% of not-for-profit sector respondents had supported the approach.
34. The Working Group considered three broad areas: the general suitability of IPSAS as a base for the NFP Application; the general scope of modifications and additions that would be required to each individual IPSAS to make those standards appropriate, and sufficiently comprehensive, to be a set of standards that could be usefully applied by not-for-profit entities; and the practicality of applying a differential reporting approach to the NFP Application.
35. The Working Group concluded that IPSAS is generally suitable as a base for reporting by NFP entities and that there is no technical impediment to developing a differential version for use by Tier 2 entities⁸. However, the Group identified a small number of substantive technical issues that would need to be addressed as part of the development of any NFP standards based on IPSAS.
36. The Working Group also noted the importance of understandability and the perception of relevance for preparers in the NFP sector. It recommended that the standards be placed in a NFP context, and that NFP examples and implementation guidance to help understanding be provided.
37. The ASRB’s conclusion was that the development of a NFP Application was viable, providing that IPSAS (or a NZ modification thereof) was adopted for the public sector. In relation to the technical issues identified by the Working Group, it concluded that a similar set of issues would arise with any standards based on IFRS (such as the enhanced equivalents option). These issues would therefore need to be addressed in some form or other under any of the options being considered by the ASRB.

2.3 Costs and Benefits

38. Having established the viability of both the single standard and multi-standards options, the ASRB proceeded to consider their relative costs and benefits. In doing so the ASRB was very conscious of the importance of taking a strategic view and considering the situation not only as it currently is but also as it is likely to evolve over the next decade or so.

⁸ The NFP Application Working Group report is available on the ASRB website:
http://www.asrb.co.nz/Site/Financial_Reporting/Viability_of_a_NFP_Application.aspx

User Needs

39. A key consideration for the ASRB was the extent to which each alternative best addresses the information needs of users. In fact, the ASRB's view was that, in light of the primary principle⁹, user-needs should be the main criterion by which alternative frameworks should be assessed.
40. The work on the viability of the enhanced NZ equivalents option clarified that there is a limit to which IFRS can be adapted for the purposes of PBE reporting. This would be even more acute if it was concluded that a different conceptual framework was appropriate for public sector reporting. Although work on both the IASB and IPSASB conceptual frameworks is on-going the ASRB expected future divergence between the frameworks, a fact the IPSAS Working Group also commented on. The ASRB's view was that this is likely to be an increasing difficulty, especially over the medium-term.
41. The ASRB concluded that the ability of the single standard option to adequately meet user-needs across all sectors is therefore limited. Greater benefit (almost certainly significantly greater benefit) for users would result from a multi-standards approach in the future. In this context the ASRB noted that only Australia and New Zealand currently attempt to meet all user needs through a single set of standards.
42. The ASRB noted that key public sector stakeholders had indicated a similar preference for multi-standards during the limited consultation exercise over IPSASB governance and funding. The consensus resulting from those discussions was that IFRS is increasingly less suitable as a base for public sector accounting standards and that a move to IPSAS is appropriate. The NFP Application Working Group had reached a similar conclusion as part of its work. This view was also supported by the majority of PBE respondents to the Discussion Document.

Fragmentation and Other Non-Technical Issues

43. Respondents to the Discussion Document identified four broad categories of "non-technical" concerns about a multi-standards framework. For the most part these were linked to the increased fragmentation that would result from adopting separate standards for different sectors. These broad issues were: greater sector specialisation; making professional education more difficult; reducing New Zealand's influence in international standards development; and the cost/burden of making another change.
44. In accordance with its overall cost-benefit approach, the ASRB considered these issues in the light of the impact on user-needs.
45. The ASRB recognised the concerns about fragmentation and the implications for greater specialisation within the profession and potentially more complex professional education requirements. Indeed it raised some of these issues in the Discussion Document. It also agreed that fragmentation should be minimised to the extent possible.
46. However, the greatest weight needs to be given to adequately meeting user needs and this should be the primary driver. Non-technical factors should be factored in only if they are to have a substantial impact, and then only if that impact clearly outweighs the user-needs benefits. While recognising the merit of the concerns, the ASRB did not consider the fragmentation related issues to be of that magnitude. Accordingly, the ASRB concluded that while every effort should be made to minimise the fragmentation impact, the non-technical issues do not, in themselves, provide a sufficient reason not to adopt a multi-standards framework.
47. In addition, the work of the Viability of IPSAS Working Group identified that there is currently a high degree of alignment between IFRS and IPSAS but that the standards are likely to diverge in the future as the respective frameworks are finalised and standards evolve. This means that greater differences in the reporting requirements for PBEs and non-PBEs are likely to evolve in the future regardless of the form of the standards. Increasing fragmentation in some form or other is therefore likely to be inevitable.

⁹ The "primary principle" is that the accounting standards framework should be focused on providing (financial and non-financial) information to meet the needs of users of general purpose financial reports.

Harmonisation with Australia

48. A third issue considered by the ASRB was the impact on harmonisation with Australia.
49. The adoption of a multi-standards approach would result in a difference between New Zealand and Australia, as Australia is not, at present, planning to adopt IPSAS. The Australian Financial Reporting Council has, however, signalled the intention to consider the possibility of adopting IPSAS over the medium-term¹⁰.
50. Although adopting a multi-standards framework would have New Zealand and Australia out of step for a time, it would have no implications for the achievement of the Government's trans-Tasman outcomes goals. Harmonisation of public sector accounting standards is not part of those goals and the goal relating to private not-for-profit entities is intended only to apply to entities operating in both jurisdictions. The ASRB was not aware of any public sector PBE entity or any not-for-profit entity with reporting obligations in both New Zealand and Australia.
51. This being the case there is limited benefit for reporting entities from harmonisation at this time, except perhaps to allow comparability at the whole of government level. This benefit is small compared to the greater benefit of adopting a framework that better meets user-needs.
52. The ASRB therefore concluded that the lack of trans-Tasman harmonisation for the PBE sectors is not an impediment to adopting a multi-standards approach.

¹⁰ At its December 2010 meeting the Financial Reporting Council agreed to "the undertaking of 'light but sustained' work to get an understanding of stakeholder views about IPSASB". At the same meeting the AASB Chairman, Kevin Stevenson, "indicated that the AASB has long held an aspiration to adopt IPSASs in Australia, and is working hard to realise that aspiration". (FRC Bulletin 2010/05: www.frc.gov.au/bulletins/2010/05).

3. The Preferred Approach: Multi Standards

53. Having established the viability of the options and reflected on the key cost-benefit issues, the ASRB deliberated on its preferred approach.

Establishing the For-Profit Approach

54. The ASRB's starting point was to determine the most appropriate approach for for-profit entities.
55. The ASRB was committed to the use of IFRS for for-profit entities, and the XRB Board has confirmed this position. IFRS has been adopted by over 100 countries and the ASRB/XRB Board considers its continued use to be essential for New Zealand entities to be able to compete in the global economy. The accounting standards framework for for-profit entities therefore needs to be based on IFRS and, in light of the Government's trans-Tasman outcome goals, harmonised with Australia.
56. The ASRB, in conjunction with the (then) FRSB and in consultation with Australian counterparts, developed an approach that met this objective. The proposed framework is outlined in a separate consultation paper entitled *Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities*.¹¹ The key aspects of that proposed framework are: two tiers; full NZ IFRS harmonised with Australia for Tier 1 entities; and a Reduced Disclosure Requirements (RDR) approach harmonised with Australia for Tier 2 entities.
57. The harmonised full NZ IFRS was approved by the ASRB in May 2011 and, for for-profit Tier 1 entities, is almost identical to (pure) IFRS.
58. The details of a proposed set of RDR for New Zealand were developed by the FRSB at the ASRB's request and are contained in the Consultation Paper. The proposed RDR are based on the premise that for-profit entities in Tier 2 would apply the same recognition and measurement requirements as for Tier 1 but with significantly reduced disclosures. The proposals would result in very few differences between the New Zealand and Australian requirements. Any remaining differences would result primarily from regulatory differences between the two jurisdictions.

Establishing the PBE Approach

59. The ASRB's tentative decision on the framework for for-profit entities also effectively established the parameters within which the single vs. multi standards decision needed to be made. As the for-profit framework uses harmonised NZ IFRS which is effectively (pure) IFRS, the issue for the ASRB was whether the needs of users of PBE general purpose financial reports could be adequately addressed within that approach.
60. The ASRB concluded that they could not. A fundamental factor in reaching this conclusion flowed from the enhanced equivalents work: that there was a limit on the extent to which NZ equivalents using an IFRS base could be adapted for PBEs.
61. In the ASRB's view, the IASB and IPSASB focus on different user needs, although there is clearly some overlap. This is evident from their respective conceptual frameworks (acknowledging that the IPSASB Framework is still in development):
- The IASB Conceptual Framework identifies the primary users of GPFR as existing and potential investors, lenders and other creditors that cannot require reporting entities to provide information directly to them.

¹¹ This is available at www.xrb.govt.nz.

- The draft IPSASB Conceptual Framework states that the primary users of GPFR are service recipients and their representatives and resource providers and their representatives.¹²
62. The identification of “resource providers” as primary users in the IPSASB Framework is similar, although not identical to the users identified in the IASB Conceptual Framework for Financial Reporting 2010 (IASB Conceptual Framework). Governments and other public sector entities raise resources from taxpayers and donors, as well as lenders and creditors. The scope of resource providers is therefore wider than the users identified by the IASB, although similar in concept.
63. The most significant difference comes with the IPSASB reference to “service recipients”. This acknowledges that the reason that public sector entities raise resources is to provide services (usually to the main resource providers – taxpayers and ratepayers). Accordingly these entities are accountable not only to resource providers for the management and use of those resources, but also those that receive, or expect to receive, the services funded by those resources. Service recipients are an additional and completely different user group, from the users identified in the IASB Framework.
64. The different user focus results in different information needs: IPSASB is concerned with reporting future service potential as well as future economic benefits/cash flows; IASB is interested primarily in the latter. This in turn flows through into a different focus for reporting.
65. The different user focus therefore has the potential to result in a different scope of reporting both in terms of the nature of information provided and, in some cases, the way in which transactions are recognised and measured.
66. The ASRB considered that this different user-focus will almost certainly lead to an increasing divergence over time between IFRS and IPSAS. Further, the differing conceptual foundation will almost certainly make IPSAS a more relevant base for PBE reporting, increasingly so over time. The different emerging conceptual bases will also likely increase the number of different reporting requirements. Incorporating these differences into a single set of standards would be cumbersome and probably confusing to many preparers and users.

A Two-Set Approach

67. Taking all of this into account the ASRB’s conclusion, which has been endorsed by the XRB Board, is that it is appropriate for the New Zealand accounting standards framework to:
- recognise that IFRS is increasingly unsuitable as a base for PBE reporting;
 - accept that user-needs can be better addressed by adopting separate sets of standards; and
 - notwithstanding the fragmentation costs involved, move to a two-set accounting standards approach – one set containing the accounting standards for for-profit entities based on IFRS; and one with the accounting standards for public benefit entities based on IPSAS.
68. The ASRB recognised that to date IPSAS is effectively a public sector translation of IFRS with the substantive differences being relatively few – something identified in the report of the IPSAS Working Group. The ASRB’s conclusion is based on IPSAS’ potential to better meet user needs rather than its current status. Nevertheless the ASRB considered it to be the better approach given the “direction of travel” of both IFRS and IPSAS.
69. The ASRB also recognised that adopting a two-set, multi-standards approach is not a panacea that will automatically address all the current concerns about PBE reporting. There are a number of areas not covered under IPSAS (the most critical of which is the reporting of service performance) just as there is with IFRS. It will take some time for these gaps to be filled – either

¹² Copies of the IPSASB’s Conceptual Framework papers are available at:
<http://www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0066>

by the IPSASB or if necessary domestically. It is important to have realistic expectations in this regard.

70. However, the ASRB considered there is a much greater likelihood of a comprehensive set of PBE standards being developed using IPSAS as the base than using IFRS. Using IPSAS as the base for PBE accounting standards is also likely to give New Zealand a greater ability to influence the IPSASB work programme.
71. While the multi-standards approach is designed to allow different user-needs to be reflected, the ASRB was nonetheless committed to retaining as much transaction neutrality as possible and keeping the differences between the two sets of standards as minimal as possible.
72. The ASRB acknowledged that a multi-standards approach differs from that adopted in Australia, although Australian counterparts have indicated a long-term intention to consider a move in that direction. As a general rule the ASRB saw advantages in both countries having a similar approach across all sectors. However, given the extent of concern in the constituency about the appropriateness of IFRS for PBE entities, and the user-needs benefits of IPSAS, the ASRB considered it appropriate for New Zealand to adopt a multi-standards approach at this time and in advance of Australia.

Addressing NFP User-Needs

73. There are no specific international standards for not-for-profit (NFP) entities and, as outlined in the Discussion Document, it would be uneconomic for New Zealand to develop a set of NFP standards from scratch. The most viable alternative at this time is to adopt or modify either IFRS or IPSAS for this purpose. A decision about which of these is the best option was therefore dependent on the decision about IPSAS.
74. The Discussion Document proposal that a NFP Application based on IPSAS be developed was widely supported by respondents. The NFP Working Group also considered this to be the preferable option.
75. Although IPSAS is focused on public sector entities rather than NFP PBEs, the ASRB considered that the developing conceptual framework, particularly the additional focus on future service potential, will be more relevant to NFP PBEs than IFRS. However, as identified by the NFP Application Working Group, some limited adaption as well as the use of NFP language and examples are desirable for adoption in that sector.
76. The ASRB's conclusion was that a NFP Application of IPSAS should be developed as part of the PBE accounting standards framework.
77. The XRB Board's view is that a useful and cost effective approach to achieve this would be to embed NFP language, examples and additional requirements within the suite of NZ PBE Accounting Standards (i.e. within modified IPSAS primarily) rather than as a separate NFP document.

4. Conclusion

78. The purpose of this Position Paper has been to outline the ASRB/XRB Board's views about the central issue underlying the new accounting standards framework – whether a single or multi standards approach should be adopted. It has deliberately been drafted at a “big picture” level to provide the constituency with an explanation of the process the ASRB went through, the matters it took into account, and the conclusions it drew in reaching its decision that a multi-standards approach is the best approach.
79. The XRB Board is not seeking submissions on this document because all of the matters covered were canvassed in the Discussion Document. The comments of respondents to that Document were carefully considered by the ASRB in reaching the conclusions outlined in this document.
80. The proposal to adopt the multi-standards approach reflects the XRB Board's strategic level decision about the overall shape of the new accounting standards framework. The next step is to establish and agree the detailed elements of that framework.
81. The XRB Board's proposals in relation to those elements are contained in two accompanying Consultation Papers:
- Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities; and
 - Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities.
82. These Consultation Papers outline specific proposals for the number of tiers, the criteria for allocating entities to tiers, the accounting standards that will apply to each tier, and the process and timing for adopting the new frameworks in each sector.
83. The XRB Board is seeking comments from respondents on the specific proposals in the two Consultation Papers. The constituency is encouraged to consider those Papers and make submissions on the questions raised, together with any other comments they wish to make. The closing date for submissions on both the Consultation Papers is Friday 16 December 2011.