



**EXPLANATORY GUIDE A1: ACCOUNTING STANDARDS
FRAMEWORK (FOR-PROFIT ENTITIES PLUS PUBLIC SECTOR
PUBLIC BENEFIT ENTITIES PLUS NOT-FOR-PROFIT ENTITIES
UPDATE) (with legislative compilation)**

**(EG A1 (FP Entities + PS PBEs + NFPs Update) (with legislative
compilation))**

Issued by the External Reporting Board

February 2014

Relevant to reporting periods beginning on or after 1 April 2015

This Explanatory Guide outlines the reporting requirements for entities that have a statutory obligation (or optionally elect under an enactment) to prepare general purpose financial reports in accordance standards issued by the External Reporting Board (XRB). It also sets out the roles and functions of the XRB and its sub-Board the New Zealand Accounting Standards Board (NZASB) in issuing accounting standards and authoritative notices.

XRB A1 Amendments to XRB A1: Omnibus Amendments (Legislative Update) issued in February 2014 amended various paragraphs of XRB A1 (For-profit Entities plus Public Sector Public Benefit Entities Update) to reflect legislative changes. Those amendments are applicable by:

- a for-profit entity for annual periods beginning on or after 1 April 2014, with earlier application not permitted;
- a Public Sector PBE for annual periods beginning on or after 1 July 2014, with earlier application not permitted; and
- a NFP PBE for annual periods beginning on or after 1 April 2015, with earlier application permitted from 1 April 2014.

This Explanatory Guide is based on Standard XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation). It is an explanatory document and has no legal status.

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(EG A1 (FP ENTITIES + PS PBEs + NFPs UPDATE) (with legislative compilation))

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1. Introduction

Purpose and Content of this Explanatory Guide

- 1 This Explanatory Guide (EG) provides an overview of the reporting requirements for entities that have a statutory obligation (or that optionally elect under an enactment) to prepare general purpose financial reports (GPFR) in accordance with XRB standards. It is relevant for reporting by entities for annual or interim reporting periods beginning on or after 1 April 2015.
- 2 The contents of this Explanatory Guide reflect the requirements of Standard XRB A1 *Accounting Standards Framework (For-Profit Entities plus Public Sector Public Benefit Entities plus Not-For-Profit Entities Update)* (with legislative compilation) (XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation)) and reflects legislative changes resulting from the enactment of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and other related legislation as they were consequentially amended by the Financial Reporting Act 2013. This EG applies to all entities for annual or interim reporting periods beginning on or after 1 April 2015.
- 3 Previous versions of EG A1 relate to previous versions of XRB A1 and apply to entities reporting for annual or interim reporting periods covered by those versions of XRB A1¹.
- 4 This Explanatory Guide has been issued for explanatory purposes only and has no legal status. It covers five main topics:
 - The roles and responsibilities of the External Reporting Board (XRB Board), and its sub-Board the New Zealand Accounting Standards Board (NZASB);
 - The legal requirement on certain entities to prepare financial reports that comply with generally accepted accounting practice (GAAP) and what GAAP consists of;
 - The legal requirement that permit certain public sector public benefit entities and not-for-profit public benefit entities that are not “specified not-for-profit entities” to prepare financial reports that apply “non-GAAP standards”² issued by the XRB and what “non-GAAP standards” consist of;
 - The standards and other documents issued by the XRB and the NZASB, and the legal standing of those documents; and
 - The standards and other pronouncements that reporting entities are required to comply with, including the tiers and sets of standards that apply to particular reporting entities.
- 5 A separate Explanatory Guide (EG A2 *Overview of the Accounting Standard Setting Process*) provides an overview of the process that the XRB Board expects the NZASB to follow in developing, or adopting, and issuing accounting standards.

The New Accounting Standards Framework

- 6 In April 2012, the Minister of Commerce approved a new Accounting Standards Framework submitted by the XRB Board. The new Accounting Standards Framework³ reflects the XRB Board’s decision to adopt a multi-standards approach in New Zealand⁴. The new Accounting Standards Framework comprises different sets of accounting standards for for-profit entities and for public benefit entities (PBEs), together with a formalised tier structure. The tier structure is designed to better balance the relative costs and benefits of reporting by entities of different sizes.

¹ The versions of XRB A1 that are on issue on 1 April 2015 are:

- XRB A1 (For-profit Entities Update) effective from 1 December 2012 to 30 June 2014;
- XRB A1 ((For-profit Entities plus Public Sector Public Benefit Entities Update) effective from 1 July 2014 to 31 March 2015;
- XRB A1 (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update) effective from 1 April 2015.

² Under the Financial Reporting Act 2013, a financial reporting standard issued by the XRB is a “non-GAAP standard” if it is stated in the standard to be a non-GAAP standard.

³ A copy is available for downloading from the XRB website:

http://xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Framework.aspx

⁴ The decision to adopt a multi-standards approach followed an extensive consultation and deliberation process undertaken by the XRB Board and its predecessor, the Accounting Standards Review Board (ASRB). Further information about this process and the rationale for the multi-standards approach is available on the XRB website:

http://xrb.govt.nz/Site/Financial_Reporting_Strategy/ASRB_History/default.aspx

- 7 The new Accounting Standards Framework has been implemented in three stages:
- Stage 1, which mainly involves changes to the accounting standards for for-profit entities, was effective for annual or interim reporting periods beginning on or after 1 December 2012;
 - Stage 2, which mainly involves changes to the accounting standards for public sector PBEs, is effective for annual or interim reporting periods beginning on or after 1 July 2014; and
 - Stage 3, which mainly involves changes to the accounting standards for (private) not-for-profit entities, is effective for annual or interim reporting periods beginning on or after 1 April 2015.
- 8 Standard XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is the standard that gives legal effect to all three stages of the implementation – the aspects of the new Accounting Standards Framework that apply to for-profit entities and public sector PBEs and not-for-profit PBEs. This version of EG A1 reflects that Standard as well as the legislative changes arising from recently enacted (or consequentially amended) legislation.
- 9 As part of the final implementation step for the new Accounting Standards Framework, a future version of Standard XRB A1 will remove aspects of the Standard that relate to the old Accounting Standards Framework, that is, to remove Tiers 3 and 4 in the for-profit sector and will consolidate the sections on public sector PBEs with that on the not-for-profit PBEs. This Explanatory Guide will similarly be revised and reissued as part of that final implementation step for the new Accounting Standards Framework.

2. Roles of the XRB Board and the NZASB

- 10 The XRB is an independent Crown Entity continued in existence under section 11 of the Financial Reporting Act 2013 and subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide, the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 11 The functions of the XRB are specified in the Financial Reporting Act 2013. In relation to accounting standards they comprise:
- Developing and issuing accounting standards and amendments to accounting standards for application by entities that have a statutory obligation (or that optionally elect under an enactment) to prepare financial statements in accordance with generally accepted accounting practice (GAAP) or non-GAAP standards issued by the XRB (section 12(a));
 - Developing and issuing authoritative notices for the purposes of the definition of GAAP (section 12(c));
 - Developing and implementing strategies for the issue of accounting standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 12(d)), including establishing a system for tiers of financial reporting that imposes different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate (section 29);
 - Liaising with international or national organisations that have responsibility for accounting standard setting (section 12(e)); and
 - Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an accounting standard or authoritative notice (section 22).
- 12 While all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has delegated the responsibility for accounting standard setting to a sub-board, the NZASB. The NZASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.
- 13 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZASB. The financial reporting strategy setting function (required by section 12(d) of the Financial Reporting Act 2013) includes the establishment (and, if necessary, the revision) of the Accounting Standards Framework.
- 14 The NZASB is responsible for developing and issuing accounting standards and authoritative notices. In doing so the NZASB must:
- Operate within the Accounting Standards Framework established by the XRB Board;
 - Liaise with the Australian Accounting Standards Board (AASB) with the objective of harmonising accounting standards in Australia and New Zealand for for-profit entities; and
 - Ensure an appropriate consultation process (due process) is followed – see EG A2 *Overview of the Accounting Standard Setting Process* for an explanation of these requirements.
- 15 The NZASB operates under delegated authority from the XRB Board.

3. Legislative Framework

Requirement to Prepare

- 16 Various pieces of legislation require entities to prepare general purpose financial reports (GPFR) that comply with XRB standards. These “reporting entities”⁵ are required to comply with XRB standards that are GAAP or “non-GAAP” standards issued by the XRB.
- 17 Entities required to comply with GAAP include:
- “FMC reporting entities”⁶ as defined by the Financial Markets Conduct Act 2013;
 - Large companies⁷ (with total assets of over \$60 million or total revenue of over \$30 million in the two preceding reporting periods) under the Companies Act 1993;
 - Large overseas companies, large subsidiaries of overseas companies and large New Zealand business of large overseas companies (with total assets of over \$20 million or total revenue of over \$10 million in the two preceding reporting periods) under the Companies Act 1993;
 - Local authorities and council controlled organisations under the Local Government Act 2002;
 - State sector bodies under the Public Finance Act 1989 and the Crown Entities Act 2004;
 - Other public entities under the Public Audit Act 2001;
 - Registered charitable entities that are “specified not-for-profit entities” under the Charities Act 2005⁸;
 - Large registered friendly societies, large registered industrial and provident societies, large partnerships and large limited partnerships (with total assets of over \$60 million or total revenue of over \$30 million in the two preceding reporting periods) under their respective governing legislation;
- 18 Most small and medium sized for-profit entities have no obligation to prepare financial statements that comply with GAAP. However, entities may optionally elect under an enactment to prepare financial reports in accordance with GAAP, for example, a company that has less than 10 shareholders.
- 19 Various pieces of legislation permit certain public sector PBEs and not-for-profit PBEs that do not meet the criteria to be “specified not-for-profit entities” –to prepare financial statements in accordance with “non-GAAP” standards issued by the XRB (i.e. cash-based standards).

Definition of GAAP

- 20 GAAP is defined in section 8 of the Financial Reporting Act 2013 and means compliance with:
- (a) Applicable accounting standards; and
 - (b) “Authoritative Notices”.
- 21 In accordance with this definition, accounting standards issued by the XRB Board or the NZASB are the primary indicators of GAAP in New Zealand. They set out the recognition, measurement, presentation and

⁵ “Reporting entity” is defined in the Financial Reporting Act 2013 and means an entity whose financial statements or, group financial statements, reports, or other information are required by any enactment to comply, or be prepared in accordance, with generally accepted accounting practice or “non-GAAP” standards.

⁶ “FMC reporting entity” is defined in the Financial Markets Conduct Act 2013 and includes:

- an issuer of a regulated product;
- a person who holds a licence to provide certain market services under Part 6 of the Act;
- a licensed supervisor;
- a listed issuer;
- an operator of a licensed market;
- a recipient of money from a conduit issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society; and
- an FMC reporting entity under clause 27A of Schedule 1.

⁷ Companies, including not-for-profit companies that are not registered charitable entities under the Charities Act 2005.

⁸ The reporting provisions relating to registered charities come into force on 1 April 2015.

disclosure requirements for transactions and events that are important in the preparation of GPFR, including those that may arise in specific industries.

Definition of “Non-GAAP Standard”

- 22 Some enactments permit certain entities that would otherwise be required to prepare financial statements in accordance with GAAP to apply a “non-GAAP standard” issued by the XRB. In order to do so, an entity must fall below the size threshold for it to be a “specified not-for-profit entity”. Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* defines a “specified not-for-profit entity” as an entity whose total operating payments for each of the two preceding accounting periods are \$125,000 or more.
- 23 “Non-GAAP standard” is defined in section 5 of the Financial Reporting Act 2013 and means a financial reporting standard issued by the XRB that is stated in the standard to be a non-GAAP standard. All the non-GAAP standards issued by the XRB are cash-based standards.
- 24 Entities permitted by legislation to apply “non-GAAP standards” issued by the XRB include:
- Certain public sector entities under the Burial and Cremation Act 1964, the Maori Purposes Fund Act 1934-35, the Patriotic and Canteen Funds Act 1947, the Reserves Act 1977 and the Reserves and Other Lands Disposal Act 1995; and
 - Registered charitable entities, friendly societies and other entities under the Charities Act 2005, the Friendly Societies and Credit Unions Act 1982, the Te Ture Whenua Maori Act 1993 and the Agricultural and Pastoral Societies Act 1908.

General Purpose Financial Reports

- 25 General Purpose Financial Reports (GPFR) comprise financial statements accompanied by:
- (a) Non-financial information, such as a statement of (service) performance; and
 - (b) Explanatory material, including that required by legislation.
- 26 The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seek to provide information to a range of general purpose users with different interests in that information. GAAP and non-GAAP standards issued by the XRB reflect this⁹.
- 27 By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or the Department of Statistics, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

Types of Documents Issued by the XRB

- 28 As outlined above, under section 12 of the Financial Reporting Act 2013, the XRB is responsible for issuing accounting standards (including non-GAAP standards) and authoritative notices.
- 29 Compliance with GAAP or non-GAAP standards issued by the XRB is a legal requirement for certain entities and XRB standards therefore have legal standing. Under section 25 of the Financial Reporting Act 2013, accounting standards and authoritative notices (including any amendments or revocations) issued under section 12 are classified as disallowable instruments for the purposes of the Legislation Act 2012.
- 30 However, not all the documents issued by the XRB have legal status. Between them, the XRB Board and the NZASB issue four types of documents:
- Accounting standards (including non-GAAP standards) and related interpretations which are issued under section 12(a) of the Financial Reporting Act 2013;

⁹ The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting 2010 (NZ Framework)*, the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting 2010 (Diff Rep)* and the *Public Benefit Entities’ Framework* (New Zealand Framework).

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- Documents or pronouncements, such as conceptual framework documents, that are issued as Authoritative Notices under section 12(c) of the Financial Reporting Act 2013;
- Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
- Explanatory documents (such as this Explanatory Guide) that have no legal status.

Only the documents issued under sections 12(a) and 12(c) have legal standing and form part of GAAP or non-GAAP standards.

- 31 While GAAP comprises applicable accounting standards and authoritative notices, the authoritative notices have a “lower” level of authority than accounting standards. For example, under the Financial Markets Conduct Act 2013, failure to comply with an authoritative notice does not subject an FMC reporting entity to pecuniary penalties.
- 32 The XRB Board considers it important that the legal status of each document issued by the XRB Board or the NZASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document. In addition, each non-GAAP standard issued by the XRB states that it is a non-GAAP standard.

4. Accounting Standards to be Applied

- 33 There are multiple sets of accounting standards that apply to New Zealand reporting entities preparing GPFR in accordance with GAAP or non-GAAP standards issued by the XRB for periods beginning on or after 1 April 2015^{10,11,12}. Establishing exactly which set of those accounting standards is applicable to a particular reporting entity can be determined in two steps.

Step 1: Determine whether a For-Profit Entity, Public Sector PBE or NFP PBE

- 34 The following are the different sets of accounting standards that apply under Stage 3 of the roll-out of the new Accounting Standards Framework: NZ IFRS, NZ IFRS RDR, NZ IFRS Diff Rep, PBE Standards, PBE Standards RDR, PBE SFR – A (PS), PBE SFR – C (PS), PBE SFR – A (NFP), PBE SFR – C (NFP) and Old GAAP. Exactly which of these sets of accounting standards a particular reporting entity must, or may, apply is specified in Standard XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation)¹³.
- 35 XRB A1 is an overarching standard issued by the XRB Board that gives effect to the Accounting Standards Framework. XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) applies to all reporting entities for all annual or interim reporting periods beginning on or after 1 April 2015 (although it may be early adopted from 1 April 2014 by all entities other than public sector PBEs which can early adopt from 1 July 2014).
- 36 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) establishes three broad groups of standards: those to be applied by for-profit entities; those to be applied by public sector PBEs; and those to be applied by not-for-profit PBEs. Having determined that it is required (or chooses) to prepare financial statements in accordance with XRB standards, an entity's next step is to determine whether it is a for-profit entity, a public sector PBE or a not-for-profit PBE.
- 37 The definitions of “for-profit entities”, “public benefit entities (PBEs)”, “public sector PBE” and “not-for-profit PBE” are specified in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation). The Standard also contains integral guidance relating to the definitions of for-profit entities and public benefit entities in an Appendix. XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) defines:
- For-profit entities as “Reporting entities that are not public benefit entities”;
 - Public benefit entities as “Reporting entities 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”;
 - Public sector PBEs as public benefit entities that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and

¹⁰ Entities reporting for periods beginning on or before 30 November 2012 should refer to the accounting standards and other pronouncements to be applied under the “old” Accounting Standards Framework. These are specified in Standard XRB A1 *Application of Accounting Standards* and are explained in EG A1: *Overview of Accounting Standards*. These documents and the related standards and pronouncements are available in the archived standards part of the XRB website: http://www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/default.aspx

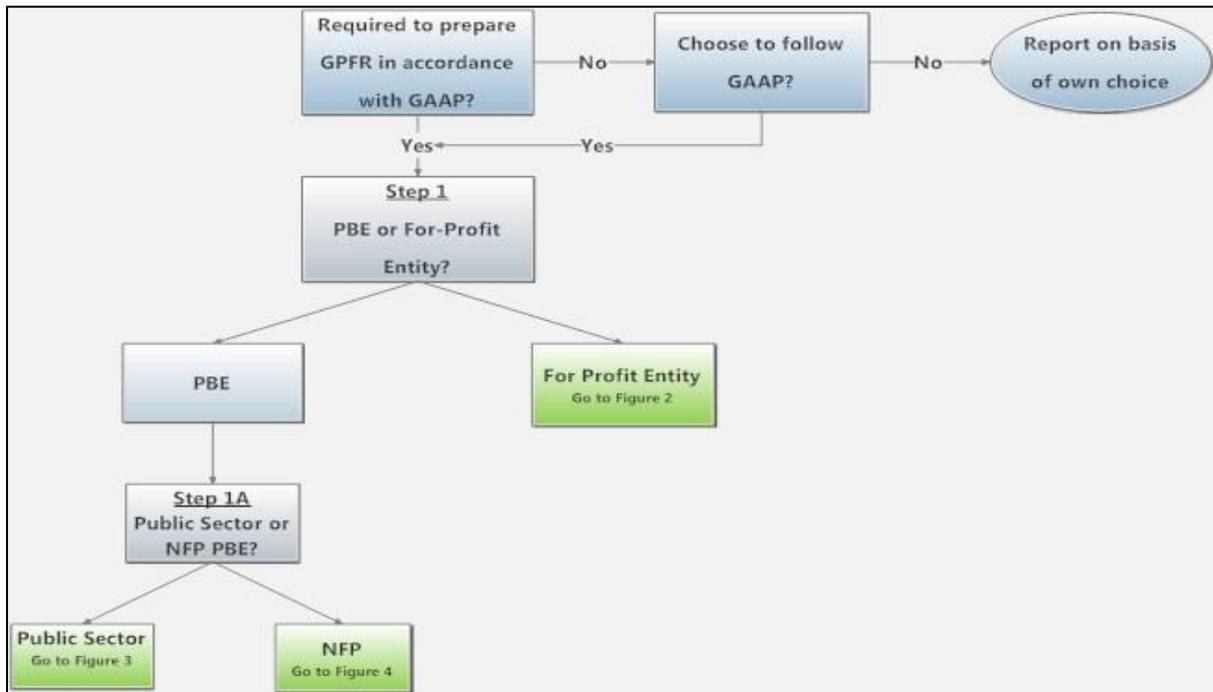
¹¹ Entities reporting for periods beginning on or after 1 December 2012 and ending on or before 30 June 2014 should refer to the accounting standards and other pronouncements to be applied for reporting within that timeframe. These are specified in Standard XRB A1 (*FP Entities Update*) and are explained in EG A1 (FP Entities Update). These documents and the related standards and pronouncements are available in the accounting standards part of the XRB website: http://www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/default.aspx

¹² Entities reporting for periods beginning on or after 1 July 2014 and ending before 31 March 2015 should refer to the accounting standards and other pronouncements to be applied for reporting within that timeframe. These are specified in Standard XRB A1 (*FP Entities plus Public Sector Public Benefit Entities Update*) and are explained in EG A1 (FP Entities + PS PBEs Update). These documents and the related standards and pronouncements are available in the accounting standards part of the XRB website: http://www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/default.aspx

¹³ Standard XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is available for free download from the XRB website: http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Public_Sector_PBEs/Std_for_PS_PBEs_T1-4.aspx or http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Not-For_Profit_PBEs/Std_for_Not-For-Profit_T1-4.aspx

- Not-for-profit PBEs as reporting entities that are public benefit entities but that are not public sector public benefit entities.
- 38 The definitions of for-profit entity and public benefit entity are unchanged from those used in the previous versions of XRB A1. They are also the same definitions used under the “old” Accounting Standards Framework that applied from 2005 to 2012. As such, there should be no necessity for an entity to change its classification from for-profit entity to public benefit entity merely as a result of adopting XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation).
- 39 Essentially, public sector PBEs are entities that are audited by the Auditor-General; not-for-profit PBEs are all other PBEs. This distinction has been made because XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) specifies different accounting standards for the two categories of PBEs. Once the new Accounting Standards Framework is fully implemented, the intention is that the term “public benefit entities (PBEs)” will refer to both public sector PBEs and not-for-profit PBEs and the sections in XRB A1 for the two categories of PBEs will be amalgamated.
- 40 Step 1 is illustrated in Figure 1 below.

Figure 1: Identify the Entity Type - Step 1



Step 2: Identify Applicable Standards: For-Profit Entities

41 Having determined whether it is a for-profit entity or a PBE, the second step is to determine which set of for-profit or PBE standards is applicable to the entity. In the case of for-profit entities this step operates as follows.

Tier Structure

- 42 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) maintains a four-tier structure for the for-profit sector. The set of standards that an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the set of standards applying to each tier are summarised in Table 1.
- 43 The way the for-profit tier structure works under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is that all entities are initially in Tier 1 as a default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.
- 44 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have “public accountability”; and public sector for-profit entities that have total expenses greater than \$30 million. For the

purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation). That definition has two legs:

- An entity has public accountability if it meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:
 - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks;
- An entity has public accountability if it is deemed to be so under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation), with the following being so deemed: a FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

45 “FMC reporting entity” is defined in section 451 of the Financial Markets Conduct Act 2013 and includes:

- an issuer of a “regulated product”;
- a person who holds a licence to provide certain market services under the Act;
- a licensed supervisor;
- a listed issuer;
- an operator of a licensed market;
- a recipient of money from a conduit issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society; and
- an FMC reporting entity under prescribed circumstances (under clause 27A of Schedule 1 to the Act).

Table 1: For-Profit Entity Tiers and Standards

Tier	Tier Criteria	Standards Set
Tier 1	<ul style="list-style-type: none"> • Has public accountability (as defined); or • Is a for-profit public sector entity that has total expenses >\$30 million 	NZ IFRS
Tier 2	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Is a for-profit public sector entity that has total expenses ≤\$30 million <i>and elects to be in Tier 2.</i> 	NZ IFRS RDR
Tier 3	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Either all of its owners are members of the entity’s governing body or is not large (as defined) <i>and elects to be in Tier 3.</i> 	NZ IFRS Diff Rep
Tier 4	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Was applying Old GAAP at 30 June 2011 or was established between 1 July 2011 and 31 March 2014; and • Is not required to file financial statements; and • Is not large (as defined) <i>and elects to be in Tier 4.</i> 	Old GAAP

46 Any entity that does not meet the above Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) – although it need not do so: it can report in accordance with Tier 1 requirements (full NZ IFRS) if it so wishes. In fact an entity may elect to be in any of the four tiers provided that it meets the criteria for the tier it is electing. Figure 2 provides a decision tree to assist in this tier selection process.

47 The criteria for Tiers 2, 3 and 4 are specified in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation):

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- There are no additional criteria for Tier 2. This means any entity that is not required to be in Tier 1 may be in Tier 2, including large non-public sector for-profit entities that do not have public accountability (as defined);
- To be eligible for Tier 3, an entity must not be required to be in Tier 1 and either:
 - at the end of the reporting period, all of its owners are members of the entity's governing body; or
 - not be large (as defined by XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation)).
- To be eligible for Tier 4, an entity must not be required to be in Tier 1 and:
 - have been applying Old GAAP at 30 June 2011 or was established between 1 July 2011 and 31 March 2014; and
 - not be required to publicly file its financial statements under any enactment; and
 - not be large (as previously defined by section 19A of the Financial Reporting Act 1993 if it is -a company¹⁴, or as defined by XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) if it is an entity other than a company¹⁵).

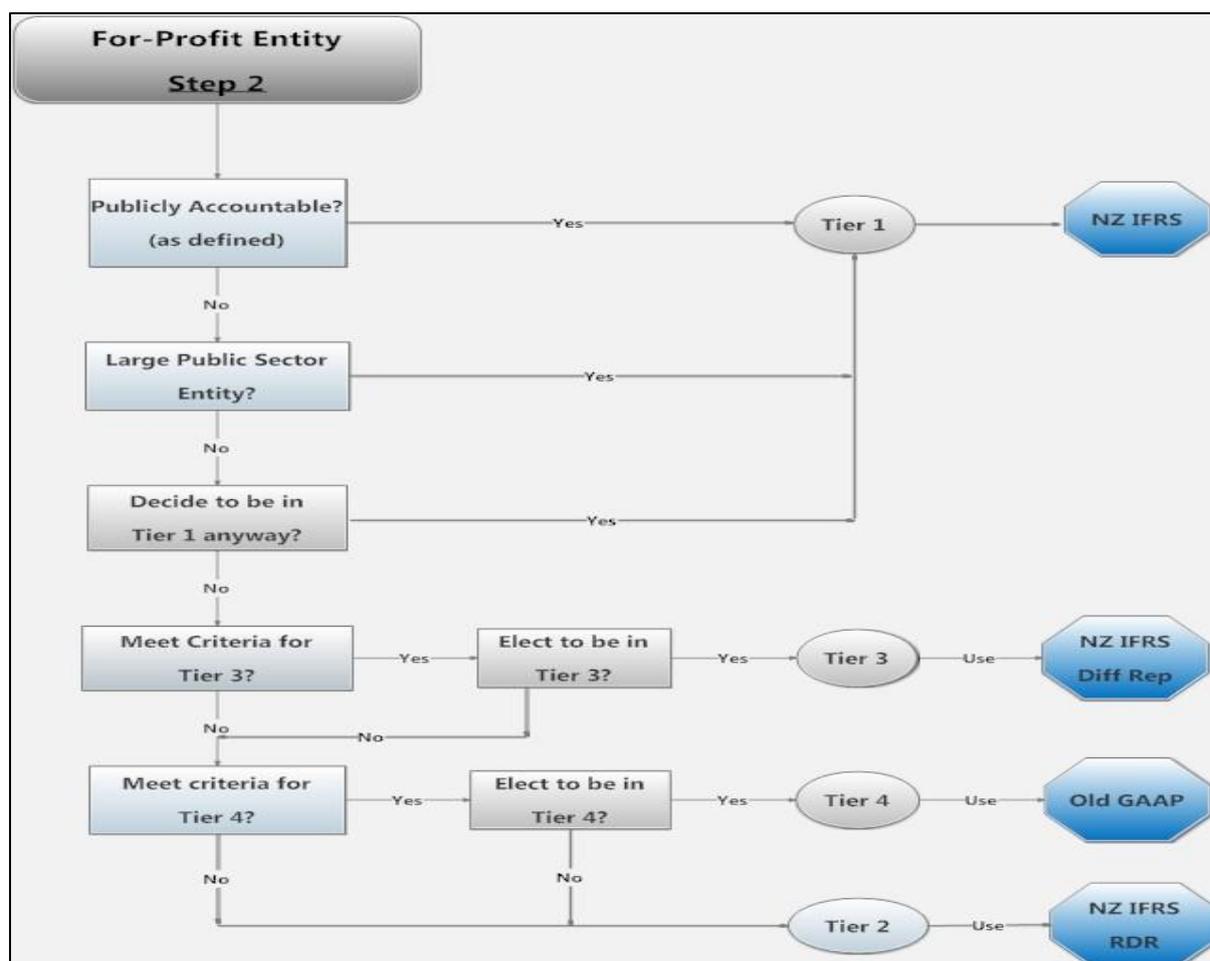
¹⁴ A company is defined as large by that Act if it meets any two of the following three size thresholds:

- (a) as at balance date, the total assets (including intangible assets) of the company and its subsidiaries (if any) exceeds \$10 million;
- (b) the total turnover of the company and its subsidiaries (if any) exceeds \$20 million; and
- (c) as at balance date, the company and its subsidiaries (if any) have 50 or more full-time equivalent employees.

¹⁵ An entity is large for if it exceeds any two of the following:

- (a) total revenue of \$20 million;
- (b) total assets of \$10 million; and
- (c) 50 employees.

Figure 2: Identify the Applicable Standards – Step 2 (For-Profit Entities)



For-Profit Standards

NZ IFRS (Tier 1)

48 The standards to be applied by Tier 1 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS is the set of standards and interpretations issued by the NZASB (or approved by the XRB's predecessor body, the ASRB). It comprises New Zealand equivalents to:

- International Financial Reporting Standards;
- International Accounting Standards;
- IFRIC Interpretations; and
- SIC Interpretations.

The NZ IFRS set of standards also includes a small number of (domestic) New Zealand Financial Reporting Standards (FRSs) and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2010) (*NZ Framework*).

49 The NZ IFRS set of standards is substantively identical to the IFRS on which it is based and is harmonised with the Australian requirements for Tier 1 entities. NZ IFRS follows the format of the pronouncements issued by the IASB and, since IFRS was adopted in New Zealand, have the same effective dates as their corresponding IFRSs.

50 In adapting an IFRS for issue as a New Zealand pronouncement for Tier 1 for-profit entities the NZASB has adopted the following protocols:

- Recognition and measurement requirements in an IFRS cannot be amended;
- Disclosure requirements cannot be reduced; and

- Additional disclosure requirements can be added (these are included in a separate standard: FRS-44 *New Zealand Additional Disclosures*).
- 51 The NZ *Framework* addresses:
- The objective of GPFR;
 - The qualitative characteristics of useful information;
 - The underlying assumptions on which the financial statements are normally prepared;
 - The elements of financial statements and their recognition and measurement; and
 - The concepts of capital and capital maintenance.
- 52 In the absence of an accounting standard, the NZ *Framework* assists the NZASB in developing a New Zealand FRS or in working with the IASB to develop an IFRS. The NZ *Framework* also provides a basis for the use of judgement by preparers in resolving accounting issues.
- 53 Where a for-profit entity prepares its financial report in compliance with NZ IFRS, the entity will be able to assert compliance with IFRS.

NZ IFRS RDR (Tier 2)

- 54 The standards to be applied by Tier 2 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). NZ IFRS RDR has the same recognition and measurement requirements as the (full) NZ IFRS standards but with significantly reduced disclosure requirements. Most of those reduced disclosures are based on those contained in the IASB's *IFRS for SMEs*. The reduced disclosures are consistent with and are substantially harmonised with the requirements in Australia for Tier 2 entities.
- 55 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.
- 56 The NZ IFRS RDR disclosure concessions are incorporated in the (full) NZ IFRS standards by way of an asterisk (*) or by an additional RDR paragraph. Accordingly, NZ IFRS and NZ IFRS RDR form one physical set of standards.
- 57 For-profit entities applying NZ IFRS RDR are not able to assert compliance with IFRS.

NZ IFRS Diff Rep (Tier 3)

- 58 The standards to be applied by Tier 3 for-profit entities are the New Zealand Equivalents to International Financial Reporting Standards (Differential Reporting) (NZ IFRS Diff Rep). NZ IFRS Diff Rep has the same substantive content as the aspects of the NZ IFRS standards that applied to “qualifying entities” under the old Accounting Standard Framework. The NZ IFRS Diff Rep set of standards is a repackaging of those requirements into a separate set of standards for ease of use.
- 59 Compared to NZ IFRS, the NZ IFRS Diff Rep set of standards contains a number of disclosure as well as some recognition and measurement concessions. In addition, the content of NZ IFRS Diff Rep was “frozen” in April 2011. However, the NZASB decided in August 2011 that Tier 3 for-profit entities should be able to elect to apply any new and amended NZ IFRSs. This means that while new NZ IFRSs and amendments to NZ IFRSs that have been issued after April 2011 are not compiled into the NZ IFRS Diff Rep standards, they are available for application by Tier 3 entities.
- 60 The rationale for “freezing” the content of NZ IFRS Diff Rep is because the XRB plans to withdraw this tier/set of standards for periods beginning on or after 1 April 2015. This is to reflect the legislative changes that come into effect on 1 April 2014 which will remove the requirement for most entities that are currently eligible to be in Tier 3 to have to prepare GPFR that comply with XRB standards. The XRB wishes to minimise the compliance costs resulting from changes to the NZ IFRS Diff Rep set of standards in the meantime.
- 61 In order to distinguish the NZ IFRS Diff Rep set of standards from the NZ IFRS/NZ IFRS RDR, all NZ IFRS Diff Rep standards are labelled accordingly e.g. NZ IFRS 1 (Diff Rep). The NZ IFRS Diff Rep set of standards comprises differential reporting versions of:
- International Financial Reporting Standards (NZ IFRS Diff Rep);
 - International Accounting Standards (NZ IAS Diff Rep);
 - IFRIC Interpretations (NZ IFRIC Diff Rep);
 - SIC Interpretations (NZ SIC Diff Rep); and
 - Domestic Financial Reporting Standards (FRS Diff Rep).

The NZ IFRS Diff Rep set of standards also includes the differential reporting version of the NZ *Framework: New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (Diff Rep)*.

62 For-profit entities applying NZ IFRS Diff Rep are not able to assert compliance with IFRS.

Old GAAP (Tier 4)

63 The standards to be applied by Tier 4 for-profit entities are Old GAAP. The Old GAAP set of standards comprises the Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs) that were applicable in New Zealand prior to the adoption of NZ IFRSs.

64 FRSs and SSAPs were developed by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants prior to the adoption of IFRSs in New Zealand. The ASRB (the XRB's predecessor) determined that the FRSs (other than FRS-31 *Disclosure of Information about Financial Instruments*) would remain in force as standards and the SSAPs and FRS-31 would remain in force as authoritative support in New Zealand until withdrawn or replaced, and would therefore continue to be part of GAAP. This position is continued in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) but their application is confined to Tier 4 entities. The XRB plans to withdraw this tier/set of standards for periods beginning on or after 1 April 2015 to reflect the legislative framework, taking into account transitional provisions.

65 The FRSs and SSAPs are only a partial set of standards in that they provide financial reporting requirements for only certain transactions, events and circumstances. In the absence of guidance in a standard, the following should be used to determine the appropriate treatment for a transaction, event or circumstance:

- NZ IFRSs that are applicable to analogous items or matters;
- Accounting standards published by the Australian Accounting Standards Board;
- Accounting standards published by other well-recognised bodies with the authority to promulgate financial reporting standards in other jurisdictions; and
- Practice widely accepted as appropriate and prevalent for the industry or sector concerned.

66 An option to apply differential reporting also exists within Old GAAP, i.e. for Tier 4 entities.

Moving between Tiers

67 It is expected that for-profit entities will move between tiers over time either as a matter of choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) therefore sets out the timing and other requirements for moving between tiers.

68 Entities moving from a higher to a lower tier may do so in the annual or interim reporting period in which they become eligible, and elect, to do so.

69 In the case of entities moving to a higher tier, the Standard includes some concessions so that in most cases entities have one (or in some instances two) annual reporting periods before they must apply the higher tier's accounting standards. However, if the change in tier is a result of the entity meeting the public accountability criterion, then the entity must move to Tier 1 and apply NZ IFRS in the annual or interim reporting period that this occurs.

70 Entities moving to Tier 1 must apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

71 A move between Tier 2 and Tier 1 is unlikely to result in changes to an entity's recognition or measurement accounting policies as the recognition and measurement requirements in NZ IFRS and NZ IFRS RDR are essentially identical.

Step 2: Identify Applicable Standards: Public Sector PBEs

72 The approach to identifying the applicable standards for a public sector PBE under XRB XRB A1 (FP Entities + PS PBEs + NFPs + Update) (with legislative compilation) is similar to that used for the for-profit sector and is as follows.

Tier Structure

73 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) maintains a four-tier structure for public sector PBEs. The set of standards an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the set of standards applying to each public sector PBE tier are summarised in Table 2 below.

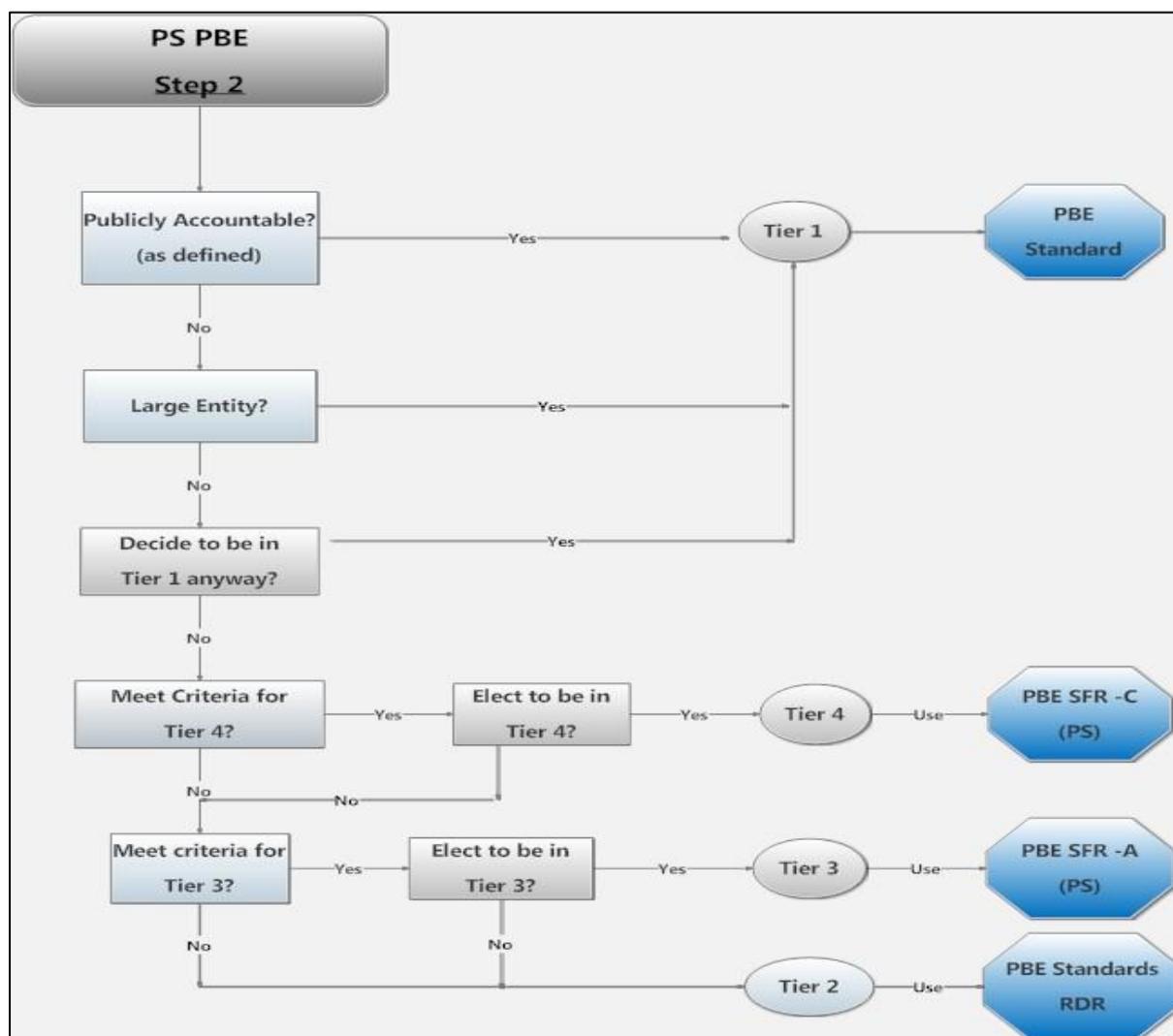
Table 2: Public Sector Public Benefit Entity Standards Structure

Tier	Tier Criteria	Standards Set
Tier 1	<ul style="list-style-type: none"> Has public accountability (as defined); or Has total expenses (including grants) > \$30 million 	PBE Standards
Tier 2	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has total expenses (including grants) ≤ \$30 million <i>and elects to be in Tier 2.</i> 	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has expenses ≤ \$2 million <i>and elects to be in Tier 3.</i> 	PBE SFR—A (PS)
Tier 4	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has total operating payments of less than \$125,000 in each of the previous two reporting periods (i.e. not a “specified not-for-profit entity”); and Is permitted by an enactment to comply with a “non-GAAP” Standard <i>and elects to be in Tier 4.</i> 	PBE SFR—C (PS)

- 74 The way the public sector PBE tier structure works under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is that all entities are initially in Tier 1 as a default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.
- 75 Two groups of public sector PBEs must report in accordance with Tier 1 requirements: entities that have “public accountability”; and entities that have total expenses greater than \$30 million.
- 76 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation). That definition, which is the same definition used for the for-profit tier structure, has two legs:
- An entity has public accountability if it meets the IASB definition of public accountability, i.e.:
 - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks;
 - An entity has public accountability if it is deemed to be so under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation), with the following being so deemed: a FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.
- 77 It is important to note, particularly in the case of public sector entities, that the term “public accountability” is used in the tier framework in a particular technical way (as described in paragraph 76 above). This technical meaning is quite different from the way in which “publicly accountable” is normally used in the public sector context and in which it was used prior to 2011 in the Accounting Standards Framework.
- 78 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Applying this test in a public sector context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity’s primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.
- 79 Some public sector entities hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. This is typically the case for central government entities that hold and/or manage trust money under the Public Finance Act 1989, for example the Department of Corrections that holds money for inmates. In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

- 80 Any entity that does not meet the Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) – although it need not do so; it can report in accordance with Tier 1 requirements (full PBE Standards) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier under which it is electing to report. However, a public sector PBE can only report under Tier 4 if it is not a “specified not-for-profit entity” (that is, its total operating payments (excluding capital payments) for each of the two preceding accounting periods are \$125,000 or less) and is permitted by its governing legislation to report in accordance with non-GAAP standards issued by the XRB.
- 81 For the purposes of the size criterion in the public sector PBE tier structure, “total expenses” comprises all expenses reported by the entity including any losses incurred, any grants made by the entity, and any net expense resulting from any offset of revenue and expenses allowed by a PBE Standard. However, it does not include an expense included in “other comprehensive revenue or expense” where this is reported (Tier 1 and Tier 2).
- 82 Figure 3 provides a decision tree to assist public sector PBEs in the tier selection process.

Figure 3: Identify the Applicable Standards – Step 2 (Public Sector PBEs)



Public Sector PBE Standards

PBE Standards (Tier 1)

- 83 The standards to be applied by Tier 1 public sector PBEs are the (full) PBE Standards, exclusive of any RDR concessions.
- 84 The bulk of the standards in the PBE Standards set of standards are based substantially on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS are, in turn, based substantially on IFRS.
- 85 However, the set of PBE Standards also includes certain standards based on NZ IFRS and some domestic FRSS. These standards have been included in the PBE Standards to cover gaps in accounting requirements which are not covered by IPSAS at this time. All the standards have the prefix “PBE” to identify them. The PBE Standards set of standards therefore comprises a combination of PBE IPSASs, PBE IFRSs, PBE IASs and PBE FRSS.
- 86 Accompanying the PBE Standards is an interim PBE Conceptual Framework (Public Benefit Entities Framework) which is based on the New Zealand Equivalent to the IASB’s *Framework for the Preparation and Presentation of Financial Statements*, which preceded the IASB’s *Conceptual Framework for Financial Reporting*. The IPSASB is currently developing a conceptual framework for general purpose reporting by public sector entities. The PBE Framework is included as an interim Framework pending the finalisation of the IPSASB Framework.

- 87 In the absence of an accounting standard, the PBE *Framework* assists the NZASB in developing the set of PBE Standards. The PBE *Framework* also provides a basis for the use of judgement by preparers in resolving accounting issues.
- 88 A public sector PBE applying the PBE Standards will not normally be able to assert compliance with IFRS. This is because the entity may have transactions for which the recognition and measurement requirements of the PBE Standards differ from those in the equivalent IFRS. However, where an entity has applied the PBE Standards but does not have any (material) transactions to which the recognition and measurement differences apply, and/or has not applied any disclosure differences that may exist, then it may be possible for the entity to assert compliance with IFRS while complying with the requirements of the PBE Standards. In addition, entities unable to assert compliance with IFRS may, if they wish, identify in their financial report (normally in the Notes to the Financial Statements) the extent of compliance with IFRS, and the differences between the financial statements and those that would comply fully with IFRS.

PBE Standards RDR (Tier 2)

- 89 The standards to be applied by a Tier 2 public sector PBE are PBE Standards Reduced Disclosure Regime (PBE Standards RDR). The PBE Standards RDR set of standards has the same recognition and measurement requirements as PBE Standards. However, it contains reduced disclosure requirements which are substantially aligned with the disclosure concessions in NZ IFRS RDR.
- 90 A Tier 2 entity may apply whichever of the disclosure concessions they wish – either some or all.
- 91 The RDR concessions are incorporated in the (full) PBE Standards and are indicated by an asterisk (*) beside the relevant paragraph or by an additional RDR paragraph. Physically, PBE Standards and PBE Standards RDR form one set of standards.

PBE SFR–A (PS) (Tier 3)

- 92 A separate single, standalone accounting standard is to be applied by Tier 3 public sector PBEs. This is the Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR–A (PS)).
- 93 While based on Tier 1 and Tier 2 PBE Standards, the requirements in PBE SFR–A (PS) are substantially reduced and simplified in nature. The Tier 3 Standard requires the preparation of a “Performance Report” covering both financial and non-financial information.
- 94 PBE SFR–A (PS) is accompanied by an Explanatory Guide containing optional templates and guidance notes to assist Tier 3 entities to apply the Standard.

PBE SFR–C (PS) (Tier 4)

- 95 A separate single, standalone accounting standard is to be applied by Tier 4 public sector PBEs. This is the Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR–C (PS)).
- 96 The Tier 4 Standard also requires the preparation of a “Performance Report” covering both financial and non-financial information, but with the financial information reported using the cash basis of accounting.
- 97 PBE SFR–C (PS) is also accompanied by an Explanatory Guide containing optional templates and guidance notes to assist Tier 4 entities to apply the Standard.

Moving between Tiers

- 98 It is expected that public sector PBEs will move between tiers over time either by choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) therefore sets out the timing and other criteria for moving between tiers:
- An entity that meets the criteria to report under a lower tier is generally permitted to move to the lower in the annual or interim reporting period in which it meets the lower tier’s criteria, and elects to report under the lower tier.
 - An entity moving from a lower tier to a higher tier is generally permitted one or two annual reporting periods before it is required to apply the higher tier’s accounting standards. One exception is where an entity fails to meet the lower tier’s criteria because it now has public accountability (as defined). In that instance, the entity must apply the Tier 1 Accounting Standards in the annual or interim reporting period in which it meets the public accountability criteria.
 - A Tier 2 public sector PBE that becomes large may continue to report under Tier 2 Accounting Standards in the annual and interim reporting periods in which it becomes large unless it was reporting under Tier 1 Accounting Standards in the annual period immediately before it became large.

- 99 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) also sets out the “first-time adoption” requirements that must be applied when an entity first moves into a particular tier:
- A Tier 1 or Tier 2 public sector PBE that was previously applying the NZ IFRS PBE, NZ IFRS or NZ IFRS Diff Rep sets of standards is required to apply PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs* when it subsequently applies Tier 1 and/or Tier 2 Accounting Standards.
 - A Tier 3 or Tier 4 public sector PBE that subsequently applies Tier 1 and/or Tier 2 Accounting Standards is required to apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*.

Step 2: Identify Applicable Standards: Not-For-Profit PBEs

- 100 The approach to identifying the applicable standards for a not-for-profit PBE under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is similar to that used for the public sector PBE sector and is as follows.

Tier Structure

- 101 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) establishes a four-tier structure for NFP PBEs. The set of standards an entity applies depends on the tier that it reports under. The tiers, criteria for the tiers, and the set of standards applying to each NFP PBE tier are summarised in Table 3 below.

Table 3: Not-For-Profit Public Benefit Entity Standards Structure

Tier	Tier Criteria	Standards Set
Tier 1	<ul style="list-style-type: none"> • Has public accountability (as defined); or • Has total expenses (including grants) > \$30 million 	PBE Standards
Tier 2	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has total expenses (including grants) ≤ \$30 million <i>and elects to be in Tier 2.</i> 	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has expenses ≤ \$2 million <i>and elects to be in Tier 3.</i> 	PBE SFR – A (NFP)
Tier 4	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has total operating payments of less than \$125,000 in each of the previous two reporting periods (i.e. not a “specified not-for-profit entity”); and • Is permitted by an enactment to apply a “non-GAAP” Standard <i>and elects to be in Tier 4.</i> 	PBE SFR – C (NFP)

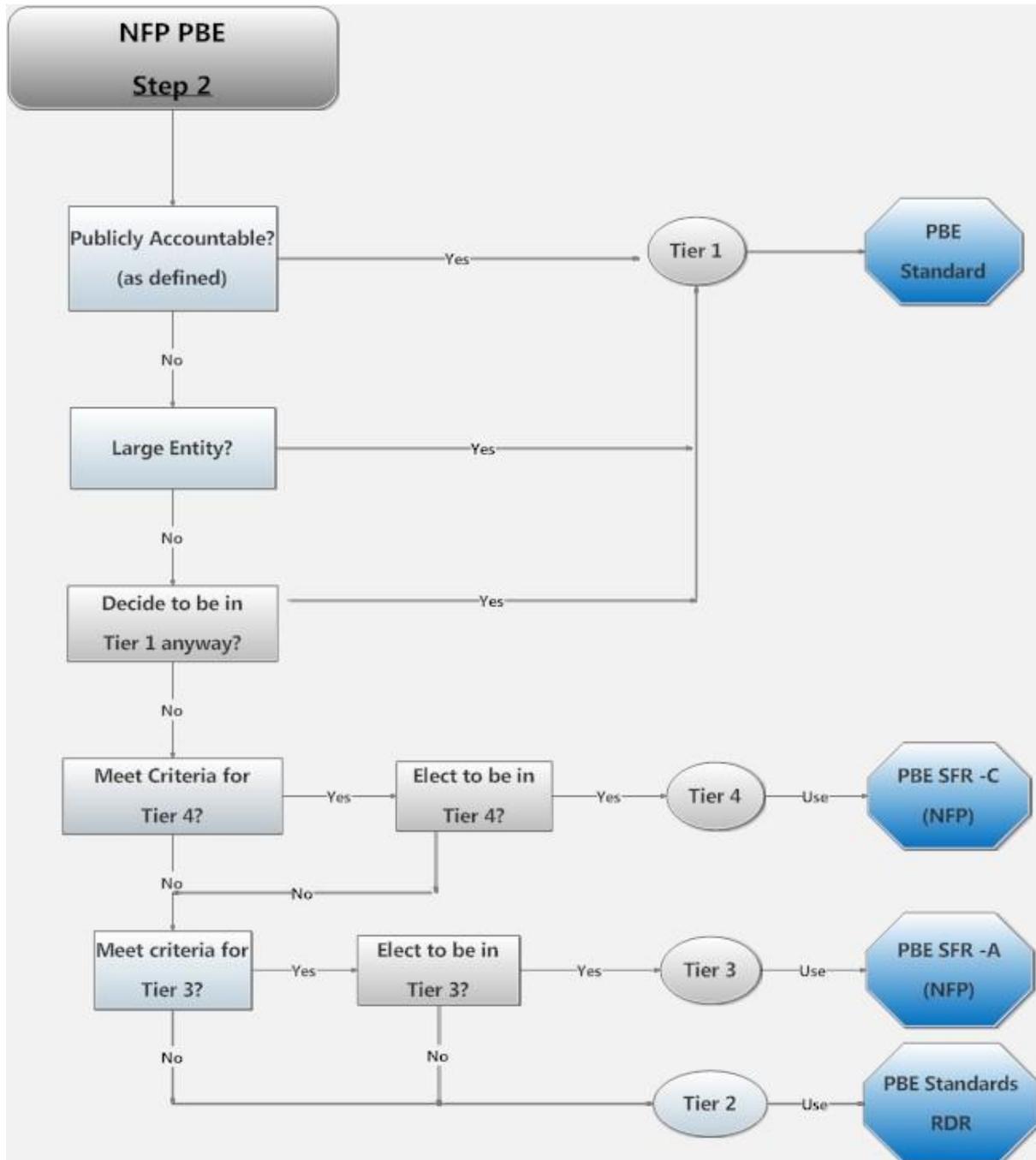
- 102 The way the NFP PBE tier structure works under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) is that all entities are initially in Tier 1 as a default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.
- 103 Two groups of not-for-profit PBEs must report in accordance with Tier 1 requirements: entities that have “public accountability”; and entities that have total expenses greater than \$30 million.
- 104 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation). That definition, which is the same definition used for the for-profit and public sector PBE tier structures, has two legs:
- An entity has public accountability if it meets the IASB definition of public accountability, i.e.:
 - its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks;

- An entity has public accountability if it is deemed to be so under XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation), with the following being so deemed: a FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

- 105 It is important to note, particularly in the case of a not-for-profit PBE, that the term “public accountability” is used in the tier framework in a particular technical way (as described in paragraph 104 above). This technical meaning is quite different from the way in which “publicly accountable” is normally used in the in the not-for-profit PBE context and in which it was used prior to 2011 in the Accounting Standards Framework.
- 106 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Applying this test in a NFP context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity’s primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.
- 107 Some not-for-profit PBEs hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. This is typically the case where an entity that holds and/or manages trust money entrusted to it by a client, customer or member who is not involved in the management of the entity, for example, welfare benefits held on behalf of beneficiaries as part of the entity providing welfare services to the beneficiaries. In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.
- 108 Any entity that does not meet the Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) – although it need not do so; it can report in accordance with Tier 1 requirements (full PBE Standards) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier under which it is electing to report. However, a not-for-profit PBE can only report under Tier 4 if it is not a “specified not-for-profit entity” (that is, its total operating payments (which excludes capital payments) for each of the two preceding accounting periods are \$125,000 or less) and is permitted by its governing legislation to report in accordance with non-GAAP standards.
- 109 For the purposes of the size criterion in the not-for-profit PBE tier structure, “total expenses” comprises all expenses reported by the entity including any losses incurred, any grants made by the entity, and any net expense resulting from any offset of revenue and expenses allowed by a PBE Standard. However, it does not include an expense included in “other comprehensive revenue or expense” where this is reported (Tier 1 and Tier 2).

110 Figure 4 provides a decision tree to assist not-for-profit PBEs in the tier selection process.

Figure 4: Identify the Applicable Standards – Step 2 (Not-For-Profit PBEs)



Not-For-Profit PBE Standards

PBE Standards (Tier 1)

- 111 The standards to be applied by Tier 1 not-for-profit PBEs are the (full) PBE Standards, exclusive of any RDR concessions.
- 112 The bulk of the standards in the PBE Standards set of standards are based substantially on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS is, in turn, based substantially on IFRS.
- 113 However, the set of PBE Standards also includes certain standards based on NZ IFRS and some domestic FRSSs. These standards have been included in the PBE Standards to cover gaps in accounting requirements which are not covered by IPSAS at this time. All the standards have the prefix “PBE” to identify them. The PBE Standards set of standards therefore comprises a combination of PBE IPSASs, PBE IFRSs, PBE IASs and PBE FRSSs.
- 114 All PBE Standards have been enhanced for application by not-for-profit entities, including by incorporating terminology and examples relevant to the sector.
- 115 Accompanying the PBE Standards is an interim PBE Conceptual Framework (Public Benefit Entities *Framework*) which is based on the New Zealand Equivalent to the IASB’s *Framework for the Preparation and Presentation of Financial Statements*, which preceded the IASB’s *Conceptual Framework for Financial Reporting*. The IPSASB is currently developing a conceptual framework for general purpose reporting by not-for-profit entities. The PBE *Framework* is included as an interim Framework pending the finalisation of the IPSASB Framework.
- 116 In the absence of an accounting standard, the PBE *Framework* assists the NZASB in developing the set of PBE Standards. The PBE *Framework* also provides a basis for the use of judgement by preparers in resolving accounting issues.
- 117 A not-for-profit PBE applying the PBE Standards will not normally be able to assert compliance with IFRS. This is because the entity may have transactions for which the recognition and measurement requirements of the PBE Standards differ from those in the equivalent IFRS. However, where an entity has applied the PBE Standards but does not have any (material) transactions to which the recognition and measurement differences apply, and/or has not applied any disclosure differences that may exist, then it may be possible for the entity to assert compliance with IFRS while complying with the requirements of the PBE Standards. In addition, entities unable to assert compliance with IFRS may, if they wish, identify in their financial report (normally in the notes to the Financial Statements) the extent of compliance with IFRS, and the differences between the financial statements and those that would comply fully with IFRS.

PBE Standards RDR (Tier 2)

- 118 The standards to be applied by a Tier 2 not-for-profit PBE are PBE Standards Reduced Disclosure Regime (PBE Standards RDR). The PBE Standards RDR set of standards has the same recognition and measurement requirements as PBE Standards. However, it contains reduced disclosure requirements which are substantially aligned with the disclosure concessions in NZ IFRS RDR.
- 119 A Tier 2 entity may apply whichever of the disclosure concessions they wish – either some or all.
- 120 The RDR concessions are incorporated in the (full) PBE Standards and are indicated by an asterisk (*) beside the relevant paragraph or by an additional RDR paragraph. Physically, PBE Standards and PBE Standards RDR form one set of standards.

PBE SFR—A (NFP) (Tier 3)

- 121 A single, standalone accounting standard is to be applied by Tier 3 not-for-profit PBEs. This is the Simple Format Reporting Standard – Accrual (Not-For-Profit) (PBE SFR—A (NFP)).
- 122 While based on Tier 1 and Tier 2 PBE Standards, the requirements in PBE SFR—A (NFP) are substantially reduced and simplified in nature. The Tier 3 Standard requires the preparation of a “Performance Report” covering both financial and non-financial information.
- 123 PBE SFR—A (NFP) is accompanied by an Explanatory Guide containing optional templates and guidance notes to assist Tier 3 entities to apply the Standard.

PBE SFR—C (NFP) (Tier 4)

- 124 A separate single, standalone accounting standard is to be applied by Tier 4 not-for-profit PBEs. This is the Simple Format Reporting Standard – Cash (Not-For-Profit) (PBE SFR—C (NFP)).
- 125 The Tier 4 Standard also requires the preparation of a “Performance Report” covering both financial and non-financial information, but with the financial information reported using the cash basis of accounting.

- 126 PBE SFR—C (NFP) is also accompanied by an Explanatory Guide containing optional templates and guidance notes to assist Tier 4 entities to apply the Standard.

Moving between Tiers

- 127 It is expected that not-for-profit PBEs will move between tiers over time either by choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) therefore sets out the timing and other criteria for moving between tiers:
- An entity that meets the criteria to report under a lower tier is generally permitted to move to the lower in the annual or interim reporting period in which it meets the lower tier’s criteria, and elects to report under the lower tier.
 - An entity moving from a lower tier to a higher tier is generally permitted one or two annual reporting periods before it is required to apply the higher tier’s accounting standards. One exception is where an entity fails to meet the lower tier’s criteria because it now has public accountability (as defined). In that instance, the entity must apply the Tier 1 Accounting Standards in the annual or interim reporting period in which it meets the public accountability criteria.
 - A Tier 2 not-for-profit PBE that becomes large may continue to report under Tier 2 Accounting Standards in the annual and interim reporting periods in which it becomes large unless it was reporting under Tier 1 Accounting Standards in the annual period immediately before it became large.
- 128 XRB A1 (FP Entities + PS PBEs + NFPs Update) (with legislative compilation) also sets out the “first-time adoption” requirements that must be applied when an entity first moves into a particular tier:
- A Tier 1 or Tier 2 not-for-profit PBE that was previously applying the NZ IFRS or NZ IFRS Diff Rep sets of standards is required to apply PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs* when it subsequently applies Tier 1 and/or Tier 2 Accounting Standards.
 - A Tier 3 or Tier 4 not-for-profit PBE that subsequently applies Tier 1 and/or Tier 2 Accounting Standards is required to apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*.