



**BOARD MEETING AGENDA**

9.30am to 3.30pm Thursday 19 October 2017, XRB Offices, Wellington

Est. Time	Item	Paper	Page
<b>A: NON-PUBLIC SESSION</b>			
<b>B: PUBLIC SESSION</b>			
2.00pm	<b>3. <u>Strategic Matters</u></b> <i>For Approval</i>		
	3.1 Amendments to XRB A1 – Cover memo	Paper	
	3.1.1 Draft Standard 2017 Amendments to XRB A1	Paper	
<b>C: NON-PUBLIC SESSION</b>			
3.30 pm	<i>Close</i>		

Next Meeting: Tuesday 12 December 2017, Wellington



## EXTERNAL REPORTING BOARD

*Te Kāwai Ārahi Pūrongo Mōwaho*

### Memorandum

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**Date:** 20 September 2017

**To:** Members of the External Reporting Board

**From:** Lay Wee Ng and Vanessa Sealy-Fisher

**Subject:** **2017 Amendments to XRB A1**

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### Introduction

1. The purpose of this memorandum is to request the Board to approve, for finalisation and issue, the draft standard *2017 Amendments to XRB A1 Application of the Accounting Standards Framework*. The draft standard is attached as Agenda item: 3.1.1.
2. The draft standard reflects the proposals in the *Exposure Draft 2017 Amendments to XRB A1*<sup>1</sup> (the ED) to delete paragraph 9(c) and add paragraph 42A.

#### ***Paragraph 9(c)***

3. Paragraph 9(c) deems an entity to have public accountability if section 55 of the Financial Reporting Act 2013 (FRA 2013) applies. Section 55 contains transitional provisions for the Financial Reporting Act 1993 to continue to apply until 5 years after the commencement of the FRA 2013. That 5-year period ends on 30 November 2017.

#### ***Paragraph 42A***

4. Paragraph 42A requires a public benefit entity (PBE) to determine its eligibility to report in accordance with Tier 4 PBE Accounting Requirements based on the total combined operating payments of the entity and any entities that it controls (that is, on a group basis), which is consistent with the manner in which the size criteria for Tier 1, Tier 2 and Tier 3 PBE Accounting Requirements are determined.
5. This means that where the total operating payments of the group are more than \$125,000 in each of the two preceding accounting periods, the controlling entity would be required to prepare consolidated financial statements using the appropriate tier of financial reporting requirements (Tier 1, Tier 2 or Tier 3).
6. However, where the total operating payments of the group are less than \$125,000 in each of the two preceding accounting periods, all the entities would be eligible to report under Tier 4 PBE Accounting Requirements and the controlling entity would not be required to prepare consolidated financial statements.

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<sup>1</sup> The ED was issued in June 2017 with comments due by 28 August 2017.

7. The amendments are effective for reporting periods beginning on or after 1 January 2018, with earlier application of paragraph 42A permitted.

**Due process**

8. We received no formal comment letters on the ED. However, we received an informal email expressing support for the proposals in the ED.
9. The New Zealand Accounting Standards Board (NZASB) considered the draft standard at its September 2017 meeting and agreed with the proposals in the draft standard.
10. The NZASB also considered the due process complied with the due process requirements established by the Board and met the requirements of section 22 of the Financial Reporting Act 2013. Section 22(2) of the Financial Reporting Act 2013 requires consideration of whether a standard is likely to require the disclosure of personal information. As the draft standard does not include requirements that would result in the disclosure of personal information, no consultation with the Privacy Commissioner is required.
11. The NZASB recommends to the Board that the draft standard be approved for finalisation and issue.

**Recommendation**

12. It is recommended that the Board APPROVES *2017 Amendments to XRB A1 Application of the Accounting Standards Framework* for finalisation and issue.



## **2017 Amendments to XRB A1 Application of the Accounting Standards Framework**

This Standard was issued on 26 October 2017 by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 23 November 2017.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part C of this Standard.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend XRB A1 to reflect a legislative change and to amend the criteria for a public benefit entity to report in accordance with Tier 4 Accounting Requirements.

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CONTENTS

	Page
Part A: Introduction	4
Part B: Amendments to XRB A1 <i>Application of the Accounting Standards Framework</i>	5
Part C: Effective Date	6

## **Part A**

### **Introduction**

This Standard amends External Reporting Board Standard A1 *Application of the Accounting Standards Framework* by:

- (a) deleting paragraph 9(c); and
- (b) adding paragraph 42A to amend the criteria for an entity to report in accordance with Tier 4 PBE Accounting Requirements.

# Amendments to XRB A1 *Application of the Accounting Standards Framework*

Paragraph 9(c) is deleted (deleted text is struck through and new text is underlined) and paragraphs 42A and 75 are added

## Public Accountability

...

- 9 An entity is deemed to have public accountability in New Zealand if:
- (a) it is an 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 section 461K of the Financial Markets Conduct Act 2013 [footnote omitted]; or
  - (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013; ~~or~~
  - ~~(c) it is an entity to which section 55 of the Financial Reporting Act 2013 applies.~~

...

## Tier 4 Criteria

- 42 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE may elect to report in accordance with Tier 4 PBE Accounting Requirements if it is permitted by an Act to report in accordance with non-GAAP standards (i.e., the cash basis of accounting) because it does not have public accountability and does not meet the legislative size threshold to be a “specified not-for-profit entity”. [footnote omitted]
- 42A For the purpose of applying the legislative size threshold, where an entity has controlled entities<sup>1</sup>, total operating payments means the combined operating payments of the entity and all its controlled entities.<sup>2</sup> An entity may elect to report in accordance with Tier 4 PBE Accounting Requirements where the combined total operating payments of the entity and all its controlled entities do not exceed the legislative size threshold. Where the combined total operating payments exceed the legislative size threshold, the entity shall apply the criteria for other tiers to determine the appropriate tier for reporting.

...

## D. EFFECTIVE DATE

...

- 75 *2017 Amendments to XRB A1 Application of the Accounting Standards Framework*, issued in October 2017, deleted paragraph 9(c) and added paragraph 42A. Those amendments are effective for reporting periods beginning on or after 1 January 2018. Earlier application of paragraph 42A is permitted.

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<sup>1</sup> An entity determines whether it controls another entity in accordance with GAAP.

<sup>2</sup> The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.



## **Part C**

### **Effective Date**

This Standard is effective for reporting periods beginning on or after 1 January 2018. Earlier application of paragraph 42A is permitted.