



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

**ACCOUNTING STANDARDS FRAMEWORK FOR
GENERAL PURPOSE FINANCIAL REPORTING BY
PUBLIC BENEFIT ENTITIES**

Consultation Paper

September 2011

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Information for Respondents

Invitation to Comment

The External Reporting Board (XRB) is seeking comments on the specific matters raised in this Consultation Paper. Responses to this Consultation Paper will be considered by the XRB Board which will then make final decisions about the accounting standards framework for public benefit entities (PBEs).

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.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.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 indicate 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 **16 December 2011**.

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

Other than submissions that may be defamatory, the XRB intends publishing all submissions on its website <http://www.xrb.govt.nz>. The XRB 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).

List of Abbreviations

The following abbreviations are used in this Consultation Paper.

ASRB	Accounting Standards Review Board
FRA	Financial Reporting Act 1993
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Practice
GPFR	General Purpose Financial Reports
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
NZASB	New Zealand Accounting Standards Board of the External Reporting Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PBE	Public Benefit Entity
RDR	Reduced Disclosure Requirements
SFR	Simple Format Reporting
XRB	External Reporting Board Organisation
XRB Board	Board of the XRB

Executive Summary

This Consultation Paper outlines proposals for the accounting standards framework for public benefit entities (PBEs). The Paper was initially prepared by the Accounting Standards Review Board (ASRB) and has been endorsed by the External Reporting Board (XRB Board) for issue for consultation.

The Consultation Paper has been prepared in the context of the XRB Board's decision to adopt a multi-standards approach as outlined in a separate Position Paper¹.

The XRB Board proposes that the definition of PBEs contained in existing NZ IFRS be retained in the new accounting standards framework. It also proposes that public sector PBEs be defined by reference to the definition of public entities in the Public Audit Act 2001, and that not-for-profit (NFP) entities be defined as all PBEs other than public sector PBEs.

Respondents to the ASRB's Discussion Document issued in September 2009² indicated strong support for using tiers to help match the costs and benefits of reporting. The XRB Board proposes that there be three PBE tiers. The third tier will cover the large number of small-sized PBEs that will be required to report under the Government's recently announced financial reporting framework³.

The majority of respondents did not agree with the Discussion Document suggestion that different tier thresholds be established for public sector and NFP entities. This feedback was considered and the XRB Board now proposes that the same size thresholds, based on (operating) expenses, should apply to all PBEs. It proposes that Tier 1 comprise entities with expenses over \$30 million; Tier 2 comprise entities with expenses between \$2 million and \$30 million; and Tier 3 comprise entities with expenses under \$2 million. The Government's financial reporting framework allows NFP entities with expenses under \$40,000 to report on a cash basis - these entities would comprise a sub-tier within Tier 3.

In addition, the XRB Board proposes that all entities that levy coercive revenue should be allocated to Tier 1 regardless of their size in order to reflect the high level of public accountability they have to taxpayers or ratepayers. The XRB Board also favours including all PBE issuers in Tier 1, again to reflect the accountability of such entities.

The XRB Board proposes that a set of NZ PBE Accounting Standards based on International Public Sector Accounting Standards (IPSAS) be developed for application by PBEs. However, the XRB Board considers it premature to be confident that the risks surrounding the adoption of "pure" IPSAS identified in the Discussion Document and commented on by a significant number of respondents have been adequately mitigated. The XRB Board therefore proposes that the IPSASs included in the NZ PBE standards should be able to be modified as appropriate for New Zealand as part of the development of the NZ PBE standards. They would also be modified to address NFP user needs.

In addition to modified IPSAS, the NZ PBE Accounting Standards could also include other standards to address topics not covered (or covered appropriately) by IPSAS. This would include existing domestic standards (modified as appropriate) such as FRS-42 *Prospective Financial Statements*. Over time these may be expanded to include, for example, a standard covering service performance reporting should an IPSAS on that topic not be developed in the medium term.

The XRB Board proposes that the full NZ PBE Accounting Standards apply to Tier 1 entities, and that a reduced disclosure requirements (RDR) version apply to Tier 2. A RDR approach involves using the same recognition and measurement as required by the full standards but with reduced disclosures. This differs from the current Differential Reporting Framework approach which has some recognition and measurement differences as well disclosure concessions.

The XRB Board proposes that PBE Tier 3 entities should prepare GPFR in accordance with a simple format reporting approach. This was suggested in the Discussion Document and was strongly supported by respondents. The simple format reporting would be based on the same recognition and measurement

¹ The Position Paper is entitled "Accounting Standards Framework: A Multi Standards Approach" and is available on the XRB website: www.xrb.govt.nz.

² 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: www.asrb.co.nz.

³ This is available on the MED website: www.med.govt.nz

as Tier 1 and 2 but possibly with some concessions for Tier 3 entities to reflect the simplified nature of their requirements.

The XRB Board proposes that the target date for public sector PBEs to adopt the NZ PBE Accounting Standards be 1 July 2013; and the target date for adoption by NFP entities be 1 July 2014, with early adoption from 1 July 2013. These proposals are subject to the results of the consultation process, and ability of the New Zealand Accounting Standards Board's (which is a sub-board of the XRB), to develop, consult on and promulgate the PBE Accounting Standard by the third quarter of 2012. The XRB Board considers this a challenging timeline but one that the XRB should target.

The XRB Board is seeking comments from constituents on the proposals outlined in this Consultation Paper. The deadline for submissions is Friday 16 December 2011.

Summary of Questions for Respondents

1. Do you agree that public sector PBEs should be defined by reference to the definition of public entities in the Public Audit Act 2001? If not what alternative would you suggest and why?
2. Do you agree that not-for-profit PBEs should be defined as all PBEs other than public sector PBEs? If not what alternative would you suggest and why?
3. The proposed PBE tier framework incorporates feedback from respondents to the Discussion Document Proposals. Are there any other factors not already considered that you think should be? If so please outline them.
4. Do you agree that all PBE issuers should be allocated to Tier 1 regardless of their size; or do you think that PBE debt issuers that would not otherwise be in Tier 1 should be able to be in Tier 2 but be required to comply with relevant Tier 1 requirements, particularly relating to financial instruments, to ensure that the needs of their users are met?
5. Taking the XRB Board's decision to adopt a multi-standards approach as a given, do you agree that a suite of NZ PBE standards that use IPSAS as its base, but which are modified:
 - for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context; and
 - to make them relevant, applicable and understandable in the NFP contextbe adopted at this juncture (rather than pure IPSAS)? If not what alternative approach would you suggest and why?
6. Do you agree that the same recognition and measurement requirements should apply to all tiers, subject to the possibility of some concessions for Tier 3 entities to reflect the simple nature of their requirements? If you do not agree, please identify the specific recognition and measurement requirements that you think should differ between tiers.
7. Do you agree that a Reduced Disclosure Requirements version of the full NZ PBE Accounting Standards should apply to Tier 2 entities? If not what alternative approach would you suggest and why?
8. Are there any other matters relating to the accounting standards for PBEs that have not already been considered by the XRB Board that you think it should consider? If so please outline them.
9. Do you agree that (a) all public sector PBEs should be required to adopt the NZ PBE Accounting Standards in the same financial year; and (b) the target date for this adoption should be the financial year beginning 1 July 2013? If not what alternative would you suggest and why?
10. Do you agree that the target date for NFP entities to compulsorily adopt the NZ PBE Accounting Standards should be financial years beginning on or after 1 July 2014, with early adoption from 1 July 2013? If not what alternative would you suggest and why?

1. Introduction

1.1 Purpose of this Consultation Paper

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)⁴. That document accompanied a Ministry of Economic Development (MED) discussion document which outlined a proposed new financial reporting framework⁵.
2. Submissions on the Discussion Document closed at the end of January 2010 and seventy-six submissions were received⁶. During 2010 the ASRB considered in depth the feedback received, the evolving trans-Tasman and international accounting standards 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. This conclusion has been endorsed and confirmed by the External Reporting Board (XRB Board)⁷. An explanation of the rationale underlying this decision is provided in a separate Position Paper entitled “Accounting Standards Framework: A Multi Standards Approach”⁸.
4. This Consultation Paper was initially prepared by the ASRB and has been endorsed by the XRB Board for issue for consultation. It outlines the XRB Board’s proposals in relation to the accounting standards framework for public benefit entities (PBEs). A separate consultation paper outlines proposals for the accounting standards framework for for-profit entities⁹.
5. This Consultation Paper has been developed for consultation rather than discussion purposes. Accordingly it contains specific proposals. The XRB Board is seeking feedback on these proposals from constituents. That feedback will be considered by the XRB Board and it is anticipated that a final decision will be made by the end of the first quarter of 2012.

1.2 Definitions

Public Benefit Entity

6. XRB Standard A1 contains the following definition of a PBE:

“A reporting entity whose primary objective is to provide goods or services for 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.”¹⁰

⁴ 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 XRB website: www.xrb.govt.nz.

⁵ The MED document is entitled “The Statutory Framework for Financial Reporting” available on their website: www.med.govt.nz.

⁶ A high level summary of respondent’s views is available on the ASRB website at: www.asrb.co.nz/Site/Financial_Reporting/Board_Deliberations.

⁷ In doing so the Board took account of the anticipated final form of that framework, now reflected in the Government’s announcement.

⁸ This is available on the XRB website: www.xrb.govt.nz.

⁹ This paper “Accounting Standards Framework for General Purpose Financial Reporting by For- Profit Entities” is available on the XRB website: www.xrb.govt.nz.

¹⁰ Appendix A, External Reporting Standard A1: Application of Accounting Standards, External Reporting Board.

7. This definition was adopted from NZ IAS 1 *Presentation of Financial Statements* and is generally accepted and well understood. This being the case the XRB Board proposes to retain this definition (and the related application guidance set out in Appendix A to NZ IAS 1) in the new accounting standards framework.
8. As outlined in Section 3 of this Consultation Paper, the XRB Board envisages slightly different variations of the NZ PBE accounting standards applying to public sector PBEs and not-for-profit (NFP) PBEs. It is therefore necessary to also define these two sectors. This needs to be done in a way that allows entities to self-determine their sector on the basis of defined criteria.
9. The XRB Board considers the distinction between public sector and NFP PBEs to be useful but only as a general device to enable the targeting of requirements to entities to better meet user needs. Accordingly the XRB Board intends to use the distinction intelligently to identify user information requirements, rather than as a definitive sectoral split.

Public Sector

10. It is commonly accepted that the Auditor-General is responsible for auditing all public sector organisations (although some audits may be contracted out). The Auditor-General's mandate is therefore generally accepted as being synonymous with what comprises the public sector. The XRB Board proposes to use this mandate to define the public sector.
11. The Public Audit Act 2001 defines entities that are subject to audit by the Auditor-General as "public entities". The legislative definition is provided in the Appendix to this paper. This definition is all encompassing apart from the fact that it excludes the Audit Office itself as it is independently audited. For the purposes of the accounting standards framework definition the Office of the Auditor-General and other Offices of Parliament would need to be included.
12. The XRB Board therefore proposes that public sector PBEs be defined as:

"Public entities as defined by the Public Audit Act 2001 that are PBEs, and all Offices of Parliament."

NFP Sector

13. Having established which entities are public sector PBEs, all other PBEs must be in the NFP sector. The XRB Board therefore proposes that NFP PBEs be defined as:

"All PBEs other than public sector PBEs"

Summary of Approach

14. The approach to defining which entities fall into which sector is summarised in Figure 1 below.

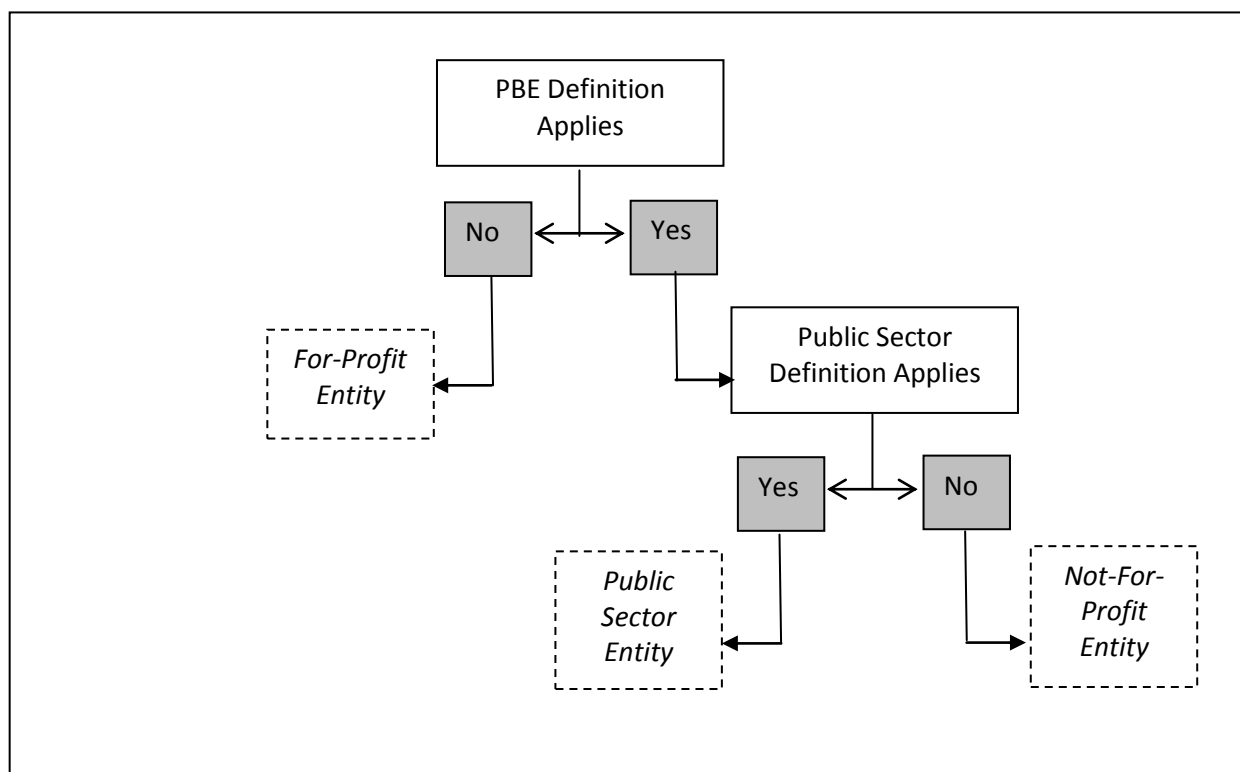
1.3 Government Framework for Public Benefit Entities

15. The accounting standards framework outlined in this Consultation Paper is based on the assumption that the financial reporting framework recently announced by the Government¹¹ will proceed and be reflected in amendments to the Financial Reporting Act 1993 and/or other relevant legislation.
16. The financial reporting framework requirements for public benefit entities to prepare GPFR are summarised in Table 1. Any entity may 'opt-up' to a higher level of requirements, and any entity not required to report may 'opt-in' to the reporting requirements.
17. An important element of the Government's reporting framework is the allowances made for small and micro not-for-profit entities. Statutory provision will be made for entities with operating expenditure less than \$40,000 to prepare GPFR on a cash basis – even though this will not

¹¹ This is available on the MED website: www.med.govt.nz

comply with generally accepted accounting practice (GAAP). All other entities will be required to prepare GAAP compliant, accrual-based financial reports. This distinction is to recognise the relative costs of preparing GPFR for micro entities.

Figure 1: Definition Decision Tree



1.4 Trans-Tasman Harmonisation

18. In developing the PBE accounting standards framework, careful consideration has been given to trans-Tasman harmonisation issues. The XRB Board recognises that there is some value in establishing a common New Zealand-Australia approach to PBE reporting, especially from a standard setting efficiency point of view. However, unlike for-profit entities, the XRB Board is not aware of any PBE entity that has reporting obligations in both jurisdictions. This being the case, the benefits to PBE reporting entities arising from harmonised standards are relatively limited.
19. As outlined in the multi-standards Position Paper, the XRB Board considers the most important issue for the PBE accounting standards framework is for it to address the needs of users in the sector. The XRB Board has concluded that the development of a set of NZ PBE accounting standards based on modified International Public Sector Accounting Standards (IPSAS) is more likely to achieve this, especially over the medium term, than is one based on International Financial Reporting Standards (IFRS).
20. The current Australian approach involves using IFRS as the base for reporting by PBEs, with modifications as appropriate. Although the Financial Reporting Council and the Australian Accounting Standards Board (AASB) have indicated a medium-term aspiration to adopt IPSAS, there is no intention to do so in the short-term.
21. As outlined in the multi-standards Position Paper, the XRB Board considers that it is appropriate for New Zealand to move to NZ PBE standards based on modified IPSAS at this point in time. The XRB Board's view is that the (relatively limited) harmonisation benefits forgone will be more than offset by the greater user needs met through the adoption of a framework based on modified IPSAS.

Table 1: Financial Reporting Framework Requirements for PBEs

Entity	Prepare GPF^R
PBE Public Sector Entities	Yes
Registered Charities with operating expenditure ≥\$40,000	Yes
Registered Charities with operating expenditure <\$40,000	Cash Basis
Charitable Trusts that are not a registered charity	No
Incorporated Societies that are not a registered charity	No
Unincorporated Societies that are not a registered charity	No
Friendly Societies that are fiduciary bodies	Yes
Large ^c Friendly Societies	Yes
Non- large Friendly Societies with operating expenditure ≥\$40,000	Yes but can opt-out ^a
Non- large Friendly Societies with operating expenditure <\$40,000	Cash Basis; can opt-out ^a
Large Industrial and Provident Societies that are not a registered charity	Yes
Non-Large Industrial and Provident Societies with ≥ 10 members that are not a registered charity	Yes but can opt-out ^a
Non-Large Industrial and Provident Societies with < 10 members that are not a registered charity	No but can opt-in ^b
Credit Unions	Yes
Gaming Machine Societies	Yes
NFP Retirement Villages that are Issuers	Yes
NFP Large ^c Retirement Villages	Yes
NFP Non-Large Retirement Villages	Yes
NFP Maori Trust Boards	Yes
Maori Reservations	No
NFP Large ^c Maori Incorporations	Yes
NFP Non-Large Maori Incorporations with operating expenditure ≥\$40,000	Yes
NFP Non-Large Maori Incorporations with operating expenditure <\$40,000	Cash Basis
NFP Large ^c Maori Land Trusts	Yes
NFP Maori Land Trusts with operating expenditure ≥\$40,000	Yes
NFP Maori Land Trusts with operating expenditure <\$40,000	Cash Basis

^a Can opt-out of this requirement if a simple majority of all members support the motion.

^b Can opt-in to this requirement if ≥5% of all members support the motion.

^c Large = \$30 million operating expenditure.

1.5 Questions for Respondents

1. *Do you agree that public sector PBEs should be defined by reference to the definition of public entities in the Public Audit Act 2001? If not what alternative would you suggest and why?*
2. *Do you agree that not-for-profit PBEs should be defined as all PBEs other than public sector PBEs? If not what alternative would you suggest and why?*

2. PBE Tier Structure

2.1 Key Tier Issues

22. Respondents to the Discussion Document strongly supported the use of tiers to help match the costs and benefits of reporting. There was also general support for using sector-based criteria to establish the tiers.
23. This section considers the two key tier issues: the number of PBE tiers; and the criteria to be used for assigning PBE entities to those tiers. The following section outlines proposals for the accounting standards that would apply to each tier.

2.2 Number of Tiers

24. The Discussion Document proposed that there be three PBE tiers and this was widely supported by respondents. Three tiers are considered necessary for the PBE accounting standards framework in order to accommodate the large number of small-sized entities that will be required to report under the Government's financial reporting framework. This contrasts with the framework for the for-profit sector where only two tiers are proposed because most small and medium sized entities will not be required to prepare GPFR. The XRB Board therefore agrees with the ASRB view that the PBE accounting standards framework should comprise three tiers.
25. The XRB Board is, however, conscious of the fact that the majority of NFP entities are small and very few NFP entities are likely to fall within Tier 1 - see paragraph 37. The need for a Tier 1 for NFP entities will therefore be considered further as the PBE accounting standards framework develops.

2.3 Tier Criteria

26. The Discussion Document proposed that entities be allocated to the PBE tiers on the basis of (a) size (based on operating expenditure) and (b) in the case of public sector entities also the nature of the accountability relationship.

Allocation on the Basis of Size

27. There was general support amongst respondents for using expenditure levels to define the PBE tiers.

Expenses

28. The Discussion Document used the term "operating expenditure" and some respondents enquired as to the exact meaning and scope of this term. The XRB Board acknowledges the looseness of this terminology. The intent of the Discussion Document was that the size be determined by reference to expenses as recorded in the Operating Statement and/or Statement of Comprehensive Income. The XRB Board therefore proposes that expenses, with no exclusions or exemptions, be used to define the size criterion for the PBE tiers.

Single Set of Thresholds

29. The Discussion Document proposed that the size thresholds for NFP entities should be half the size thresholds applying to public sector PBE entities. This was to reflect the impact of unrecorded volunteer time. The majority of respondents did not agree with this rationale and there was a strong view that the same (i.e. higher) thresholds should apply to both public sector PBEs and NFP PBEs. The XRB Board is persuaded by the arguments that there is variable practice when it comes to adjusting for volunteer time and setting different thresholds does not take account of that; and that a lower threshold may create a disincentive to report such activity. The XRB Board therefore proposes that the same expense tier thresholds should apply to both public sector and NFP PBEs.

Threshold Values

30. In relation to specific threshold values, there was general (although not unanimous) agreement with the amounts proposed in the Discussion Document for public sector PBEs: \$20 million for Tier 1; \$2 million for Tier 2 and less than \$2 million for Tier 3.
31. The \$20 million threshold proposed in the Discussion Document was based on the definition of “large” in the MED Discussion Document. However, as outlined in Section 1.3, the Government’s recently announced financial reporting framework has defined large in the PBE sector as \$30 million in expenses. The XRB Board considers that, in the interests of simplicity, this same amount should be used to define Tier 1.
32. The XRB Board’s view is that the \$2 million threshold for Tier 2 continues to be appropriate.
33. In relation to Tier 3, the XRB Board notes that the Government’s financial reporting framework includes a cash-accounting tier for NFP entities with operating payments under \$40,000. This effectively creates a sub-tier within Tier 3.
34. The XRB Board proposes the following PBE tier size thresholds:

Tier	Threshold
1	Expenses over \$30 million
2	Expenses between \$2 million and \$30 million
3	Expenses under \$2 million; with a cash sub-tier for NFP PBEs with operating payments under \$40,000.

35. The thresholds would be updated periodically on an indexed basis.
36. The available data for the public sector¹² suggests that there will be a reasonable distribution of entities across the three tiers and that this structure is likely to be reasonably efficient from a standard setting cost-benefit perspective.
37. However, the distribution of entities in the NFP sector is heavily weighted towards the bottom end. Data from the Charities Commission indicates that the vast majority of registered charities (96%) will fall within Tier 3 with 58% falling within the cash sub-tier. The number of registered charities in Tiers 1 and 2 are relatively small: around 765 (3.5%) in these two tiers with less than 50 (or 0.2%) in Tier 1. The exact number of non-charity NFPs falling into each of these tiers is unknown but based on the Statistics New Zealand data included in Table 3 of the Discussion Document is likely to be broadly proportional to the registered charities data (although the vast majority of non-charity NFPs are not required to prepare GPFR under the Government’s framework).
38. The likely small number of Tier 1 NFP entities calls into question the cost-benefit (from a standard setting perspective) of having a separate tier for these entities. As outlined in paragraph 25, this will be considered further as detailed development of the PBE accounting standards framework progresses.

Application of Size Criterion to Schools

39. In commenting on the size thresholds, a small number of respondents to the Discussion Document suggested that all schools should be in the same tier regardless of size.
40. Data provided by the Ministry of Education indicates that of the approximately 2,500 state and integrated schools, around 1,870 would fall into Tier 3 and around 630 would fall into Tier 2. No schools would fall into Tier 1. If all schools were required to report as Tier 2, a large number of schools would be required to report at a higher level than the expenditure thresholds would

¹² See Table 3 of the Discussion Document.

suggest are appropriate. This could be justified only if the cost of the additional disclosures was outweighed by the additional benefits. The XRB Board does not consider this to be the case.

41. The XRB Board notes that part of the respondents' concerns relate to the consolidation of schools into a set of sectoral accounts. However, in Section 3 of this Consultation Paper it is proposed that there be no (or at least limited) significant recognition and measurement differences between reporting requirements for the tiers. This being the case the ability to consolidate will not be compromised by allocating schools across Tiers 2 and 3. Further, the Ministry of Education is in a position to request additional information for consolidation purposes if required.
42. The XRB Board therefore proposes that the tier size thresholds apply to schools in the same manner as for other PBEs.

Allocation on the Basis of the Nature of Accountability

Leviers of Coercive Revenue

43. The Discussion Document proposed that, in addition to the size criterion, all public sector PBEs that levy coercive revenue should be allocated to Tier 1 regardless of their size. This approach reflects the primary public accountability that exists between levying entities and taxpayers/ratepayers. The Discussion Document suggested 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.
44. Relatively few respondents commented on the leviers of coercive revenue criterion but those that did, generally supported it. However, concerns were raised about the compliance cost implications for small coercive leviers in the local government sector.
45. There are two broad ways in which small coercive leviers could be dealt with:
 - All allocated to Tier 1 regardless of size; or
 - Allocated to tiers on the basis of the size criterion regardless of the fact that they are coercive leviers.
46. In considering these options, the analytical issue is whether the benefit of the additional disclosures required by categorising these entities in Tier 1, outweighs the cost of doing so. The main argument in this regard is that the public accountability obligations on coercive revenue leviers are higher than on other public sector entities and therefore a higher standard of reporting should be required.
47. On balance, the XRB Board accepts this argument and notes that such an approach is consistent with the proposal for the for-profit accounting standards framework to include all issuers in Tier 1 regardless of their size. The XRB Board therefore proposes that all coercive revenue leviers be allocated to Tier 1 regardless of their size.

PBE Issuers

48. With one exception, there was agreement amongst respondents with the Discussion Document proposal that PBEs that are issuers should fall within the PBE framework rather than the for-profit framework. The majority of respondents also agreed with the Discussion Document proposal that all PBE issuers should be allocated to either Tier 1 or Tier 2. However, a few respondents suggested that all issuers should be allocated to Tier 1.

49. In the proposed accounting standards framework for for-profit entities¹³ the XRB Board has proposed that all issuers should be in Tier 1 regardless of size. The coherence and consistency of the overall framework would be enhanced by applying a similar approach in the PBE sector.
50. However, such a requirement might impose significant costs on small debt security issuers. It could be particularly costly for entities that are small and which issue simple debt securities – often to parties who regard them more as a deferred donation than an investment. In this situation Tier 1 compliance costs could be out of proportion to the benefits resulting to the investing users.
51. An alternative approach would be to allow PBE debt security issuers that would not otherwise be in Tier 1 to report in accordance with Tier 2, but in addition be required to comply with relevant Tier 1 requirements particularly relating to financial instruments. Requiring compliance with relevant Tier 1 requirements would help ensure that the needs of their debt- provider users are appropriately met.
52. The XRB Board favours including all PBE issuers in Tier 1 in the same way that for-profit issuers are required to report under Tier 1. However, the XRB Board is keen to get further feedback from constituents on this issue and, in particular, views on what information users need from such entities and in that context the relevance of the alternative approach.

2.4 Summary of Proposals

53. The XRB Board's proposals in relation to the tier structure for public benefits entities are as follows:
 - There be three tiers, with the need for a Tier 1 for NFP entities to be considered further as detailed development of the PBE accounting standards framework progresses;
 - Tier 1 comprise:
 - Entities with expenses over \$30 million;
 - All coercive revenue leviers regardless of size; and
 - All PBE issuers regardless of size;
 - Tier 2 comprise entities with expenses between \$2 million and \$30 million;
 - Tier 3 comprise entities with expenses under \$2 million, with a cash sub-tier for NFP entities with expenses under \$40, 000¹⁴;
 - Schools be allocated to tiers on the basis of their size; and
 - Entities be able to opt-up to a higher tier.

2.5 Questions for Respondents

3. *The proposed PBE tier framework incorporates feedback from respondents to the Discussion Document Proposals. Are there any other factors not already considered that you think should be? If so please outline them.*
4. *Do you agree that all PBE issuers should be allocated to Tier 1 regardless of their size; or do you think that PBE debt issuers that would not otherwise be in Tier 1 should be able to*

¹³ See the consultation paper entitled "Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities" which can be found at www.xrb.govt.nz.

¹⁴ Given that the cash basis will be used in the sub-tier, this threshold will most likely have to be measured on a cash basis i.e. operating payments as reported in the Statement of Cash Flows.

be in Tier 2 but be required to comply with relevant Tier 1 requirements, particularly relating to financial instruments, to ensure that the needs of their users are met?

3. Accounting Standards

3.1 NZ PBE Accounting Standards

Response to Discussion Document Proposals

54. The Discussion Document proposed that PBE Accounting Standards comprising IPSAS (for Public Sector entities) and a NFP Application (for NFP entities) be developed for the PBE sector. It proposed that the NFP Application be a version of IPSAS modified for application in the not-for-profit sector.
55. Respondents were fairly evenly split between those supporting and those not supporting the use of IPSAS. Those opposed to the proposal mostly did so because they preferred a single standards framework. There was much stronger support for the NFP Application proposal, particularly from respondents involved in the NFP sector. Again those opposed to the proposal did so because of their preference for an enhanced equivalents approach.
56. As outlined in the multi-standards Position Paper, the XRB Board considers IPSAS provides a better basis for PBE reporting than does IFRS because the International Public Sector Accounting Standards Board (IPSASB) conceptual framework is being developed for a wider set of users, notably service recipients as well as resource providers. It is for this reason that a multi-standards approach has been adopted¹⁵.

Modified IPSAS as the Base

57. The Discussion Document proposed that “pure” IPSAS be adopted as part of the PBE Accounting Standards. A key reason for this was to reduce standard setting costs. A number of respondents raised concerns about some technical aspects of IPSAS as well as the lack of standards on certain topics. The IPSAS Working Group¹⁶ also identified a small number of key technical areas that would need to be considered including the potential unsuitability of the IPSAS government business enterprise definition; the IPSAS definition of control; and the optional requirement to report heritage assets.
58. Some respondents also expressed concerns about the IPSASB governance and funding arrangements. As outlined in the multi-standards decision paper the XRB Board considers that these concerns are being addressed by both IPSASB and the International Federation of Accountants (IFAC – IPSASB’s parent body). The progress on these issues is encouraging and the momentum relatively comforting compared to the position 24 months ago when the Discussion Document was issued.
59. However, there is still some ongoing concern that, despite the positive “direction of travel”, the governance and funding issues have not yet been fully resolved. Further, the IPSASB conceptual framework is still under development, although again the indications are positive.
60. Given these factors, the XRB Board considers that it is premature to be confident that the risks surrounding the adoption of “pure” IPSAS have been adequately mitigated. Accordingly, some degree of “domestic insurance” (as one respondent put it) is required over the short to medium term to ensure that New Zealand can address any aspects of IPSAS that are considered inappropriate in our context – including the technical issues identified by the IPSAS Working Group.
61. The XRB Board therefore proposes that a set of NZ PBE Accounting Standards, using modified IPSAS as their base, be developed. The modifications would be for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context at this

¹⁵ See the Position Paper “Accounting Standards Framework: A Multi Standards Approach” for a fuller discussion of this issue. The paper is available at: www.xrb.govt.nz.

¹⁶ This Working Group consisted of staff from the ASRB, FRSB and Office of the Auditor-General. It was established by the ASRB to assess the viability of IPSAS from a technical perspective. A copy of the Working Group’s report can be found at: www.asrb.co.nz/Site/Financial_Reporting/Viability_of_IPSAS.aspx.

time. The XRB Board envisages that modifications would only be made where the IPSAS requirement in question would have a material impact on the financial position or performance being reported, and that impact would adversely detract from the reports' usefulness to users. Based on the work of the IPSAS Working Group, the XRB Board would expect the modifications to be relatively few in number.¹⁷

62. The XRB Board will continue to monitor the development of IPSAS. A move to "pure" IPSAS is an aspiration over the longer term.
63. The NZ PBE Accounting Standards would also include additional standards to replace any IPSAS that is wholly inappropriate, or that are required to fill any gaps in IPSAS. The latter would include existing standards such as FRS- 42 *Prospective Financial Statements* and FRS-43 *Summary Financial Statements*, modified as appropriate for PBEs. Over time the additional standards may be expanded to include, for example, a standard covering service performance reporting should an IPSAS on this topic not be developed in the medium term.

Modifications for NFPs

64. The ASRB established a working group to assess the viability of IPSAS for use by NFP entities. The Working Group concluded that IPSAS is generally suitable for use by NFPs but that there are a number of substantive issues that will most likely require modifications or additions to particular IPSASs to make them relevant in the NFP sector. Examples include the application of the concept of control in the NFP context; the definition and application of liabilities and equity in the NFP context; the recognition of uncompleted contracts (and associated revenue and expenditure flows) that span more than one financial period; the recognition and measurement of goods and services in kind, particularly volunteer time; and the disclosure of transactions that are key to understanding performance in the sector, particularly donations and fundraising revenue, members fees, and fundraising costs.¹⁸
65. The Working Group also noted that understandability and perception of relevance are significant issues for preparers in the NFP sector. It therefore advised that IPSAS needs to be modified to place them in a NFP context and that NFP examples and implementation guidance should be provided to help understanding in the sector. An explanatory front-end should also be provided to outline the basis on which the NFP modifications have been developed.
66. In light of these recommendations, the XRB Board proposes that the standards making up the NZ PBE Accounting Standards (primarily - but not solely - modified IPSAS) also be modified to make them relevant, applicable and understandable to NFP sector preparers and users. The XRB Board sees this as occurring primarily through modified or additional paragraphs embedded within the NZ PBE standards, rather than by way of a separate "NFP Application" as proposed in the Discussion Document. If necessary additional NFP specific standards could be developed as part of the NZ PBE standards suite, although the XRB Board considers that this would be only required in relatively rare instances.

NZ PBE Accounting Standards

67. In summary, the XRB Board proposes that:
 - a suite of NZ PBE Accounting Standards be established;
 - the NZ PBE Standards comprise modified IPSAS together with other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS; and
 - as part of the process of developing the NZ PBE standards, the base standards (mostly IPSASs) be modified as appropriate for New Zealand public sector

¹⁷ Any proposed modifications will be consulted on in accordance with normal due process.

¹⁸ This Working Group consisted of members of the ASRB and the then NZICA Not-For-Profit Sector Advisory Group. A copy of the Working Group's report can be found at: www.asrb.co.nz/Site/Financial_Reporting/Viability_of_a_NFP_Application.aspx

circumstances and to make them relevant, applicable and understandable in the NFP context.

3.2 Accounting Standards for each Tier

Tier 1: Full Standards

68. The XRB Board proposes that the accounting standards for Tier 1 entities should be the full NZ PBE Accounting Standards. This reflects the relative costs and benefits of reporting by entities in this tier.

Tier 2: Reduced Disclosures

69. The XRB Board proposes that a reduced disclosure requirements (RDR) approach apply to Tier 2 entities. A RDR approach involves using the same recognition and measurement requirements as those required under the full standards but with reduced disclosures. This differs from the current Differential Reporting Framework approach which has some recognition and measurement as well disclosure concessions.
70. The XRB Board sees significant advantages in maintaining consistent recognition and measurement requirements across the tier structure. These include:
- preparers and users need to be familiar with only one set of recognition and measurement requirements which are applied in all tiers;
 - the comparability of financial information between tiers is enhanced;
 - the preparation of consolidated financial statements where a group comprises entities in both tiers is simplified; and
 - the movement of entities between tiers is easier and less costly.
71. The XRB Board is also proposing an RDR approach for Tier 2 for-profit entities and adopting it for PBEs would enhance consistency and coherence across the overall accounting standards framework¹⁹. The IPSAS Working Group and the NFP Application Working Group both recommended a RDR approach be adopted.
72. The exact disclosure concessions to be included in the PBE RDR have not at this stage been determined. However, the XRB Board envisages that they would apply across the whole suite of NZ PBE Accounting Standards as appropriate. The extent of the reduced disclosures would reflect the relative costs and benefits of entities in the Tier 2 size range. The RDR proposed for for-profit entities provides an indication of the likely nature and extent of reduced disclosures that would be included in the PBE RDR²⁰.
73. The XRB Board envisages that the RDR concessions for Tier 2 entities would be included in the PBE Accounting Standards in a manner similar to the way they are reflected in the for-profit RDR Exposure Draft. This would allow all of the Tier 1 and Tier 2 requirements to be contained in one set of standards for ease of reference and understanding.

Tier 3: Simple Format Reporting

74. The XRB Board proposes that PBE Tier 3 entities should prepare GPFR in accordance with a simple format reporting approach. This was suggested in the Discussion Document and was strongly supported by respondents.

¹⁹ See the consultation paper entitled "Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities" which can be found at www.xrb.govt.nz.

²⁰ See the For-Profit RDR Exposure Draft attached to the for-profit reporting consultation paper entitled "Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities" which can be found at www.xrb.govt.nz.

75. It is envisaged that the simple format reporting requirements would contain templates that Tier 3 entities would use to prepare their financial reports. These templates would identify the various financial and non-financial items to be reported in the financial reports and a suggested format for doing so. A number of alternative templates would be provided including templates for public sector entities, NFP entities that prepare reports on an accrual basis, and NFP entities with operating expenditure under \$40,000 that would prepare reports on a cash basis (see Section 1.3). Flexibility would be provided to allow entities to adapt the templates/formats to their own circumstances provided that specified minimum disclosures are provided.
76. In broad terms the recognition and measurement requirements applying to the simple format reporting would be the same as those applying to Tier 1 and 2 entities (i.e. the full NZ PBE Accounting Standards recognition and measurement requirements). However, it is possible that some concessions may be required to reflect the “simple” nature of the Tier 3 requirements. The nature of these recognition and measurement concessions for Tier 3 entities, if any, will be determined as part of the process of developing the simple format reporting requirements.
77. As outlined in paragraph 83, work to develop simple format reporting requirements for Tier 3 NFP entities has already commenced. Once developed, these requirements will be subject to the normal consultation and exposure draft process.
78. The XRB Board envisages the simple format reporting requirements will be published in a separate document from the Tier 1 and 2 NZ PBE standards. This will make the Tier 3 requirements more accessible and easier to understand for users and preparers.

Initial Steps and Further Considerations

79. Providing that there is general agreement to the approach proposed for PBE reporting, the next step will be for the New Zealand Accounting Standards Board (NZASB) (a sub-board of the XRB) to develop the proposed NZ PBE Standards suite including the RDR elements. These proposed standards will then be exposed (in one or more tranches) for comment. The Tier 3 Simple Format Reporting standard will be prepared simultaneously and also issued as an exposure draft for consultation.
80. As part of the process of developing the PBE Standards suite the XRB Board will further consider the cost-benefit (from a standard setting perspective) of having a Tier 1 for NFP entities. As outlined in paragraph 37, there are likely to be relatively few NFP entities in this Tier and therefore the costs of establishing and maintaining the tier may be disproportionately high.
81. Given this it may be more suitable to combine the NFP Tiers 1 and 2 into a single tier. The difficulty with having a single tier for NFP entities is establishing what standards requirements would apply to that single tier: the full NZ PBE standards; or the RDR. The full NZ PBE standards approach would result in all entities over \$2 million having to comply with the full set of standards requirements. This would not take account of the cost/benefit trade-off allowed for with the RDR. Conversely, applying the RDR would result in large NFP entities (albeit relatively few of them) being exempted from some full reporting requirements that would not be allowed if they were in other sectors – creating an incentive to arbitrage between sectors.
82. The XRB Board is not currently in a position to take a view on this. Before doing so it would like to have a better understanding of the likely content of the full NZ PBE standards (with NFP modifications) and the RDR. That in turn requires the substantive work necessary to develop those standards to be completed. The XRB Board will reconsider the need for both Tier 1 and Tier 2 for NFP entities as part of that development process.
83. As an initial step towards the development of the Simple Format Reporting requirements, the ASRB established a NFP Simple Format Reporting Working Group. The Working Group’s role was to undertake some initial thinking about the simple format templates. The Working Group has completed its work and its report is expected to be published shortly.

3.3 Summary of Proposals

84. The XRB Board's proposals in relation to accounting standards for PBE entities are that:

- PBE entities would be required to apply a suite of NZ PBE Accounting Standards when preparing GPFR. The NZ PBE Accounting Standards would consist of modified IPSAS (modified as appropriate for New Zealand circumstances), together with other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS. The NZ PBE standards would also be modified to make them relevant, applicable and understandable in the NFP context;
- The full NZ PBE Accounting Standards would apply to Tier 1 entities;
- A set of Reduced Disclosure Requirements (RDR) would apply to Tier 2 entities;
- A simple format reporting approach would apply to Tier 3 entities; and
- The same recognition and measurement requirements would apply to all tiers, subject to the possibility of some concessions for Tier 3 entities to reflect the simple nature of their requirements.

3.4 Questions for Respondents

5. *Taking the XRB Board's decision to adopt a multi-standards approach as a given, do you agree that a suite of NZ PBE standards that use IPSAS as its base, but which are modified:*

- *for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context; and*
- *to make them relevant, applicable and understandable in the NFP context*

be adopted at this juncture (rather than pure IPSAS)? If not what alternative approach would you suggest and why?

6. *Do you agree that the same recognition and measurement requirements should apply to all tiers, subject to the possibility of some concessions for Tier 3 entities to reflect the simple nature of their requirements? If you do not agree, please identify the specific recognition and measurement requirements that you think should differ between tiers.*

7. *Do you agree that a Reduced Disclosure Requirements version of the full NZ PBE Accounting Standards should apply to Tier 2 entities? If not what alternative approach would you suggest and why?*

8. *Are there any other matters relating to the accounting standards for PBEs that have not already been considered by the XRB Board that you think it should consider? If so please outline them.*

4. Adoption and Transition Arrangements

4.1 Transition Issues

85. The changes to the financial reporting framework announced by the Government will be given effect through amendments to the Financial Reporting Act 1993 (FRA) and other relevant legislation. Those amendments will include the changes to which entities have to prepare GFPR, as outlined in Section 1.3 of this Consultation Paper.
86. It is expected that a Bill containing the amendments will be introduced to Parliament in 2012 with an anticipated commencement date in the middle of 2013. Until that time the existing legislative provisions remain in force. This will not affect the PBE public sector as there will be no change to the entities required to prepare GPFR as a result of the legislative changes. However, a significant number of NFP entities (particularly registered charities) will be required to prepare GPFR for the first time once the legislative changes come into force. This will be a substantial change for these NFP entities and the transition to the new accounting standards framework needs to take this into account.

4.2 Proposed Transition Approach

87. This section outlines a proposed approach for transitioning to the new PBE standards framework. The transition to the new arrangements is, of course, conditional on the decisions reached as a result of the consultation on this Paper. The inclusion of transition approach proposals is not intended to anticipate the results of that consultation. Rather it is to allow consultation on the proposed transition approach in addition to the standards framework itself.
88. In light of the different starting points, the XRB Board proposes that separate transition timelines and approaches should be adopted for public sector PBEs and for NFP PBEs.

Public Sector PBEs

89. As the same public sector PBEs will be required to prepare GPFR after the legislative changes as before them, it would be possible for the public sector aspects of the PBE accounting standards framework to be implemented independently of the enactment of the legislation.
90. In terms of transition approaches, the XRB Board considers it preferable for all public sector PBEs to move to the new accounting standards framework at the same date. This is because the Crown consolidation, and the comparisons undertaken between local government entities, makes it important that different entities report on a comparable basis in the same period if at all possible.
91. The vast majority of the PBE public sector is on a June balance date, meaning that the new standards framework would need to apply from a period beginning 1 July. In the XRB Board's view the earliest such date that transition could occur would be the financial year beginning 1 July 2013²¹. Later adoption dates (e.g. 1 July 2014) could, of course, also be possible options.
92. Provided that there is general agreement about the content of the PBE accounting standards framework resulting from this consultation process, the XRB Board favours an earlier rather than later transition. An early transition would allow the concerns about the use of IFRS in the PBE public sector to begin to be addressed at an early opportunity. Further, the IPSAS Working Group identified relatively few current differences between NZ IFRS and IPSAS, but recognised that these are expected to increase over the next 2-3 years as a result of the IASB and IPSASB work programmes. Transitioning from NZ IFRS to NZ PBE standards sooner rather than later would help minimise the extent of adjustment required at the transition.
93. However, an early transition (i.e. 1 July 2013) would represent a significant challenge for the XRB and its standard setting sub-Board the NZASB. It would require the development, consultation

²¹ Even assuming that standards could be in place by 1 July 2012, this date would be too early for compulsory adoption as it would allow insufficient time for comparatives to be established.

and promulgation of the public sector aspects of the NZ PBE Accounting Standards to be completed by early in the third quarter of calendar 2012 (this timing would be necessary for entities to be able prepare comparative information for the 2012/2013 financial year on the basis of the new framework).

94. The XRB Board recognises that achieving this timeline implies a significant workload for the NZASB. However, the NZASB would not be starting from scratch – IPSAS exists as do PBE paragraphs of NZ IFRS for use where relevant. The task can be made more manageable by only including existing standards in the transitional NZ PBE standards. Additional (new) standards to fill the gaps could be developed after the initial transition.
95. On balance the XRB Board considers that, if there is general agreement to the PBE accounting standards framework proposals contained in this Consultation Paper, then it is highly desirable for the public sector to move to the new arrangements at the earliest opportunity. The XRB Board's proposal is therefore that financial years beginning on or after 1 July 2013 be the *target* date for the compulsory adoption of NZ PBE Accounting Standards by public sector PBEs. However, the achievability of meeting this target date would be monitored and reassessed as the standards development process progresses.

NFP Entities

96. Most Registered Charities (and relevant other NFP entities) currently have no statutory obligation to prepare GPFR or to comply with GAAP. This means that until the legislative changes come into force compliance with the new accounting standards framework will be purely voluntary for these entities.
97. In light of this, and the likely need for extensive education about the changes within this sector, the XRB Board considers that a slower transition timeframe would be more appropriate for the NFP sector. Accordingly, the XRB Board proposes that the *target* date for the compulsory adoption of the NZ PBE Accounting Standards by NFP entities be for financial years beginning on or after 1 July 2014 or such other later date as the legislative changes come into force (provided that there is general agreement about the NFP aspects of the framework outlined in this Consultation Paper).
98. Although 2014 is the proposed target date, the XRB Board's view is that it should be possible to incorporate NFP language and examples into the version of the NZ PBE standards developed for public sector PBEs for adoption on 1 July 2013. This would mean that the initial suite of NZ PBE standards (that the XRB Board proposes be issued in the third quarter of 2012) would be relevant to NFPs, if not comprehensively so. This would allow NFP entities to voluntarily adopt this suite of standards from 1 July 2013 if they wanted to. Under this approach a more comprehensive version of the NZ PBE standards, incorporating the full set of NFP modifications would then be developed for the compulsory adoption from 1 July 2014.
99. The XRB Board recognises that the vast majority of NFP entities are likely to be using simple format reporting (assuming that there is general agreement with the NFP aspects of the framework outlined in this Consultation Paper). It would therefore be useful if this was developed at an early opportunity. The XRB Board's proposal is therefore that the simple format reporting requirements be developed, consulted on and promulgated in time for entities to early (voluntarily) adopt this from 1 July 2013 if they wish to²².
100. In summary the XRB Board's transition proposals for NFP entities are that:
 - NZ PBE Accounting Standards incorporating accounting standards for public sector PBEs and also using appropriate NFP language and examples be available for voluntary adoption by NFP entities for financial years beginning on or after 1 July 2013;

²² It is for this reason that the ASRB established the NFP Simple Format Reporting Working Group.

- NFP Simple Format Reporting requirements be available for voluntary adoption by NFP entities for financial years beginning on or after 1 July 2013; and
- the NFP aspects of the NZ PBE Accounting Standards be required to be adopted from 1 July 2014 or such other later date as the legislative changes comes into force.

4.3 Summary of Proposals

101. The proposed transition approach is summarised in Table 2 below.

Table 2: Proposed Transition to PBE Accounting Standards

Transition Step	Date	Standards Applying	
		Public Sector PBEs	NFP PBEs
Current	Until 1/7/13	NZ IFRS including PBE requirements	Mostly no requirements
Step 1	1/7/13	NZ PBE Accounting Standards (full IPSAS, RDR, SFR) (compulsory)	<ul style="list-style-type: none"> • NZ PBE Accounting Standards (developed for public sector entities with NFP language but no specific NFP enhancements; voluntary adoption) • NFP Simple Format Reporting Book (voluntary adoption)
Step 2	1/7/14		NZ PBE Accounting Standards incorporating NFP enhancements (Full, RDR, SFR) (compulsory adoption)
Step 3	Ongoing	New NZ PBE Accounting Standards developed and issued	

4.4 Questions for Respondents

9. *Do you agree that (a) all public sector PBEs should be required to adopt the NZ PBE Accounting Standards in the same financial year; and (b) the target date for this adoption should be the financial year beginning 1 July 2013? If not what alternative would you suggest and why?*
10. *Do you agree that the target date for NFP entities to compulsorily adopt the NZ PBE Accounting Standards should be financial years beginning on or after 1 July 2014, with early adoption from 1 July 2013? If not what alternative would you suggest and why?*

Appendix: Public Entities

Extract from the Public Audit Act: Section 5

- (1) In this Act, **public entity** means each of the following entities:
 - (a) the Crown;
 - (b) each office of Parliament, except where another auditor has been appointed for that office under section 45F(1)(b) of the Public Finance Act 1989;
 - (c) an entity of a class described in Schedule 1;
 - (d) an entity listed in Schedule 2;
 - (e) an entity in respect of which the Auditor-General is the auditor under any other enactment (other than section 19);
 - (f) an entity which is controlled by 1 or more entities of the kinds referred to in paragraphs (a) to (e).
- (2) For the purposes of subsection (1)(f), an entity is controlled by 1 or more other entities if—
 - (a) the entity is a subsidiary of any of those other entities; or
 - (b) the other entity or entities together control the entity within the meaning of any relevant approved financial reporting standard; or
 - (c) the other entity or entities can together control directly or indirectly the composition of the board of the entity within the meaning of sections 7 and 8 of the Companies Act 1993 (which, for the purposes of this paragraph, are to be read with all necessary modifications).
- (3) Despite subsections (1) and (2), an entity is not a public entity if,—
 - (a) but for this subsection, it would be a public entity only by virtue of the application of both subsection (1)(f) and subsection (2)(c); and
 - (b) it is specifically referred to in an enactment (either by name or otherwise); and
 - (c) that enactment expressly requires or permits its financial statements to be audited by a person other than the Auditor-General.

Schedule 1 **Classes of public entities**

Administering bodies as defined in section 2(1) of the Reserves Act 1977, except any Board as defined in that section.

Airport companies authorised by the Airport Authorities Act 1966 to exercise the functions of a local authority.

Community trusts continued in existence by section 298 of the Local Government Act 2002.

Community trusts continued in existence by section 298 of the Local Government Act 2002:

Community trusts established or amalgamated under Part 9A of the Sale of Liquor Act 1989.

Community trusts established or amalgamated under Part 9A of the Sale of Liquor Act 1989:

Council-controlled organisations means council-controlled organisations as defined in section 5(1) of the Local Government Act 2002

Crown entities as defined in section 7 of the Crown Entities Act 2004.

Departments of the public service as listed in Schedule 1 of the State Sector Act 1988.

Educational bodies funded under the Education Act 1989 in respect of 1 or more Rural Education Activities Programmes.

Energy companies which are public entities under section 45(1) of the Energy Companies Act 1992.

Intelligence and security departments as defined by section 2(1) of the Public Finance Act 1989.

Licensing trusts constituted by section 185 of the Sale of Liquor Act 1989 or specified in Schedule 3 of that Act.

Local authorities means local authorities as defined in section 5(1) of the Local Government Act 2002.

Maori Trust Boards as defined in section 2 of the Maori Trust Boards Act 1955, but not subsidiaries of those Boards.

Marketing authorities as defined in section 2 of the Primary Products Marketing Act 1953.

Organisations named or described in Schedule 4 of the Public Finance Act 1989.

Port companies as defined in section 2 of the Port Companies Act 1988.

Provincial Patriotic Councils constituted by section 15 of the Patriotic and Canteen Funds Act 1947.

Sinking Fund Commissioners whose establishment is preserved by section 21(1)(h) of the Local Government Amendment Act (No 3) 1996.

State enterprises as listed in Schedule 1 of the State-Owned Enterprises Act 1986.

Trustees as defined in section 2 of the Burial and Cremation Act 1964.

Schedule 2
Specific public entities not falling within any class

Armed Forces Canteen Council
Arts boards
Auckland Aotea Centre Board of Management
Building Practitioners Board
Canterbury Museum Trust Board
Carter Observatory
Chartered Professional Engineers Council
Costley Training Institution
Council of Legal Education
Dempsey Trust
Electrical Workers Registration Board
Engineering Associates Registration Board
Export Guarantee Office
Fishing Industry Board
Maori Purposes Fund Board
Maori Soldiers Trust
Maori Television Service
Maori Trustee
Masterton Trust Lands Trust
Montfort Trimble Foundation
Museum of Transport and Technology
New Zealand Council for Educational Research
New Zealand Defence Force
New Zealand Historic Places Trust
New Zealand Horticulture Export Authority
New Zealand Maori Arts and Crafts Institute
New Zealand Registered Architects' Board
New Zealand Vice Chancellors' Committee
Ngarimu VC and 28th (Maori) Battalion Memorial Scholarship Fund
Ngati Whakaue Education Endowment Trust Board
Nursing Council of New Zealand
Office of the Clerk of the House of Representatives
Otago Museum Trust Board
Pacific Islands Polynesian Education Foundation
Parliamentary Counsel Office
Parliamentary Service
Plumbers, Gasfitters, and Drainlayers Board
Poutama Trust
Queen Elizabeth the Second National Trust
Reserve Bank of New Zealand
Riccarton Bush Trustees
Selwyn Plantation Board Limited
Taranaki Scholarships Trust Board
Taratahi Training Centre (Wairarapa) Trust Board
The New Zealand Police
Tokelau Administration
Valuers Registration Board
Waitangi National Trust Board
War Pensions Advisory Board
West Coast Development Trust
Winston Churchill Memorial Trust