EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

BOARD MEETING AGENDA

9.30am to 3.30pm Tuesday 11 December 2018 XRB Office, Wellington

Est. Time	Item	Paper	Page
A: NON-PUBLIC SESSION			
B: PUBLIC SESSION			
	3.1 Appendix A of XRB A1		
	3.1.1 Cover memo	Paper	
	3.1.2 Draft ITC and ED	Paper	
	3.2 Policy Approach to Developing the Suite of PBE Standards		
	3.2.1 Cover memo	Paper	
	3.2.2 *Policy Approach to Developing the Suite of PBE Standards* (clean)	Paper	
	3.2.3 *Policy Approach to Developing the Suite of PBE Standards* (Marked Up)	Paper	
	3.3 Extended External Reporting		
	3.3.1 Cover memo	Paper	
	3.3.2 Draft XRB Position statement on EER	Paper	
	3.3.3 Draft EER Navigational Resource	Paper	
C: NON-PUBLIC SESSION			

Next Meeting: Wednesday, 6 March 2019 Wellington

202538.1

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE:	30 November 2018
TO:	Members of the External Reporting Board
FROM:	Tracey Crookston and Vanessa Sealy Fisher
SUBJECT:	**ED 2018 Amendments to XRB A1 Appendix A**

Purpose and introduction

1. The purpose of this agenda item is to seek the XRB Board's approval of the ITC and ED *2018 Amendments to XRB A1 Appendix A* (the ED).

2. Appendix A of XRB A1 *When is an Entity a Public Benefit Entity?* (Appendix A) provides guidance to assist an entity to determine whether it is a public benefit entity (PBE) or a for-profit entity for financial reporting purposes. The correct classification is important to enable an entity to apply the appropriate set of accounting standards (i.e. PBE Standards or NZ IFRS).

3. The changes to Appendix A are being proposed because:

   (a) some of the guidance in Appendix A was based on guidance that existed prior to the development and issuance of the New Zealand Accounting Standards Framework and, now that this Framework has been operational for some time, it is appropriate to review the guidance; and

   (b) some constituents have experienced difficulties in applying Appendix A.

Background

4. The New Zealand Accounting Standards Board (NZASB) has deliberated on a revised Appendix A at several meetings during 2018. Most recently at the NZASB's October meeting the NZASB reviewed and tentatively approved the ED subject to the illustrative examples being further revised.

5. The examples have since been revised and were tabled for discussion at the November Technical Reference Group[1] (TRG) meeting. The TRG members were supportive of the revised examples and suggested some minor wording changes which have been included in the ED.

6. The TRG had previously received the revised Appendix A (excluding the examples) for comment at the September TRG meeting. TRG comments from this meeting have also been reflected in the ED.

Recommendation

7. We recommend that the XRB Board APPROVES for issue the ITC and ED *2018 Amendments to XRB A1 Appendix A.* The approval is subject to any amendments arising from the NZASB's consideration and approval of the ITC and ED at its December 2018 meeting.

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[1] The TRG is an informal consultative group, established with the objective of providing a forum for the NZASB to consult individuals on technical accounting issues, particularly those relating to the practical application and implementation of accounting standards.

Attachment

Agenda item 3.1.2 ITC and ED *2018 Amendments to XRB A1 Appendix A*

Exposure Draft

2018 Amendments to XRB A1 Appendix A

Invitation to Comment

[Month, Year]

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

Table of Contents

Information for respondents

Invitation to Comment

The External Reporting Board is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the *2018 Amendments to XRB A1 Appendix A*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, 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. Feel free to provide comments only for those questions, or issues that are relevant to you.

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
(please refer to *2018 Amendments to XRB A1 Appendix A* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your 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 **[Day/Month/Year]**.

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

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission 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 Invitation to Comment.

ED	Exposure draft
GPFR	General purpose financial report
PBE	Public benefit entity
XRB	External Reporting Board
XRB A1	External Reporting Board Standard A1 *Application of the Accounting Standards Framework*

Questions for respondents

		Paragraph(s)
1	Do you agree with the proposed amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?* If you disagree, please provide reasons.	9–21
2	Do you agree with the proposed effective date of 1 January 2020? If you disagree, please provide reasons.	22
3	Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. This Invitation to Comment and accompanying Exposure Draft (ED) proposes amendments to Appendix A of XRB A1 *Application of the Accounting Standards Framework*. The title of Appendix A is *When is an Entity a Public Benefit Entity?*

2. Appendix A provides guidance to assist an entity that prepares a general purpose financial report (GPFR) that complies with accounting standards issued by the External Reporting Board (XRB) to determine whether it is a public benefit entity (PBE) or a for-profit entity.

3. The classification of an entity as a PBE or for-profit entity is important to enable an entity to apply the appropriate accounting standards and associated accounting policies.

4. The changes to Appendix A are being proposed because:

   (a) some of the guidance in Appendix A was based on guidance that existed prior to the development and issuance of the New Zealand Accounting Standards Framework and, now that this Framework has been operational for some time, it is appropriate to review the guidance; and

   (b) some constituents have experienced difficulties applying Appendix A.

1.2 Purpose of this Invitation to Comment

5. The purpose of this Invitation to Comment is to seek comments on the proposed amendments set out in the ED.

1.3 Timeline and next steps

6. Submissions on the ED are due by [day, month, 2019]. Information on how to make a submission is provided on page 4 of this Invitation to Comment.

7. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise these amendments soon afterwards.

2. Overview of Invitation to Comment and ED

2.1 Summary

8. This Invitation to Comment seeks feedback on proposed amendments to Appendix A of XRB A1.

2.2 Approach taken in developing the ED

9. The changes to Appendix A, as proposed in the ED, are set out below.

Definition of a PBE

10. The guidance on the definition of a PBE now clarifies that the definition comprises two interdependent parts:

    (a) the primary objective to provide goods or services for community or social benefit; and

    (b) the provision of equity to support that primary objective rather than for a return to equity holders.

11. The ED clarifies that both parts of the definition need to be assessed in combination when determining an entity's classification (paragraph 8 of the ED).

12. The ED also clarifies that an entity could be classified as a for-profit entity for financial reporting purposes but could also be a registered charity (paragraph 6 of the ED).

13. The Appendix sets out several indicators to be considered in determining whether an entity meets the definition of a PBE. The ED acknowledges that in many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator (paragraph 11 of the ED).

14. The ED clarifies that the classification of an entity as a PBE or a for-profit entity for financial reporting purposes is made at the reporting entity level. Therefore, when an entity is a subsidiary of another entity and the subsidiary is a reporting entity with its own reporting obligations, the subsidiary assesses its own primary objective for financial reporting purposes (paragraph 12 of the ED).

15. The ED states that in determining the classification of a group for financial reporting purposes, it is necessary to consider the characteristics of the controlling entity of the group. The ED also states that the classification of the controlling entity of the group would most likely determine the classification of the group reporting entity (paragraph 12 of the ED). However, the existing guidance requires consideration to be given to the characteristics of the group for the purposes of determining whether the group reporting entity is a PBE.

Indicators

16. The indicators in the original Appendix A have been retained, subject to some changes which are explained below.

Stated objectives

17. 'Stated objectives' replaces the indicator previously titled 'Founding documents'. However, the guidance continues to include a reference to founding documents. There is new guidance to

indicate that where an entity has multiple objectives, consideration of how the entity assesses its performance might be useful (paragraph 19 of the ED).

Nature of the benefits, including the quantum of expected financial benefits

18. 'Nature of the benefits, including the quantum of expected financial benefits' (paragraphs 21–25 of the ED) comprises two previously separate indicators that have been merged. This indicator also includes a discussion on the different forms of financial benefits (besides dividends).

Primary beneficiaries of the benefits

19. This is a new indicator (paragraphs 26–29 of the ED). It has been developed because an understanding of who the primary beneficiaries of the benefits provided by the entity are (i.e. the people who primarily benefit from the activities of the entity) assists in determining whether the entity is a PBE or a for-profit entity.

Purpose and use of assets

20. This is also a new indicator (paragraphs 32–33 of the ED). It has been developed because the reasons an entity acquires and/or holds assets may indicate whether an entity is a PBE or a for-profit entity. The proposed guidance contrasts the reasons why PBEs often hold and use assets compared to the holding and use of assets by for-profit entities.

Nature of funding

21. Guidance has been added to contrast the nature of funding provided to PBEs compared with the funding provided to for-profit entities.

Conflicting indicators

22. This section has been expanded to explain that professional judgement is required to evaluate the indicators overall and in combination with each other. Judgement is required to assess the significance of particular indicators to the overall assessment to determine whether, in substance, the entity meets the definition of a PBE (paragraph 38 of the ED).

Changing classification

23. This section now refers to the relevant paragraphs in XRB A1 for determining the applicable tier of financial reporting when an entity changes its classification from a for-profit entity to a PBE (or vice versa) (paragraph 40 of the ED).

Illustrative examples

24. The illustrative examples have been updated and a new example has been added.

Question for respondents

1. Do you agree with the proposed amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?* If you disagree, please explain why.

2.3 Effective date

25. Subject to consideration of the comments received on this ED, the XRB intends to finalise the amending standard in 2019 with an effective date of 1 January 2020 (with earlier application permitted).

Questions for respondents

2. Do you agree with the proposed effective date of 1 January 2020? If you disagree, please explain why?

3. Do you have any other comments on the ED?

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

EXPOSURE DRAFT

2018 AMENDMENTS TO XRB A1 APPENDIX A

This [draft][1] Standard was issued on [date] by the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] 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 [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued to update and improve the guidance in Appendix A of XRB A1 *Application of the Accounting Standards Framework*. The title of Appendix A is *When is an Entity a Public Benefit Entity?*

[1] References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard".

ISBN

CONTENTS

Part A: Introduction

This [draft] Standard includes amendments to:

(a) the guidance on the definition of a PBE to clarify that:

(i) the definition contains two interdependent parts and both parts of the PBE definition need to be assessed when determining an entity's classification;

(ii) the classification as a PBE or for-profit entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level; and

(iii) it is possible for an entity to be classified as a for-profit entity for financial reporting purposes and to be a registered charity.

(b) the indicators to be considered in determining whether an entity is a PBE. Specifically:

(i) 'stated objectives' replaces 'founding documents' but includes reference to founding documents;

(ii) guidance is added on consideration of the entity's assessment of performance where an entity has multiple objectives;

(iii) 'Nature of the benefits, including the quantum of expected financial benefits' now includes the principles previously described under both the 'Nature of the benefits' and the 'Quantum of expected financial surplus' (now deleted) indicators;

(iv) a new indicator 'Primary beneficiaries of the benefits' has been added;

(v) a new indicator 'Purpose and use of assets' has been added; and

(vi) the 'Nature of funding' indicator includes more guidance.

(c) the paragraphs on conflicting indicators have been expanded to explain that professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment.

(d) the paragraphs under 'Changing classification' now refer back to relevant paragraphs in XRB A1 *Application of the Accounting Standards Framework* for determining the applicable tier of financial reporting when an entity changes its classification.

(e) the illustrative examples have been updated and a new one has been added.

Part B: Scope

This Standard applies to entities that prepare, or opt under an enactment to prepare, GPFR in accordance with accounting standards issued by the XRB.

Part C: Amendments to XRB A1 Appendix A *When is an Entity a Public Benefit Entity?*

Appendix A is replaced as shown below. The references in square brackets ([…]) are to the relevant paragraph in existing Appendix A of XRB A1 or are shown as 'new'.

APPENDIX A

WHEN IS AN ENTITY A PUBLIC BENEFIT ENTITY?

This appendix forms an integral part of XRB A1 Application of the Accounting Standards Framework.

Purpose

1 The purpose of this Appendix is to assist an entity that prepares a general purpose financial report (GPFR) that complies with accounting standards issued by the External Reporting Board (XRB) to determine whether or not it is a public benefit entity (PBE). [based on paragraph 6]

2 The classification of an entity as a for-profit entity or a PBE is important because it determines which accounting standards and related accounting policies are applied by an entity. Inappropriate classification may result in the adoption of inappropriate accounting policies, and a failure to provide users with information appropriate to assessing the financial performance, financial position and service performance of an entity. [based on paragraph 7]

Definition of a PBE

3 XRB A1 defines PBEs 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." PBEs may be public sector entities or not-for-profit entities. [based on paragraph 2]

4 The following definitions for public sector PBEs and not-for-profit PBEs are contained in XRB A1:

(a) Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and

(b) Not-for-profit PBEs are PBEs that are not public sector PBEs.

[new]

5 For-profit entities are not defined. Rather, the term for-profit entities encompasses all entities other than PBEs. An entity must assess whether it is a PBE or a for-profit entity by considering whether or not it meets the definition of a PBE. Assessing whether an entity meets the definition of a PBE requires an entity to determine its primary objective. [based on paragraph 3]

6 In many cases it will be obvious whether an entity meets the definition of a PBE. For example, most charities registered under charities legislation are likely to meet the definition of a PBE even though it is possible for a registered charity to be classified as a for-profit entity for financial reporting purposes. Similarly, many public sector entities operate under legislation that specifically requires them to provide goods or services for the benefit of the public. For example, the New Zealand Public Health and Disability Act 2000 requires this for District Health Boards. [first sentence from paragraph 10; then new]

7 In other cases it will not be immediately obvious that an entity is a PBE. Determining the primary objective of the entity (i.e. why the entity exists and what it intends to achieve) can be difficult where an entity has multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated. In identifying the primary objective, it is necessary to assess the substance of the entity's purpose. [based on paragraph 10]

8 In this regard, it should be noted that the definition of a PBE comprises two interdependent parts: (i) the primary objective to provide goods or services for community or social benefit, and (ii) the provision of any equity is to support that primary objective rather than for a financial return to equity holders. Both parts of the definition need to be assessed in combination in determining an entity's classification. Assessing one of the parts alone is unlikely to be sufficient in determining whether an entity is a PBE or a for-profit entity. [new]

9 The legal form of an entity is unlikely to be a conclusive factor in determining whether or not an entity is a PBE. PBEs are constituted in many different forms such as incorporated societies, trusts, statutory bodies and even companies. PBEs include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large. [based on paragraph 4]

10 Also, although in general terms PBEs exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many PBEs exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a community football club exists to promote and encourage football for the direct benefit of its members. However, society as a whole may also benefit indirectly through a healthier population and through the provision of organised activities for its youth. [based on paragraph 9]

11 This Appendix sets out several indicators to be considered in determining whether an entity meets the definition of a PBE. In many cases it will be unlikely that any one indicator will be conclusive in determining whether an entity meets the definition of a PBE and it may be necessary to consider several indicators together. Professional judgement is required when considering and balancing the assessment of each indicator. [new]

12 The assessment for classification as a PBE or as a for-profit entity is made at the reporting entity level. As a result, the classification at the reporting entity level may differ from the classification at the group level. Therefore, where an entity is a subsidiary of another entity and the subsidiary entity is a reporting entity with its own reporting obligations, the subsidiary assesses its own primary objective for reporting purposes. In determining the classification of a group, it is necessary to consider the characteristics of the controlling entity of the group. The classification of the controlling entity of the group would most likely determine the classification of the group. [new]

Indicators

13 Paragraphs 14 to 37 discuss key indicators that aim to focus on the substance of an entity's purpose and which should be considered in determining whether an entity is a PBE. These indicators are:

- the stated objectives;
- the nature of the benefits, including the quantum of expected financial benefits;
- the primary beneficiaries of the benefits;
- the nature of any equity interest;
- the purpose and use of assets; and
- the nature of funding.

[based on paragraph 11]

Stated objectives

14 In many cases the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, the State-Owned Enterprises Act 1986 states that the principal objective of every State enterprise is to "operate as a successful business and to this end, to be:

(a) as profitable and efficient as comparable businesses that are not owned by the Crown; and

(b) a good employer; and

(c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so."[2].

[based on paragraph 12]

15 The founding documents of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides. For example, one of the objectives of District Health Boards is to improve, promote and protect the health of people and communities. [paragraph 13]

16 In the not-for-profit sector, the meaning of charitable purpose is set out in the Charities Act 2005. In that Act, "charitable purpose includes every charitable purpose, whether it relates to the relief of poverty, the advancement of education or religion, or any other matter beneficial to the community."[3] [new]

17 Many entities are established with multiple objectives. For example, Crown Research Institutes (CRIs) are required by the Crown Research Institutes Act 1992 (CRI Act) to:

- undertake research for the benefit of New Zealand;
- comply with any applicable ethical standards;
- promote and facilitate application of the results of research and technological developments;
- be a good employer and exhibit a sense of social responsibility; and
- operate in a financially responsible manner so that they maintain their financial viability.

[paragraph 14]

18 Where an entity's founding documents provide that an entity has multiple objectives, determining the primary objective will depend on an assessment of the substance of the purpose of the entity. [based on paragraph 15]

19 In assessing the substance of the purpose of the entity where there are multiple objectives, it may be helpful to consider how the entity assesses its performance, as this may indicate which of its stated objectives is its primary objective. For example, if the entity has performance targets for a rate of return on assets or a percentage of return to equity holders, this may indicate the entity is a for-profit entity. However, if the performance targets focus on the level/amount of benefits that have been delivered to achieve a community or social outcome, this may indicate that the entity is a PBE. [new]

20 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. However, being financially viable is not in itself conclusive in distinguishing a for-profit entity from a PBE. There is often a community expectation that PBEs will be financially viable and operate to ensure that the limited resources at their disposal are used effectively. [based on paragraph 16]

Nature of the benefits, including the quantum of expected financial benefits

[new merged indicator]

21 The nature of the benefits provided by an entity including the quantum of the expected financial benefits, may indicate whether an entity is a PBE. [based on paragraph 17]

22 Unlike for-profit entities, PBEs do not exist to generate a financial surplus in order to provide a financial benefit/return to equity holders. Instead, they exist to provide goods or services for community or social benefit. Hence, if an entity provides goods or services to recipients at no cost or for nominal consideration, the entity is likely to be a PBE. This does not imply that PBEs never generate, or aim to generate, a financial surplus on the net assets employed. However, where a PBE does generate a financial surplus, it may be required or expected to be used to support the entity's primary objective of providing goods or services for community or social benefit, rather than for providing a financial benefit to equity holders. [based on paragraph 18]

23 PBEs may establish controlled entities or discrete business units which operate to generate a financial surplus that can be used to support the primary activities of the controlling entity. Such entities or business units may

[2] Section 4 State-Owned Enterprises Act 1986

[3] Section 5(1) Charities Act 2005

be for-profit. This fact does not affect the classification of the controlling entity or group.[4] [based on paragraph 19]

24 The benefits provided by for-profit entities are financial in nature. Most for-profit entities aim to generate a commercial or market return – that is, to maximise the financial benefit/return to equity holders commensurate with the relative risks of operating. Hence, the quantum of the expected financial benefits may indicate whether an entity is a for profit entity or a PBE. [based on paragraph 21]

25 When considering the quantum of the expected financial benefits and the nature of the benefits provided by an entity, it is important to recognise that the generation of profits and payment of dividends is only one form of financial benefit that can be provided to equity holders. There are many other forms of financial benefit that can be returned to members or equity holders. For example, cooperatives provide a financial benefit to members by paying a rebate based on the volume of transactions with the entity rather than through the payment of dividends. Another example of a financial benefit is the provision of discounted goods and services by an entity to its members. [new]

Primary beneficiaries of the benefits

26 An understanding of who the primary beneficiaries of the benefits provided by the entity are (i.e. the people who primarily benefit from the activities of the entity) will assist in determining whether an entity is a PBE. [new]

27 Typically, the primary beneficiaries of a for-profit entity are its equity holders (including its parent, where the reporting entity is controlled by another entity)[5] or other providers of economic resources to the entity (such as debt holders or suppliers). These parties provide economic resources to the entity in exchange for an entitlement to financial returns. [new]

28 In contrast, as the primary objective of a PBE is to provide goods or services for community or social benefit, typically the primary beneficiaries of PBEs are members of the community (or a particular section of the community), rather than resource providers. [new]

29 If the entity is membership based and the primary beneficiaries of the benefits provided by the entity are not members of the entity, the entity is likely to be a PBE. For example, a heritage trust where membership monies are used for maintaining and enhancing heritage assets for the benefit of the wider community. However, if the primary beneficiaries are members of the entity, it is necessary to consider other factors to determine whether the entity is a PBE (for example, the nature of the benefits and other indicators discussed in this Appendix). [new]

Nature of equity interest

30 Where an entity is established to generate a financial return for the benefit of the equity holders the ownership instrument is usually clearly defined. This is important for for-profit entities because it determines the level of financial benefits/returns such as dividends and rights to the residual net assets. If an entity does not have any clear equity holders or the nature of the equity instrument is unclear, the entity is likely to be a PBE. [based on paragraph 24]

31 The absence of clear equity holders may manifest itself in a number of ways, including:

- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or
- a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to another PBE. That is, the use of the assets is effectively restricted to providing goods or services for community or social benefit.

[based on paragraph 25]

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4 If a controlled entity or business unit is required to prepare general purpose financial reports its classification is determined by its own primary objective and not that of the controlling entity of the group.

5 As noted in paragraph 12, the assessment of the classification of an entity as a PBE or for-profit entity is made at the reporting entity level. Where the reporting entity is controlled by a PBE, how the PBE parent uses the financial returns provided by the reporting entity to its parent is not relevant to the assessment of whether the reporting entity should be classified as a for-profit entity or PBE.

Purpose and use of assets

32 The reasons an entity acquires and/or holds an asset may indicate whether it is a PBE. For-profit entities hold assets mainly for sale or for generating a financial benefit for equity holders. The primary reason PBEs (particularly public sector PBEs) hold property, plant and equipment and other assets (including infrastructure assets) is usually for their potential to provide future services for community or social benefit rather than their ability to generate a financial benefit for equity holders. If an entity holds assets primarily for delivering future services for community or social benefit, the entity is likely to be a PBE. [new]

33 For example, PBEs may hold assets that contribute to the historical and cultural character of a nation or region, such as art treasures, historical buildings and other artefacts. Other PBEs may be responsible for national parks and other areas of natural significance with native flora and fauna. Such historical items and land are generally not held for sale, even if a market exists. Rather, the respective PBEs have a responsibility to preserve and maintain them for current and future generations. [new]

Nature of funding

34 If an entity relies wholly or primarily on donations or other contributions whereby the resource provider does not receive an entitlement to financial returns (or other economic resources) from the entity in return, the entity is likely to be a PBE. [based on paragraph 26]

35 Many PBEs are dependent on grants and donations. In addition, the sources of funding are usually from third parties (i.e. a source other than the beneficiaries of their services). For example, public sector PBEs receive appropriations and other public funds to carry out their services. Not-for-profit PBEs may rely on government grants, donations from philanthropic organisations and donations and bequests from the public. There may also be restrictions imposed by the provider of the funding on how the funds may be spent. [new]

36 PBEs also receive funding through the provision of donated services. For example, many not-for-profit entities rely heavily on volunteers (rather than paid employees) to deliver their services to the community. [new]

37 In contrast, for-profit entities are funded primarily by equity holders, debt holders and other suppliers of economic resources, in exchange for an entitlement to dividends, interest and other forms of financial returns (or other economic resources). [new]

Conflicting indicators

38 When considering the classification of an entity, in some cases the above indicators may conflict with each other and the primary objective or purpose of the entity may not be obvious. Some indicators may indicate that an entity should be classified as a for-profit entity and others may indicate the entity should be classified as a PBE. In this situation professional judgement is required to evaluate the indicators overall and in combination with each other, including the significance of particular indicators to the overall assessment, to determine whether, in substance, the entity meets the definition of a PBE. For example, if the entity has only a small amount of equity, considering the nature of its equity interest may be less helpful than the other indicators when determining whether, in substance, the entity meets the definition of a PBE. [based on paragraph 27]

Changing classification

39 Although not expected to be common, changing circumstances may lead to a change in an entity's classification from a PBE to a for-profit entity and vice versa. For example, the constitution of an entity may be amended to change an entity's primary objective from one that is for-profit focused to one that is public benefit focused. [based on paragraph 28]

40 Accounting for a change in classification depends on the applicable accounting requirements of the new classification. An entity will need to first determine its applicable tier of financial reporting, in accordance with XRB A1. XRB A1 paragraphs 14–30 set out the Tier structure for for-profit entities, and paragraphs 31–72 set out the Tier structure for PBEs. The entity would then need to apply the applicable accounting requirements for its tier of financial reporting, including the requirements on the first-time adoption of that tier of reporting. For example, if an entity's classification changes from a PBE to a for-profit entity, the entity would need to apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. [based on paragraph 29]

ILLUSTRATIVE EXAMPLES: Determining whether or not an entity is a PBE

41 The following examples aim to illustrate application of this Appendix. The examples are illustrative only and do not establish requirements. [paragraph 30]

42 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is or is not a PBE. Rather, the examples illustrate indicators to be considered by preparers in reaching a conclusion regarding whether or not an entity is a PBE. In assessing this classification an appropriate weighting needs to be given to each individual indicator. Depending on the circumstances some indicators will provide a stronger indication than others about whether or not an entity should be classified as a PBE. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether or not the entity is a PBE. [based on paragraph 31]

Example 1: Crown Research Institute (CRI)

Entity A is a company established under section 11 of the Crown Research Institutes Act 1992 (the CRI Act).

Stated objectives

The CRI Act states that the purpose of every CRI is to undertake research (section 4) and sets out the principles of operation CRIs are expected to follow in fulfilling this purpose. These principles are set out in section 5 of the Act and include, for example, that a CRI should undertake research for the benefit of New Zealand, operate in a financially responsible manner and be a good employer.

The CRI Act establishes a broad framework for the operation of CRIs. The primary objective (purpose) of CRIs is clearly stated in the CRI Act. The principles set out in section 5 are detailed, but they are not ranked and their implementation can be achieved in a number of ways. CRIs, therefore, appear to have discretion as to how they can achieve their purpose.

Nature of the benefits, including the quantum of expected financial benefits

The key benefit of establishing CRIs is the production of research that will benefit New Zealand. In one sense the CRIs undertake research for community or social benefit. The New Zealand economy and entities operating in New Zealand can benefit from the research undertaken.

However, there may be discretion as to how research findings are distributed, in determining the nature of the research to be undertaken and whether the entity intends to generate a financial return for its equity holder (i.e. the Shareholding Minister).

If Entity A distributes the research findings to its customers on a fee-for-service basis with the aim of generating a financial surplus for its equity holder equivalent to a market return, this may indicate that Entity A is a for-profit entity.

If however Entity A undertakes research of a nature that will benefit New Zealand more broadly and makes its research findings available free of charge or for a nominal charge then the benefits provided would be community/social in nature, which may indicate that Entity A is a PBE.

Primary beneficiaries of the benefits

Although Entity A is a company, the primary beneficiaries of the benefits may not necessarily be the Shareholding Minister or the Government.

If the CRI sells its research on a commercial basis for the purpose of providing a financial return to the Shareholding Minister (i.e. the equity holder) then the primary beneficiary would be the entity's equity holder, which may indicate that Entity A is a for-profit entity.

Whereas if the research findings are made available for a nominal fee or free of charge for the benefit of the wider community, such as all entities operating in New Zealand with an interest in those research findings, then the primary beneficiaries would be the wider community, which may indicate that Entity A is a PBE.

Nature of equity interest

Entity A is a company. The equity interest is in the form of shares owned by the Shareholding Minister. In the case of Entity A, the nature of the equity interest is clear. In addition, there is no restriction on the use of assets in the event Entity A is sold, wound up or ceases to operate. This may indicate that Entity A is a for-profit entity.

Conversely, if the company constitution provides that in the event Entity A is wound up, or otherwise ceases to operate, its net assets are required to be transferred to another entity with a similar purpose, this may indicate that Entity A is PBE.

Purpose and use of assets

Entity A owns property, plant and equipment that it uses to undertake research and produce research reports. If Entity A holds those assets to sell or to generate a commercial financial return for the Shareholding Minister, this may indicate that Entity A is a for-profit entity.

However, if the property, plant and equipment is used to undertake research and report on the research findings for the benefit of the New Zealand public then the assets would be held for their potential to provide services to the community, which may indicate that Entity A is a PBE.

Nature of funding

Entity A competes for funding from government and private sources.

If the CRI funds its research activities primarily through charging commercial fees to customers for research services, this may indicate that Entity A is a for-profit entity.

Conversely, if, funding is derived primarily through government grants and donations from private organisations, and there is no requirement to deliver research findings to those funding organisations in return, this may indicate that Entity A is a PBE.

Example 2: Bicycle Shop

A charitable trust is established with the objective of providing health services to the homeless. The Trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the Trust establishes a bicycle shop (Company 1).

Company 1 sells second hand bicycles and runs a successful bicycle hire service. All surpluses from Company 1 are returned to the Trust to support the primary objective of providing health services to the homeless.

Stated objectives

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust. Therefore, as the entity's stated objective is to generate financial returns for its equity holder, this may indicate that the entity is a for-profit entity.

Conversely, if the entity's stated objective was to provide some form of community or social benefit (e.g. to provide employment for the homeless), this may indicate that the entity is a PBE.

Nature of the benefits, including the quantum of expected financial benefits

Company 1 returns financial surpluses generated through the sale and hire of bicycles to the Trust.

If bicycles are sold and hired at market rates with a view to maximising the financial surplus returned to the Trust, then the nature of the benefits would be financial, which may indicate that the bicycle shop is a for-profit entity.

However, if the shop is used primarily to provide employment to the homeless, and/or the bikes are sold at below market rates or hired out at a nominal/low rate to enable the disadvantaged to benefit from exercise (with any incidental financial surplus returned to the Trust), then the entity would be providing community or social benefits, which may indicate that Company 1 is a PBE.

Primary beneficiaries of the benefits

If bicycles are sold and hired at market rates and the primary beneficiary of the financial surpluses derived is the Trust (i.e. the equity holder), then this may indicate that Company 1 is a for-profit entity.

However, if any financial surplus derived by Company 1 is incidental to employing the homeless and/or providing affordable access to bicycles for the disadvantaged, then this may indicate that Company 1 is a PBE. In this case, the primary beneficiaries of the benefits (employment and bicycle affordability) provided by Company 1 are the homeless and the disadvantaged.

Nature of equity interest

Company 1 is 100% owned and controlled by the Trust. As such the ownership arrangement and equity holder is clear.

If in the event Company 1 ceases trading the trustees are able to determine how to use any residual assets of Company 1, then this may indicate that Company 1 is a for-profit entity.

However, if the trust deed provides that in the event Company 1 ceases trading any residual assets must be donated to a charity that fulfils the same or a very similar charitable purpose to that of the Trust, then this may indicate that Company 1 is a PBE.

Purpose and use of assets

If the directors of Company 1 aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return, they may recommend that the Trust invest its funds in another activity if a market return is not achieved. This may indicate that Company 1 is a for-profit entity.

However, if Company 1 was operated with the objective of generating a sufficient return on the net assets for it to continue to be a viable organisation, with no reference to a market return on the net assets invested, and instead its assets were used to provide goods or services for community or social benefit (i.e. enabling the disadvantaged to benefit from exercise) this may indicate that Company 1 is a PBE.

Nature of funding

Company 1 funds its activities through the sale and hire of bicycles. The Trust provided a small capital contribution to ensure the shop could purchase bicycles in addition to any that were donated. Company 1 pays a small rental to the Trust. Other outgoings are minimal and there are no borrowings.

If a significant number of the bicycles for hire and for sale were donated by members of the community, this may indicate that Company 1 is a PBE. Similarly, if most of the employees of Company 1 are volunteers, this may indicate that Company 1 is a PBE.

If, however, the funding is derived primarily from the sale and hire of bicycles at normal commercial rates and the Trust expects a return on its investment, this may indicate that Company 1 is a for-profit entity.

Example 3: Private Education Organisation

Entity B is a private organisation dedicated to providing low-cost high-quality education to children who immigrated to New Zealand from poverty-stricken countries. Entity B was established as a Trust with an initial endowment of $5m from the estate of a wealthy business person.

In order to supplement its income Entity B accepts a limited number of fee-paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity B to its objective of providing high-quality education to children who immigrated to New Zealand from poverty-stricken countries. The revenue from fee-paying students has enabled Entity B to expand the range of services it offers and to expand its roll of immigrant children.

The trustees carefully manage the resources of Entity B in order to maximise the number of immigrant children it can accept and to maintain a high-quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve the trust's objectives.

Stated objectives

The trust deed establishing Entity B states that the purpose of Entity B is to provide high-quality education to children who immigrated to New Zealand from poverty-stricken countries.

As Entity B's objective is to provide high-quality education to immigrant children from poverty-stricken countries (i.e. to provide a community or social benefit), this may indicate that Entity B is a PBE.

If the trust deed states that Entity B's purpose is to maximise its financial surplus from fee-paying students while also providing high-quality education to immigrant children, this may indicate that Entity B is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The nature of the benefits provided by Entity B are the educational services delivered to children from poverty-stricken countries. The equity has been provided to Entity B for the benefit of immigrant children and not for the generation of a financial return for equity holders. The nature of the benefits provided is primarily community/social, which may indicate that Entity B is a PBE.

If the financial targets established by the trustees are expressed in terms of meeting the development targets set out in the operational plan rather than being expressed in terms of a return on equity, this may indicate that Entity B is a PBE.

However, if the financial targets are expressed in terms of a return on equity, this may indicate that Entity B is a for-profit entity.

If Entity B established a subsidiary entity through which it ran its commercial education operations to maximise profits to be paid back to the Trust, then that subsidiary may be a for-profit entity. In this case it would also be necessary to consider whether the group reporting entity is a PBE by considering the characteristics of the controlling entity of the group.

Primary beneficiaries of the benefits

If the objective of Entity B is to provide high-quality education to immigrant children, with any surplus generated used to expand the number of immigrant children who are provided with high-quality education, the primary beneficiaries are the immigrant children. This may indicate that Entity B is a PBE.

If the trust deed identifies specific parties as beneficiaries of the trust (i.e. not the immigrant children) and Entity B limits the amount of surplus used to expand the education programme to immigrant children in order to generate a financial return for the specified beneficiaries, this may indicate that Entity B is a for-profit entity.

Nature of equity interest

Entity B is a trust, so there are no clearly defined ownership instruments.

The trust deed requires that in the event Entity B ceases operating any residual assets are to be distributed to another entity with a similar purpose. The use of the assets is restricted, and there are no clear equity holders that have an entitlement to those assets. This may indicate that Entity B is a PBE.

If the trust deed provides that in the event Entity B ceases operating any residual assets are to be distributed to other specified parties (e.g. the specified beneficiaries), this may indicate that Entity B is a for-profit entity.

Purpose and use of assets

Entity B provides education to both immigrant children and to fee-paying students. The trustees have a clear operational plan and have established clear financial targets to achieve the trust's objectives.

If Entity B uses its assets to provide high-quality education to immigrant children from poverty-stricken countries, rather than to generate a financial return on its equity then this may indicate that Entity B is a PBE.

If the trustees of Entity B require a commercial financial return on those assets, this may indicate that Entity B is a for-profit entity.

Nature of funding

Entity B receives funding from several sources: investment income from the initial endowment, income from fee-paying students, and donations from the public and fundraising activities.

If this funding is derived predominantly from third parties who do not benefit from Entity B's services, and the resource provider does not receive an entitlement to financial returns (or other economic resources), this may indicate that Entity B is a PBE.

If Entity B derives its funding predominantly from fee-paying students and other resource providers in exchange for an entitlement to financial returns (or other economic resources) from the entity, this may indicate that Entity B is a for-profit entity.

Example 4: Sports Club

Club AFC is a football club established in a suburb of a large city. Club AFC organises competitions and provides coaching and training for a wide range of age groups, from five-year-olds through to senior grade, and representative grades.

Stated objectives

Club AFC is established as a charitable trust. Its constitution states that it is a non-profit entity established to foster participation and to promote amateur football in its suburb. This indicates that Club AFC may be a PBE.

If, however, the constitution stated that Club AFC's objective is to maximise profits for the club, then this may indicate that Club AFC is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

The benefits provided by Club AFC arise from the coordination of football competitions and the provision of football coaching and training to club members. This may indicate that Club AFC is a PBE.

If Club AFC were to sell a significant amount of its coaching, and training services (e.g. to schools, other football clubs, or individuals) at normal market rates, with the aim of generating financial returns for its members this may indicate that Club AFC is a for-profit entity.

If Club AFC uses the surpluses from selling its services to ensure the Club remains financially viable with any surplus used to develop the services it offers to club members and the wider amateur football community, this many indicate that Club AFC is a PBE.

If the financial targets are set with the objective of generating a commercial rate of return for its members, this may indicate that Club AFC is a for-profit entity.

Primary beneficiaries of the benefits

Club AFC provides training and coaching for all age groups and grades of players who are members of the club. The Club also organises football competitions in which other amateur football clubs participate.

If the Club's activities primarily benefit the wider community (for example, by promoting soccer as part of a keeping active programme, providing some coaching at no cost for schools or providing free soccer memberships for disadvantaged children in the community), this may indicate that Club AFC is a PBE.

If, however, the primary beneficiaries of the Club's activities are the members of Club AFC, it is necessary to consider other factors (for example, the nature of the benefits and other indicators discussed in this Appendix) to determine whether the entity is a PBE.

Nature of equity interest

Club AFC is a member-based entity and there are no clear equity holders. This may indicate that the Club is a PBE. If, however, the Club was owned by shareholders expecting a financial return on their investment in the Club, this may indicate that the Club is a for-profit entity.

If the constitution states that in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC, this may indicate that the Club is a PBE.

However, if the constitution states that in the event the Club is wound up or ceases to operate any residual assets are to be distributed to the members, this may indicate that the Club is a for-profit entity.

Purpose and use of assets

Club AFC's assets comprise primarily football equipment (nets, balls, uniforms etc), as well as tripods and filming technology used to analyse matches for the purpose of coaching and training. A small shed is leased at the local community centre to store the equipment.

If the Club's assets are used primarily to provide coaching, training and competitions for amateur players in the community, then this may indicate that Club AFC is a PBE.

However, if Club AFC sells a significant amount of its coaching and training services and charges commercial market rates to other individuals or entities for using its tripods and filming technology, then its assets may be generating a financial return for its members. This may indicate that the Club is a for-profit entity.

Nature of funding

Club AFC receives funding from membership fees, donations, sponsorship and community grants.

If this funding does not establish a financial interest in the Club, this may indicate that Club AFC is a PBE.

If Club AFC receives funding primarily from members and other resource providers who are expecting either a financial return on their investment or other economic resources in return for providing funds, this may indicate that Club AFC is a for-profit entity.

Example 5: Social Enterprise

The social enterprise model is becoming a more prevalent way for entities to operate. It is important to note that an entity that identifies itself as a social enterprise may not necessarily be a PBE. It is possible for an entity that identifies itself as a social enterprise to be a for-profit entity that also has a social objective.

Entity C is a company which donates one lunch for a hungry school child at a low decile school for every lunch that it sells to the public, that is, the cost of the donated lunch is built into the cost of the lunch that is sold.

Stated objectives

Entity C's constitution states that its objective is to provide healthy food, including lunches, to patrons and to children at low decile schools.

If Entity C's constitution states that its objective is to help children at low decile schools by providing healthy lunches, this may indicate that Entity C is a PBE.

If Entity C's objective is to maximise profits while also achieving a social objective of providing healthy lunches to children at low decile schools, this may indicate that Entity C is a for-profit entity.

Nature of the benefits, including the quantum of expected financial benefits

If Entity C generates substantial surpluses, after covering the costs of free lunches, with those surpluses distributed to its shareholders or retained for additional business investments, the nature of the benefits provided are primarily financial. This may indicate that Entity C is a for-profit entity.

If Entity C uses the surpluses from the sale of lunches primarily to fund the costs of the free lunches and other operating costs, with any surplus used to expand the number of free lunches provided to school children, the nature of the benefits provided are primarily community/social. This may indicate that Entity C is a PBE.

Primary beneficiaries of the benefits

Entity C has three shareholders.

If Entity C limits the amount of its surplus from the sale of lunches that can be used to provide free lunches, to ensure that it generates an adequate financial return for its shareholders, the primary beneficiaries are the shareholders, which may indicate that Entity C is a for-profit entity.

Conversely, if Entity C uses most of the surpluses from the sale of lunches to provide free lunches to children in low decile schools rather than distributing the profits to its shareholders, the primary beneficiaries are the children at low decile schools. This may indicate that Entity C is a PBE.

Nature of the equity interest

Entity C has two founding shareholders. To enable expansion plans to be completed, additional shares were issued to a shareholder who has a prominent business in the food distribution sector. The equity holders are clearly identifiable by the equity instruments they hold.

If:

(a) there were no entitlements to dividends;

(b) all profits were reinvested in Entity C; and

(c) on Entity C ceasing to operate, any residual assets were to be donated to an entity with a similar charitable objective,

this may indicate that Entity C is a PBE.

If Entity C's shareholders have an entitlement to dividends and to a share of the residual net assets of the entity if it is wound up, this may indicate that Entity C is a for-profit entity.

Purpose and use of assets

Entity C acquires or holds its assets to provide healthy lunches for children in low decile schools and to make lunches and healthy food that are sold to the public.

If the assets are used primarily to provide healthy lunches for children in low decile schools, this may indicate that Entity C is a PBE.

If Entity C acquires or holds its assets primarily to sell or to generate financial benefits for its equity holders, this may indicate that Entity C is a for-profit entity.

Nature of Funding

Entity C's equity was initially provided by shareholders.

If Entity C relies primarily on donations and grants from the general public and funding organisations, and has a predominantly volunteer workforce, this may indicate that Entity C is a PBE.

If Entity C's funding is provided primarily by shareholders and other resource providers in exchange for an entitlement to financial returns (e.g. dividends) or other economic resources, this may indicate that Entity C is a for-profit entity.

Part D: Effective date

This [draft] Standard is effective for periods beginning on or after [Date – proposed date is 1 January 2020], with earlier application permitted.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE:	30 November 2018
TO:	Members of the External Reporting Board
FROM:	Vanessa Sealy-Fisher
SUBJECT:	**Policy Approach for Developing the Suite of PBE Standards**

Purpose and introduction[1]

1. The purpose of this agenda item is to seek the XRB Board's approval of proposed amendments to the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) to reflect more closely the NZASB's approach to developing PBE Standards.
2. The PBE Policy Approach was developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards, that is, when considering enhancements and developments to the suite of PBE Standards in the future.
3. At its non-public August meeting, the NZASB agreed:
    (a) that the rebuttable presumptions in the PBE Policy Approach could be relaxed to become more akin to "expectations";
    (b) to consider proposed amendments to the PBE Policy Approach to allow flexibility to:
        (i) reject (in whole or in part) or make substantive amendments to an International Public Sector Accounting Standard (IPSAS) when it is not considered appropriate or relevant for New Zealand public benefit entities (PBEs); and
        (ii) commence a PBE project ahead of the IPSASB in response to a new IFRS Standard or a public benefit sector specific issue, when it is expected that the International Public Sector Accounting Standards Board (IPSASB) is unlikely to address the issue in a timely fashion.
4. The circumstances outlined above are expected to be rare but could occur. For example, the NZASB developed and issued PBE IFRS 9 *Financial Instruments* as an interim measure until the IPSASB completed its project to update the IPSASs dealing with financial instruments.
5. The NZASB also agreed that any amendments to the PBE Policy Approach should clarify the process that the NZASB currently applies when considering developments to the suite of PBE Standards and ensure that it continues to reflect the New Zealand Accounting Standards Framework (ASF).

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Proposed amendments to the PBE Policy Approach

6. The proposed amendments to the PBE Policy Approach are primarily to section 4.1 (paragraphs 22–25). This section deals with the adoption or a new of amended IPSAS into the suite of PBE Standards.

7. Paragraph 24 proposes two subparagraphs, (a) and (b). Subparagraph (a) is largely unchanged from the current paragraph 24 and deals with amending a recently issued or newly amended IPSAS. The subparagraph incorporates the current subparagraphs (a)–(d), outlining the circumstances under which an amendment to an IPSAS could be made.

8. Subparagraph (b) identifies the circumstances under which the presumption that a new or amended IPSAS will be adopted is rebutted. Those circumstances are where (i) adoption of the IPSAS would result in lower quality financial reporting, or (ii) the costs of adopting the IPSAS would exceed the benefits.

9. New paragraph 25 requires the NZASB to report to the XRB Board when it rebuts the presumption that a new or amended IPSAS will be adopted, together with the reasons for the NZASB's decision.

10. We have also taken this opportunity to update the PBE Policy Approach for the following.

    (a) The ASF was updated in December 2015. Paragraph 4 of the PBE Policy Approach included extracts from the earlier ASF (paragraphs 149–151). These paragraphs are no longer in the updated ASF so we have updated the PBE Policy Approach and inserted the equivalent paragraphs in the updated ASF (paragraphs 57–63). A footnote to the Accounting Standards Frameworks on the XRB website has also been included.

    (b) Terminology has been amended to:

        (i) refer to IFRS Standards (rather than IFRS), even though the ASF refers to IFRS. The ASF was updated prior to the International Accounting Standards Board (IASB) using the term 'IFRS Standards'

        (ii) refer to NFP PBEs (rather than not-for-profit entities) for consistency with other XRB pronouncements.

    (c) The word 'emerging' has been deleted in paragraph 9 because the IASB has now issued its *Conceptual Framework for Financial Reporting.* Minor changes have also been made to clarify that paragraphs 9 and 10 are discussing the users of financial statements.

    (d) The words 'or replaced' have been added to paragraph 39 to cater for the forthcoming PBE IFRS 17 *Insurance Contracts*. Paragraph 39 deals with PBE Standards based on an NZ IFRS that is included in the suite of PBE Standards.

    (e) Paragraph 41 now includes a reference to PBE FRS 48 *Service Performance Reporting*.

Recommendation

11. We recommend that the XRB Board APPROVES the amendments to the PBE Policy Approach (agenda item 3.2.2).

Attachments

Agenda Item 3.2.2: *Policy Approach to Developing the Suite of PBE Standards* (clean)

Agenda Item 3.2.3: *Policy Approach to Developing the Suite of PBE Standards* (marked-up)

EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Policy Approach to Developing the Suite of PBE Standards

Originally Issued September 2013

Updated [month] 2018

Approved by the XRB Board for application by the New Zealand Accounting Standards Board from [Date]

Preface

1. In May 2013, the New Zealand Accounting Standards Board (NZASB) issued the PBE Standards – a new suite of standards for Tier 1 and Tier 2 public benefit entities. That initial set of standards, developed in accordance with the External Reporting Board's (XRB Board's) *New Zealand Accounting Standards Framework*, can be regarded as the "foundation suite" of PBE Standards. It is expected that the foundation suite will be enhanced and developed over time.

2. This *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) has been developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards i.e. when considering enhancements and developments to the suite of PBE Standards in the future.

3. While primarily based on International Public Sector Accounting Standards, the foundation suite of PBE Standards was developed using a range of source standards: International Public Sector Accounting Standards, selected NZ IFRSs and domestic standards developed within New Zealand. Developments are likely to arise from each of these sources as changes are made to the international standards and as issues specific to New Zealand emerge.

4. Without a policy such as this, it would be possible for significant fluctuations in the NZASB's approach to developing the suite of PBE Standards to emerge over time. This PBE Policy Approach therefore provides constituents with some certainty about the likely future direction of the suite of PBE Standards, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB. It also assists constituents to understand the likely implications of future changes to the suite of PBE Standards for public benefit entities (PBE) groups containing for-profit entities (commonly referred to as "mixed groups").

Table of Contents

Summary

The Development Principle

In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of the PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit (NFP) PBEs, including public sector PBE groups and NFP groups, than would be the case if the development was not made; and

(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

(i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS® Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;[1]

(ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

(iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

(iv) *the impact on mixed groups*; and

(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).

Application of the Development Principle

The PBE Policy Approach includes a series of rebuttable presumptions in applying the development principle:

(a) The NZASB will adopt a new or amended IPSAS.

(b) The NZASB will not include an IFRS Standard that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.

(c) In considering the impact on PBE Standards from a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate the development of a related change to the PBE Standards ahead of the IPSASB. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change and whether the IPSASB will address the change in an acceptable time frame.

(d) The NZASB will not incorporate minor amendments to NZ IFRS into the equivalent PBE Standard in advance of the IPSASB considering the change. However, the

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NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

1. Introduction

1. The PBE Policy Approach addresses the NZASB's approach to developing and enhancing the suite of PBE Standards. References to PBEs in this Policy include references to all PBEs: public sector PBEs and NFP PBEs, and public sector PBE groups and NFP PBE groups.

2. Triggers for possible changes to the PBE Standards are likely to come from three sources:

   (a) the IPSASB issuing a new IPSAS or a change to an existing IPSAS (section 4.1);

   (b) the IASB issuing a new IFRS Standard or a change to an existing IFRS Standard (section 4.2); and

   (c) domestic developments within New Zealand, including both exogenous events such as changes to the legislative framework and endogenous events where the NZASB considers that developments are warranted (section 4.3).

3. The PBE Policy Approach considers the implications of the *New Zealand Accounting Standards Framework* for developing the suite of PBE Standards and identifies an approach to be taken for each of the triggers for possible changes to PBE Standards.

2. Basis for Development of PBE Standards

4. The multi-standards approach in the *New Zealand Accounting Standards Framework* (issued in April 2012 and updated in December 2015) is designed to better meet the needs of users of the financial statements of PBEs.[2] Accounting Standards for Tier1 and Tier 2 entities are based on IPSAS.

> 57. An explicit part of the multi-standards approach is the adoption of a set of accounting standards for PBEs other than one based on IFRS.
>
> 58. The only set of international accounting standards, other than IFRS, is IPSAS. IPSAS provides a better basis for PBE reporting for entities in Tier 1 and Tier 2 than does IFRS because it is developed for a wider set of users, notably service recipients as well as resource providers.
>
> 59. The XRB also considers that IPSAS is a credible set of standards. The historical concerns about IPSAS had been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB (at least compared to those applying to the IASB). These concerns have been addressed by both the IPSASB and the International Federation of Accountants (IFAC – the IPSASB's parent body). The IPSASB issued its conceptual framework General Purpose Financial Reporting by Public Sector Entities in late 2014 and an independent governance body for the IPSASB has been established for the first time in 2015.
>
> 60. However, the XRB continues to consider that it is premature to adopt "pure" IPSAS (in the way that NZ IFRS reflects "pure" IFRS). This is because, among other matters, the IPSAS is developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. Moreover, IPSAS does not currently represent a complete set of standards. Therefore, a set of PBE Standards has been developed that uses IPSAS as their base. PBE Standards modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in New Zealand. Such modifications are only made where the IPSAS requirement in question has a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements' usefulness to users.
>
> 61. Since the adoption of the initial Accounting Standards Framework, the XRB, in conjunction with its sub-Board, the New Zealand Accounting Standards Board (NZASB), has developed (and issued in September 2013) a *Policy Approach to Developing the Suite of PBE Standards* [footnote omitted]. The Policy Approach establishes an approach, based on a "development principle" and a series of "rebuttable presumptions", which are used by the NZASB to determine whether, and when, to make changes to PBE Standards.
>
> 62. PBE Standards include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.
>
> 63. The PBE Standards are also modified to make them relevant, applicable and understandable to the not-for-profit sector preparers and users. Some modification is desirable to enhance their usefulness in the not-for-profit context.
>
> (*New Zealand Accounting Standards Framework*, paragraphs 57–63)

5. The PBE Policy Approach uses the term "development" to encompass any change to the suite of PBE Standards.

6. In considering the appropriateness of potential developments of the suite of PBE Standards, it is necessary to consider these developments in the context of the *New Zealand Accounting Standards Framework*, including the impact of any

[2] The New Zealand Accounting Standards Frameworks is available at https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework/

developments on the quality of the financial reporting arising from those standards and the trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs.

2.1 Quality of Financial Reporting

7. The suite of PBE Standards is designed to meet users' needs by providing high quality financial reporting by PBEs. It follows that any development of PBE Standards should aim to improve the quality of financial reporting. The quality of financial reporting relies on meeting the needs of users of PBE general purpose financial reports (including financial statements), while endeavouring to ensure that the costs arising from a development do not outweigh the benefits.

8. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs (as it applies from time to time), with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework.

9. The categories of users of financial statements of PBEs and for-profit entities are different. Paragraph 1.2 of the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*) identifies users of financial statements as suppliers of resources to the entity, and notes that the decisions that they make are related to providing resources to the entity.

10. In contrast, paragraphs 2.1–2.4 of the *PBE Conceptual Framework* (the New Zealand equivalent of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*) considers a wider group of users of financial reports, being resource providers and service recipients and their representatives., and notes that information is needed for both accountability and decision-making purposes.

11. A development of the suite of PBE Standards will improve the quality of financial reports prepared in compliance with PBE Standards if it improves the accounting for specific transactions by better meeting the objective of financial reporting and the associated qualitative characteristics of financial reporting.

12. Further, high quality financial reporting depends on consistent treatment of similar transactions. For example, it would usually be inappropriate to require different measurement for similar liabilities in similar circumstances. As a result, any development of PBE Standards (including the conceptual framework for PBEs) should ensure that the suite is maintained as a coherent whole.

13. It follows that any developments should ensure that the needs of users are better met than they were prior to the development. Alternatively, the cost-benefit test (see next section) may be met where the needs of users are equally as well served, with a consequent benefit in some other way such as a reduction in the costs of preparing the financial statements.

2.2 Costs and Benefits

14. In considering a potential development of the suite of PBE Standards, the primary purpose and benefit is to improve the information provided to users of PBE financial reports.

15. Benefits need to be considered in relation to the suite of PBE Standards as a whole, in addition to the implications for a specific area of financial reporting. The benefit of aligning the PBE Standards with NZ IFRS to the extent possible is that this will reduce differences between the financial statements of PBEs and for-profit entities. This benefit is particularly relevant to entities that are members of mixed groups and users of PBE financial statements whose familiarity with financial statements arises from experience in the for-profit sector.[3] However, for other preparers that are not part of a mixed group, there may be additional preparation costs as a result of changes in accounting standards that might not otherwise arise.

16. The PBE Standards are largely based on IPSAS in accordance with the *New Zealand Accounting Standards Framework* and, therefore, careful consideration is required before making any change to a PBE Standard based on an IPSAS in circumstances other than as a consequence of the IPSASB issuing a new or amended IPSAS (as discussed further below in paragraph 29). In addition, the benefit of using IPSAS to the extent possible is that IPSAS are a suite of standards that comprise a coherent package. It also reduces standard-setting costs as the IPSASB documents are readily available for application in New Zealand with little additional work. Reducing the time spent on setting the base standards releases resources for working with the international standard setters and for necessary domestic projects.

17. In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as NFP entities. However, it is expected that recognition and measurement requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated.

18. At times, there is a tension between reducing the costs borne by preparers within mixed groups – that is the elimination of differences between PBE Standards and NZ IFRS that are not sector specific – and improving the suite of PBE Standards taken as a whole. This Policy takes the view that reducing the costs on preparers within mixed groups should be considered to the extent that these costs can be reduced whilst meeting the needs of the wider range of users of financial statements of public sector PBEs and NFP PBEs (including public sector and NFP groups) through a complete and coherent suite of PBE Standards.

[3] For the purposes of the PBE Policy Approach, a mixed group is a PBE group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted under the consolidation standards.

3. The Development Principle

19. In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups NFP PBE groups, than would be the case if the development was not made; and

(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

(i) *relevance to the PBE sector as a whole:* for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;

(ii) *relevance to the NFP or public sector sub-sectors:* whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

(iii) *coherence:* the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

(iv) *the impact on mixed groups*; and

(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).

20. The NZASB will need to exercise its judgement in balancing the factors in the development principle because, in many cases, there will need to be a trade-off between these factors. This policy provides a basis for making such a trade-off decision: it cannot replace the application of judgement by the NZASB with a series of bright-line rules.

4. Application of the Development Principle

21. The following sections are designed to assist in the application of the factors in the development principle. They consider, in turn, potential developments of the suite of PBE Standards that might arise from developments in IPSAS and NZ IFRS as well as addressing issues that might arise within New Zealand. Although the PBE Policy Approach treats each of these developments separately, it is likely that specific developments will need to be considered from a number of perspectives. For example, the NZASB may have planned to continue to update PBE IAS 34 *Interim Financial Reporting* in line with developments of NZ IAS 34 *Interim Financial Reporting* to retain consistent interim reporting across all sectors (section 4.2). However, if the IPSASB were to issue a standard addressing interim reporting, this new IPSAS would be considered as a development resulting from an enhancement to IPSAS (section 4.1).

4.1 New or Amended IPSAS

22. There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS.

23. This rebuttable presumption is based on the expectation that the IPSASB has considered the needs of the wide range of users of public sector financial statements in developing and enhancing the suite of IPSAS. Therefore, it is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met.

24. Depending on the circumstances, it may be appropriate to apply one of the following approaches when a new or amended IPSAS is issued:

    (a) Amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:

        (i) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance or making changes to enhance the clarity and consistency of the requirements to enable public sector PBEs and NFP PBEs to apply the standard consistently;

        (ii) adding guidance to assist NFP PBEs in applying the standard, given that the standard has been developed for application by public sector PBEs;

        (iii) amending as necessary to maintain the coherence of the suite of PBE Standards;

        (iv) excluding options that are not relevant in the New Zealand context; or

        (v) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for NFP PBEs.

    (b) Rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS, or part(s) thereof. Given that PBE Standards are based primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:

(i) adoption of a new or amended IPSAS would not be either appropriate or relevant; and

(ii) the costs of adoption of a new or amended IPSAS would outweigh the benefits.

25. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:

(a) its decision and rationale for the decision; and

(b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.

4.2 New or Amended NZ IFRS

26. New or amended NZ IFRS will require the NZASB to consider whether to initiate a development of the PBE Standards in the following circumstances:[4]

(a) an IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed;

(b) the IASB issues an IFRS Standard on a new topic; and

(c) there is a change to an NZ IFRS that has been used as the basis for a PBE Standard.[5]

4.2.1 An IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed

27. As noted earlier, the PBE Standards are primarily based on IPSAS. In turn, many IPSAS are primarily based on IFRS Standards. Examples of such standards are PBE IPSAS 16 *Investment Property* and PBE IPSAS 17 *Property, Plant and Equipment*, which are based on IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, respectively. Accordingly, there are likely to be many instances in which a new or amended NZ IFRS relates to a topic covered by an existing IPSAS standard that has been incorporated into the PBE Standards.

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[4] An amendment to an NZ IFRS can fall into more than one of the above categories, for example, an NZ IFRS on a new topic might also result in changes to other NZ IFRS that fall into category (a) and/or (c).

[5] NZ IFRS that the NZASB has included in the suite of PBE Standards are:

- PBE IFRS 3 *Business Combinations*
- PBE IFRS 4 *Insurance Contracts*
- PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*
- PBE IAS 12 *Income Taxes*
- PBE IAS 34 *Interim Financial Reporting*
- NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE FRS 45 *Service Concession Arrangements: Operator*).

28. **In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.**

29. Given the presumption in paragraph 22 that any IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with "getting ahead of the IPSASB". Therefore, the NZASB needs to decide whether to develop a PBE Standard ahead of the IPSASB or to wait for the IPSASB's response. If the issue is already on the IPSASB's active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.

30. **Furthermore, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-benefit test, particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

31. Where there is a major change to an IFRS Standard for which there is an existing IPSAS and where the IPSASB is unlikely to address the change in an acceptable time frame, the NZASB could either develop a domestic modification to the PBE Standard or assist the IPSASB to develop an IPSAS. Options for assisting the IPSASB include offering to provide staff resources for the IPSASB or partnering with the IPSASB to update a specific IPSAS in the light of the major change. It may be more effective to assist the IPSASB because any uncertainties about the IPSASB's approach to the issue will be resolved sooner rather than later. However, the level of effort required to develop an IPSAS based on an IFRS Standard for international use is likely to be significantly higher than developing a PBE Standard based on an IFRS Standard or its equivalent NZ IFRS for use in New Zealand. The IPSASB's due process, multi-constituency reach and less regular meetings leads to a standards development process for the IPSASB that is more time consuming and complex.

4.2.2 The IASB issues an IFRS Standard on a new topic

32. An example of a new topic is where the IASB is considering issuing a standard on rate-regulated activities.

33. There is a rebuttable presumption that the NZASB will not include an NZ IFRS that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.

34. As noted in paragraph 26, some NZ IFRS were included in the suite of PBE Standards to maintain current practice until the IPSASB addresses the related issues. This rationale does not apply to an NZ IFRS on a new topic. Also, given the PBE Standards are primarily based on IPSAS in accordance with the *New Zealand Accounting Standards Framework*, adding further PBE Standards based on NZ IFRS is unlikely to be consistent with the objectives of that Framework.

35. In considering whether to rebut the presumption, the NZASB should consider whether the new standard both leads to a major improvement in the quality of financial reporting and fills a gap in the suite of PBE Standards (as distinct from a gap in NZ IFRS). This is unlikely to arise.

4.2.3 An NZ IFRS that the NZASB has included in the PBE Standards is changed

36. The NZASB has included selected NZ IFRS in the suite of PBE Standards (see footnote 7) in order to maintain current practice until the IPSASB addresses the related issues.

37. In considering a change to an NZ IFRS that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.

38. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB's likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE Standards. This is because the potential problems associated with "getting ahead of the IPSASB" (as discussed in paragraph 29 above) are less likely to arise.

39. An implication of this policy is that those PBE Standards based on an NZ IFRS (see footnote 7) may need to be updated or replaced to align with the current equivalent NZ IFRS.

4.3 Domestic Developments

40. Domestic developments include developing standards to meet specific requirements in New Zealand.

41. The suite of PBE Standards contains standards directly addressing issues relevant to New Zealand, including PBE FRS 42 *Prospective Financial Statements*, PBE FRS 43 *Summary Financial Statements* and PBE FRS 48 *Service Performance Reporting*. Further domestic standards may be developed where a need arises when an issue of importance in New Zealand is not addressed in a standard issued by the IPSASB (section 4.1) or the IASB (section 4.2).

42. In determining whether to initiate the development of a domestic standard for inclusion in the PBE Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context.

43. The *New Zealand Accounting Standards Framework* presumes that New Zealand will be a standards taker rather than a standards maker whenever possible, for a range of reasons, including:

(a) the quality derived by an international due process;

(b) the prospect of international comparability; and

(c) the limited resources available for the domestic development of standards.

44. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:

(a) there is no other source of material available internationally; or

(b) the available international guidance is not targeted specifically towards addressing New Zealand issues.

EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Policy Approach to Developing the Suite of PBE Standards

Originally Issued September 2013

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Preface

1. In May 2013, the New Zealand Accounting Standards Board (NZASB) issued the PBE Standards – a new suite of standards for Tier 1 and Tier 2 public benefit entities. That initial set of standards, developed in accordance with the External Reporting Board's (XRB Board's) *New Zealand Accounting Standards Framework*, can be regarded as the "foundation suite" of PBE Standards. It is expected that the foundation suite will be enhanced and developed over time.

2. This *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) ~~paper~~ has been developed by the XRB Board and the NZASB to assist the NZASB in making consistent decisions when developing the suite of PBE Standards i.e. when considering enhancements and developments to the suite of PBE Standards in the future.

3. While primarily based on International Public Sector Accounting Standards, the foundation suite of PBE Standards was developed using a range of source standards: International Public Sector Accounting Standards, selected NZ IFRSs and domestic standards developed within New Zealand. Developments are likely to arise from each of these sources as changes are made to the international standards and as issues specific to New Zealand emerge.

4. Without a policy such as this, it would be possible for significant fluctuations in the NZASB's approach to developing the suite of PBE Standards to emerge over time. This PBE Policy Approach ~~paper~~therefore provides constituents with some certainty about the likely future direction of the suite of PBE Standards ~~suite~~, and provides a basis for assessing proposals for changes to the PBE Standards as they are issued by the NZASB. It also assists constituents to understand the likely implications of future changes to the suite of PBE Standards ~~suite~~ for public benefit entities (PBE) groups containing for-profit entities (commonly referred to as "mixed groups").

Table of Contents

Summary

The Development Principle

In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of the PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit (NFP) PBEs~~entities~~, including public sector PBE groups and ~~not-for-profit~~NFP groups, than would be the case if the development was not made; and

(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

 (i) *relevance to the PBE sector as a whole*: for example, where the potential development arises from the issue of a new or amended IFRS® Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;[1]

 (ii) *relevance to the not-for-profit or public sector sub-sectors*: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

 (iii) *coherence*: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

 (iv) *the impact on mixed groups*; and

(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is developing an IPSAS on the topic).

Application of the Development Principle

The PBE Policy Approach ~~paper~~ includes a series of rebuttable presumptions in applying the development principle:

(a) The NZASB will adopt a new or amended IPSAS.

(b) The NZASB will not include an ~~NZ~~ IFRS Standard that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.

(c) In considering the impact on PBE Standards from a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB ~~shall~~ will consider the factors in the development principle in determining whether to initiate the development of a related change to ~~a development of~~the PBE Standards ahead of the IPSASB. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change and whether the IPSASB will address the change in an acceptable time frame.

[1] This policy refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

(d) The NZASB will not incorporate minor amendments to NZ IFRS into the equivalent PBE Standard in advance of the IPSASB considering the change. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

1. Introduction

1. The PBE Policy Approach~~is paper~~ addresses the NZASB's approach to developing and enhancing the suite of PBE Standards~~ now that the transition suite for public sector PBEs is completed~~. References to PBEs in this Policy~~paper~~ include references to all PBEs: public sector PBEs and ~~not-for-profit~~NFP PBEs~~entities~~, and public sector PBE groups and ~~not-for-profit~~NFP PBE groups.

2. Triggers for possible changes to the PBE S~~s~~tandards are likely to come from three sources:

   (a) the IPSASB issuing a new IPSAS or a change to an existing IPSAS (section 4.1);

   (b) the IASB issuing a new IFRS Standard or a change to an existing IFRS ~~-~~Standard (section 4.2); and

   (c) domestic developments within New Zealand, including both exogenous events such as changes to the legislative framework and endogenous events where the NZASB considers that developments are warranted (section 4.3).

3. The PBE Policy Approach~~is paper~~ considers the implications of the *New Zealand Accounting Standards Framework* for developing the suite of PBE Standards and identifies an approach to be taken for each of the triggers for possible changes to PBE Standards.

2. Basis for Development of PBE Standards

4. The multi-standards approach in the New Zealand *Accounting Standards Framework* (issued in April 2012 and updated in December 2015) is designed to better meet the needs of users of the financial statements of PBEs.[2] Accounting Standards for ~~In its decision to base the development of standards~~Tier1 and Tier 2 entities are based on IPSAS.~~, the XRB Board decided the following:~~

57. An explicit part of the multi-standards approach is the adoption of a set of accounting standards for PBEs other than one based on IFRS.

58. The only set of international accounting standards, other than IFRS, is IPSAS. IPSAS provides a better basis for PBE reporting for entities in Tier 1 and Tier 2 than does IFRS because it is developed for a wider set of users, notably service recipients as well as resource providers.

59. The XRB also considers that IPSAS is a credible set of standards. The historical concerns about IPSAS had been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB (at least compared to those applying to the IASB). These concerns have been addressed by both the IPSASB and the International Federation of Accountants (IFAC – the IPSASB's parent body). The IPSASB issued its conceptual framework General Purpose Financial Reporting by Public Sector Entities in late 2014 and an independent governance body for the IPSASB has been established for the first time in 2015.

60. However, the XRB continues to consider that it is premature to adopt "pure" IPSAS (in the way that NZ IFRS reflects "pure" IFRS). This is because, among other matters, the IPSAS is developed for public sector entities and the requirements are not always appropriate for not-for-profit entities or do not necessarily fit with the New Zealand regulatory environment. Moreover, IPSAS does not currently represent a complete set of standards. Therefore, a set of PBE Standards has been developed that uses IPSAS as their base. PBE Standards modify IPSAS for any recognition, measurement or disclosure matters considered inappropriate in New Zealand. Such modifications are only made where the IPSAS requirement in question has a material impact on the financial position or performance being reported, and that impact would adversely detract from the financial statements' usefulness to users.

61. Since the adoption of the initial Accounting Standards Framework, the XRB, in conjunction with its sub-Board, the New Zealand Accounting Standards Board (NZASB), has developed (and issued in September 2013) a *Policy Approach to Developing the Suite of PBE Standards* [footnote omitted]. The Policy Approach establishes an approach, based on a "development principle" and a series of "rebuttable presumptions", which are used by the NZASB to determine whether, and when, to make changes to PBE Standards.

62. PBE Standards include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.

63. The PBE Standards are also modified to make them relevant, applicable and understandable to the not-for-profit sector preparers and users. Some modification is desirable to enhance their usefulness in the not-for-profit context.

~~149. The XRB therefore proposes that a set of PBE Accounting Standards (PAS) be developed and that they use IPSAS as their base.PAS would modify IPSAS for any recognition, measurement or disclosure matters considered inapprpriate in the New Zealand context at this time.Such 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 financial statements' usefulness to users.Based on work to date, the number of modifications is expected to be relatively few.~~

[2] The New Zealand Accounting Standards Frameworks is~~are~~ available at https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework/

~~150. The XRB also proposes that PAS include other relevant standards (including domestic standards) appropriate for New Zealand and/or to address topics not covered in IPSAS.~~

~~151. Thirdly, the XRB proposes PAS be modified to make them relevant, applicable and understandable to not-for-profit sector preparers and users. This is necessary because IPSASB has developed IPSAS for public sector entities. Some modification is desirable to enhance their usefulness in the not-for-profit context.~~

(*New Zealand Accounting Standards Framework*, paragraphs 57–63~~149 – 151~~)

5. The PBE Policy Approach ~~is paper~~uses the term "development" to encompass any change to the suite of PBE Standards.

6. In considering the appropriateness of potential developments of the suite of PBE Standards, it is necessary to consider these developments in the context of the *New Zealand Accounting Standards Framework*, including the impact of any developments on the quality of the financial reporting arising from those standards and the trade-off between the benefits of improvements in the quality of the resulting financial reports and the associated costs.

2.1 Quality of Financial Reporting

7. The suite of PBE Standards is designed to meet users' needs by providing high quality financial reporting by PBEs. It follows that any development of PBE Standards should aim to improve the quality of financial reporting. The quality of financial reporting relies on meeting the needs of users of PBE general purpose financial reports (including financial statements), while endeavouring to ensure that the costs arising from a development do not outweigh the benefits.

8. In this context, high quality financial reporting is assessed by reference to the conceptual framework for PBEs (as it applies from time to time), with primary emphasis on the objective of financial reporting and then the qualitative characteristics. A standard is more likely to lead to higher quality financial reporting if it adheres closely to the conceptual framework.

9. The categories of users of financial statements of PBEs and for-profit entities are different. Paragraph 1.2 of ~~T~~the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*)~~IASB's emerging Conceptual Framework~~ identifies users of ~~IFRS~~financial statements as suppliers of resources to the entity, and notes that the decisions that they make are related to providing resources to the entity.[3]

10. In contrast, paragraphs 2.1–2.4 of the *PBE Conceptual Framework* (the New Zealand equivalent of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*) considers ~~that the objective of financial reporting is to serve~~ a wider group of users of financial reports, being resource providers and service recipients and their representatives.~~.~~, and ~~The IPSASB~~ notes that information is needed for both accountability and decision-making purposes.[4]

~~[3] New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*, paragraph 1.2OB2.~~

~~[4] IPSASB, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, January 2013, paragraphs 2.1–2.4.~~

11. A development of the suite of PBE Standards will improve the quality of financial reports prepared in compliance with PBE Standards if it improves the accounting for specific transactions by better meeting the objective of financial reporting and the associated qualitative characteristics of financial reporting.

12. Further, high quality financial reporting depends on consistent treatment of similar transactions. For example, it would usually be inappropriate to require different measurement for similar liabilities in similar circumstances. As a result, any development of PBE Standards (including the conceptual framework for PBEs) should ensure that the suite is maintained as a coherent whole.

13. It follows that any developments should ensure that the needs of users are better met than they were prior to the development. Alternatively, the cost-benefit test (see next section) may be met where the needs of users are equally as well served, with a consequent benefit in some other way such as a reduction in the costs of preparing the financial statements.

2.2 Costs and Benefits

14. In considering a potential development of the suite of PBE Standards, the primary purpose and benefit is to improve the information provided to users of PBE financial ~~statements~~reports.

15. Benefits need to be considered in relation to the suite of PBE ~~s~~Standards as a whole, in addition to the implications for a specific area of financial reporting. The benefit of aligning the PBE Standards with NZ IFRS to the extent possible is that this will reduce differences between the financial statements of PBEs and for-profit entities. This benefit is particularly relevant to entities that are members of mixed groups and users of PBE financial statements whose familiarity with financial statements arises from experience in the for-profit sector.[5] However, for other preparers that are not part of a mixed group, there may be additional preparation costs as a result of changes in accounting standards that might not otherwise arise.

16. The PBE Standards are largely based on IPSAS in accordance with the *New Zealand Accounting Standards Framework* and, therefore, careful consideration is required before making any change to a PBE Standard based on an IPSAS in circumstances other than as a consequence of the IPSASB issuing a new or amended IPSAS (as discussed further below in paragraph 29~~8~~). In addition, the benefit of using IPSAS to the extent possible is that IPSAS are a suite of standards that comprise a coherent package. It also reduces standard-setting costs as the IPSASB documents are readily available for application in New Zealand with little additional work. Reducing the time spent on setting the base standards releases resources for working with the international standard setters and for necessary domestic projects.

17. In developing a coherent suite of PBE Standards, it will generally be relatively low cost to add additional guidance for all PBEs, or for sub-groups of PBEs such as ~~not-for-profit~~ NFP entities. However, it is expected that recognition and measurement

[5] For the purposes of the PBE Policy Approach~~is paper~~, a mixed group is a PBE group that includes at least one material for-profit subsidiary where that for-profit subsidiary applies accounting policies that differ from those of the mixed group and that may need to be adjusted under the consolidation standards.

requirements will be common to all PBEs. Further, using recognition and measurement requirements developed from a number of sources creates the potential for inconsistencies within the suite of PBE Standards, such as applying different measurement requirements to similar liabilities. Care should be taken to minimise the impact of such inconsistencies, if they cannot be eliminated.

18. At times, there is a tension between reducing the costs borne by preparers within mixed groups – that is the elimination of differences between PBE Standards and NZ IFRS that are not sector specific – and improving the suite of PBE Standards taken as a whole. This ~~p~~Policy takes the view that reducing the costs on preparers within mixed groups should be considered to the extent that these costs can be reduced whilst meeting the needs of the wider range of users of financial statements of public sector PBEs and ~~not-for-profit~~NFP PBEs~~entities~~ (including public sector and ~~not-for-profit~~NFP groups) through a complete and coherent suite of PBE Standards.

3. The Development Principle

19. In accordance with the *New Zealand Accounting Standards Framework*, the primary purpose of developing the suite of PBE Standards is to better meet the needs of PBE user groups (as a whole). In considering whether to initiate a development, the NZASB shall consider the following factors:

(a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP~~not-for-profit~~ PBEs~~entities~~, including public sector PBE groups ~~and not-for-profit~~NFP PBE groups, than would be the case if the development was not made; and

(b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:

(i) *relevance to the PBE sector as a whole:* for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;

(ii) *relevance to the ~~not-for-profit~~NFP or public sector sub-sectors:* whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;

(iii) *coherence:* the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);

(iv) *the impact on mixed groups*; and

(c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the IPSASB is expected to develop~~ing~~ an IPSAS on the topic in an acceptable time frame).

20. The NZASB will need to exercise its judgement in balancing the factors in the development principle because, in many cases, there will need to be a trade-off between these factors. This policy provides a basis for making such a trade-off decision: it cannot replace the application of judgement by the NZASB with a series of bright-line rules.

4. Application of the Development Principle

21. The following sections are designed to assist in the application of the factors in the development principle. They consider, in turn, potential developments of the suite of PBE Standards that might arise from developments in IPSAS and NZ IFRS as well as addressing issues that might arise within New Zealand. Although the PBE Policy Approach~~his paper~~ treats each of these developments separately, it is likely that specific developments will need to be considered from a number of perspectives. For example, the NZASB may have planned to continue to update PBE IAS 34 *Interim Financial Reporting* in line with developments of NZ IAS 34 *Interim Financial Reporting* to retain consistent interim reporting across all sectors (section 4.2). However, if the IPSASB were to issue a standard addressing interim reporting, this new IPSAS would be considered as a development resulting from an enhancement to IPSAS (section 4.1).

4.1 New or Amended IPSAS

22. There is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS. ~~It is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met.~~

23. This rebuttable presumption is based on the expectation that the IPSASB has considered the needs of the wide range of users of public sector financial statements in developing and enhancing the suite of IPSAS. Therefore, it is expected that such changes will lead to higher quality financial reporting by PBEs in New Zealand and the factors in the development principle are presumed to be met.

24. Depending on the circumstances, it may be appropriate to apply one of the following ~~,~~approaches when a new or amended IPSAS is issued: ~~: amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:~~

(a) Amend a recently issued or newly amended IPSAS in the process of adoption in New Zealand. Examples of possible amendments include:

(i) improving the quality of the IPSAS in the New Zealand context by, for example, adding guidance or making changes to enhance the clarity and consistency of the requirements to enable public sector PBEs and ~~not-for-profit~~NFP PBEs~~entities~~ ~~and public sector PBEs~~ to apply the standard consistently;

(ii) ~~or~~ adding guidance to assist ~~not-for-profit~~NFP PBEs~~entities~~ in applying the standard, given that the standard has been developed for application by public sector PBEs;

(iii) amending as necessary to maintain the coherence of the suite of PBE Standards;

(iv) excluding options that are not relevant in the New Zealand context; or

~~(i)~~(v) amending the scope of an IPSAS if the IPSAS conflicts with a legislative requirement, or a legislative requirement addresses the same issue for public sector entities. However, in these circumstances, it may be appropriate to adopt the IPSAS for ~~not-for-profit~~NFP PBEs~~entities~~.

(b) Rebut the presumption in paragraph 22 and thereby not adopt a new or amended IPSAS, or part(s) thereof. Given that PBE Standards are based primarily on IPSAS, a decision to rebut the presumption is expected to occur only in exceptional circumstances. Examples of such circumstances include where the NZASB has significant concerns that, in the New Zealand context:

(i) adoption of a new or amended IPSAS would not be either appropriate or relevant ~~lead to lower quality financial reporting by PBEs than would be the case if that new or amended IPSAS was not adopted~~; and

~~(i)~~(ii) the costs of adoption of a new or amended IPSAS would outweigh the benefits.

25. In the event that the presumption to adopt a new or amended IPSAS is rebutted, this will require the NZASB to report to the XRB Board:

(a) its decision and rationale for the decision; and

(b) what, if any, action(s) it plans to take in relation to the new or amended IPSAS, for example, whether a domestic standard will be developed and whether parts of the new or amended IPSAS will be incorporated into that domestic standard.

4.2 New or Amended NZ IFRS

~~25.~~26. New or amended NZ IFRS will require the NZASB to consider whether to initiate a development of the PBE Standards in the following circumstances:[6]

(a) an IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed;

(b) the IASB issues an IFRS Standard on a new topic; and

(c) there is a change to an NZ IFRS that has been used as the basis for a PBE Standard.[7]

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6 An amendment to an NZ IFRS can fall into more than one of the above categories, for example, an NZ IFRS on a new topic might also result in changes to other NZ IFRS that fall into category (a) and/or (c).

7 ~~The NZ IFRS applying to PBEs were "frozen" in 2011, pending the establishment of the XRB and the anticipated development of PBE Standards. The "frozen"~~ NZ IFRS that the NZASB has included in the suite of PBE Standards are:

- PBE IFRS 3 *Business Combinations*
- PBE IFRS 4 *Insurance Contracts*
- PBE IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*
- PBE IAS 12 *Income Taxes*
- PBE IAS 34 *Interim Financial Reporting*
- NZ IFRIC 12 *Service Concession Arrangements* and NZ-SIC 29 *Service Concession Arrangements: Disclosures* (which are the basis for PBE FRS 45 *Service Concession Arrangements: Operator*).

4.2.1 An IFRS Standard that the IPSASB has used as the basis for an IPSAS is changed

~~26.~~27. As noted earlier, the PBE Standards are primarily based on IPSAS. In turn, many IPSAS are primarily based on IFRS Standards. Examples of such standards are PBE IPSAS 16 *Investment Property* and PBE IPSAS 17 *Property, Plant and Equipment*, which are based on IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, respectively. Accordingly, there are likely to be many instances in which a new or amended NZ IFRS relates to a topic covered by an existing IPSAS standard that has been incorporated into the PBE Standards.

~~27.~~28. **In considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the NZASB ~~shall~~ will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards. Particular emphasis in this case needs to be placed on the IPSASB's likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.**

~~28.~~29. Given the presumption in paragraph 22 that any ~~standard~~ IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with "getting ahead of the IPSASB". Therefore, the NZASB needs to decide whether to develop a PBE Standard ahead of the IPSASB or to wait for the IPSASB's response. If the issue is already on the IPSASB's active work plan, the NZASB would normally wait for the IPSASB to complete its work, unless the NZASB is of the view that there is an urgent need for action in New Zealand or the NZASB is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.

~~29.~~30. **Furthermore, in the case of limited-scope~~minor~~ amendments or amendments to an NZ IFRS that the NZASB considers are minor, there is a rebuttable presumption that the change should not be incorporated into the equivalent PBE Standard in advance of the IPSASB considering the change.** This is because minor amendments are less likely to meet the cost-~~–~~benefit test, particularly when the potential costs and risks associated with getting ahead of the IPSASB are taken into account. However, the NZASB may issue an exposure draft that proposes the incorporation of these minor amendments into the equivalent PBE Standards at the same time as the IPSASB issues an exposure draft that proposes the incorporation of these minor amendments into IPSAS.

~~30.~~31. Where there is a major change to an IFRS Standard for which there is an existing IPSAS and where the IPSASB is unlikely to address the change in an acceptable time frame, the NZASB could either develop a domestic modification to the PBE Standard or assist the IPSASB to develop an IPSAS. Options for assisting the IPSASB include offering to provide staff resources for the IPSASB or partnering with the IPSASB to update a specific IPSAS in the light of the major change. It may be more effective to assist the IPSASB because any uncertainties about the IPSASB's approach to the issue will be resolved sooner rather than later. However, the level of effort required to develop an IPSAS based on an IFRS Standard for international use is likely to be significantly higher than developing a PBE Standard based on an IFRS Standard or its equivalent NZ IFRS for use in New Zealand. The

IPSASB’s due process, multi-constituency reach and less regular meetings leads to a standards development process for the IPSASB that is more time consuming and complex.

4.2.2 The IASB issues an IFRS Standard on a new topic

~~31.~~32. An example of a new topic is where the IASB is considering issuing a standard on rate-regulated activities.

~~32.~~33. There is a rebuttable presumption that the NZASB will not include an NZ IFRS that the IASB has issued on a new topic in the suite of PBE Standards unless the IPSASB addresses the issue.

~~33.~~34. As noted in paragraph 26~~35~~, some NZ IFRS were included in the suite of PBE Standards to maintain current practice until the IPSASB addresses the related issues. This rationale does not apply to an NZ IFRS on a new topic. Also, given the PBE Standards are primarily based on IPSAS in accordance with the *New Zealand Accounting Standards Framework*, adding further PBE Standards based on NZ IFRS is unlikely to be consistent with the objectives of that Framework.

~~34.~~35. In considering whether to rebut the presumption, the NZASB should consider whether the new standard both leads to a major improvement in the quality of financial reporting and fills a gap in the suite of PBE Standards (as distinct from a gap in NZ IFRS). This is unlikely to arise.

4.2.3 An NZ IFRS that the NZASB has included in the PBE Standards is changed

~~35.~~36. The NZASB has included selected ~~“frozen”~~ NZ IFRS in the suite of PBE Standards (see footnote 7~~5~~) in order to maintain current practice until the IPSASB addresses the related issues.

~~36.~~37. In considering a change to an NZ IFRS that is included in the suite of PBE Standards, the NZASB shall consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.

~~37.~~38. However, in situations where there is no equivalent IPSAS on the topic and the IPSASB is not expected to create such a standard in the foreseeable future, the IPSASB’s likely response to the change would be less relevant. This will impact on the overall assessment of the costs and benefits of including the NZ IFRS development in the PBE Standards. This is because the potential problems associated with “getting ahead of the IPSASB” (as discussed in paragraph 29~~8~~ above) are less likely to arise.

~~38.~~39. An implication of this policy is that those PBE Standards based on an ~~“frozen”~~ NZ IFRS (see footnote 7~~5~~) may need to be updated or replaced to align with the current equivalent NZ IFRS.

4.3 Domestic Developments

~~39.~~40. Domestic developments include developing standards to meet specific requirements in New Zealand.

~~40.~~41. The suite of PBE Standards contains standards directly addressing issues relevant to New Zealand, including PBE FRS 42 *Prospective Financial Statements*, ~~and~~ PBE FRS 43 *Summary Financial Statements* and PBE FRS 48 *Service Performance Reporting*. Further domestic standards may be developed where a need arises when an issue of importance in New Zealand is not addressed in a standard issued by the IPSASB (section 4.1) or the IASB (section 4.2).

~~41.~~42. In determining whether to initiate the development of a domestic standard for inclusion in the PBE ~~suite~~Standards, the NZASB will consider the factors in the development principle. Assuming the NZASB determines that the development of a domestic standard would improve the quality of financial reporting by PBEs, the NZASB will first consider whether there is an international pronouncement addressing the relevant issue that is applicable in the New Zealand context.

~~42.~~43. The *New Zealand Accounting Standards Framework* presumes that New Zealand will be a standards ~~-~~taker rather than a standards ~~-~~maker whenever possible, for a range of reasons, including:

(a) the quality derived by an international due process;

(b) the prospect of international comparability; and

(c) the limited resources available for the domestic development of standards.

~~43.~~44. It follows that the NZASB will develop domestic standards or guidance that result in a material improvement in information available to users of financial statements when:

(a) there is no other source of material available internationally; or

(b) the available international guidance is not targeted specifically towards addressing New Zealand issues.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

DATE:	30 November 2018
TO:	Members of the External Reporting Board
FROM:	David Bassett and Lisa Kelsey
SUBJECT:	**Extended External Reporting**

Purpose and introduction

1. The purpose of this agenda item is to seek:
   (a) the XRB Board's approval of the draft XRB Position Statement on Extended External Reporting (EER); and
   (b) feedback on the general direction of travel of the draft EER Navigational Resource.

Background

2. At its August 2018 meeting the XRB Board considered and provided feedback on a proposed high-level EER project plan.
3. Milestone one of the high-level EER project plan was to develop and make available on the XRB website a navigational resource summarising 6-8 prominent international EER frameworks and key domestic frameworks. The objective of this resource is to help EER stakeholders distinguish between existing frameworks, and help them make better-informed decisions when considering EER.
4. Milestone two of the high-level EER project plan was to develop an XRB position statement on EER.

XRB position statement on EER

5. Agenda item 3.3.2 includes a draft XRB Position Statement on EER.

EER navigational resource

6. Agenda item 3.3.3 includes a draft EER Navigational Resource. At this stage we are seeking feedback on the general direction of travel.

Recommendations

7. We recommend that the XRB Board:
   (a) APPROVES the XRB Position Statement on Extended External Reporting (agenda item 3.3.2); and
   (b) PROVIDES FEEDBACK on the general direction of travel of the draft EER Navigational Resource (agenda item 3.3.3)

Next steps

8. The next steps in this project are to:
   (a) meet with the FMA, NZX and RBNZ – February 2019;
   (b) establish an EER consultative group; and
   (c) develop a detailed project plan for the development of guidance targeted at for-profit entities preparing EER for users of GPFR

Attachments

Agenda Item 3.3.2: Draft XRB Position Statement on EER

Agenda Item 3.3.3: Draft EER Navigational Resource

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

XRB Position Statement on Extended External Reporting

[Date]

Extended External Reporting (EER) is an umbrella term adopted by the External Reporting Board (XRB) to refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements. EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects, strategies and its economic, environmental, social and cultural impacts.

In early 2018, research undertaken by the XRB in collaboration with the McGuinness Institute found that stakeholders are increasingly expecting entities to provide more *relevant and reliable* information through EER. These findings are consistent with earlier research commissioned by the XRB on the information needs of users of for-profit entities' financial reports.

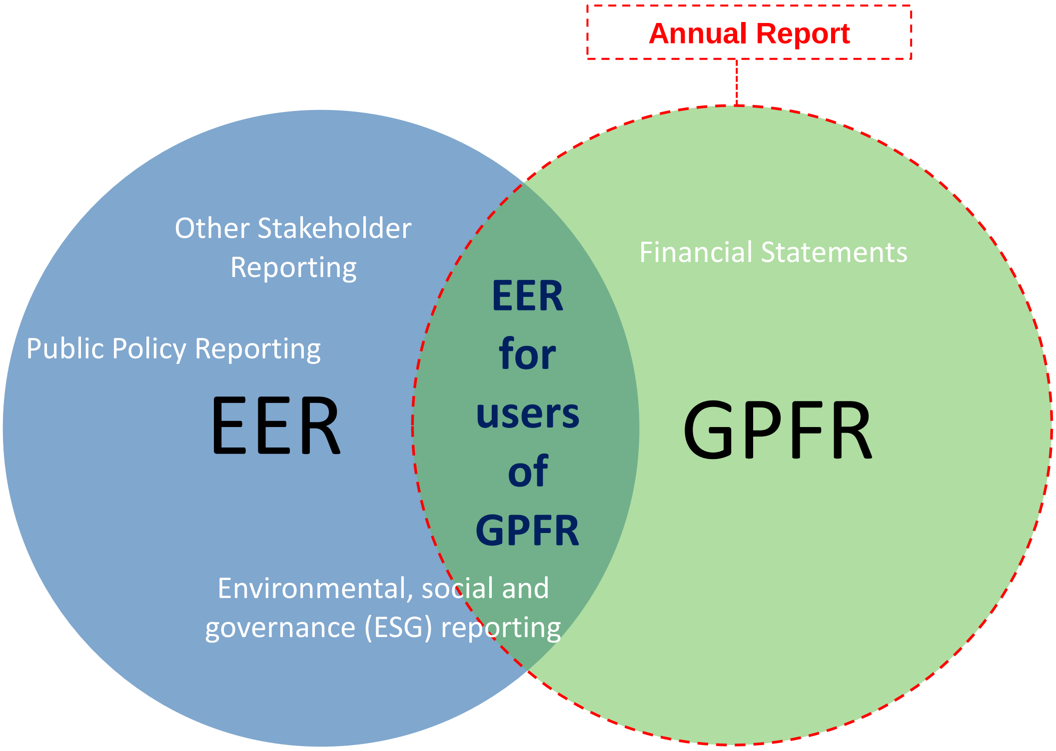
The XRB has observed demand from stakeholders for:

- increased transparency on material risks (including environmental, economic and social risks) and strategies for managing those risks. Stakeholders want to know that entities are ready to respond to material risks and take advantage of opportunities to enhance long-term value creation;
- forward-looking information about an entity's long-term sustainability. Financial statements generally provide historical financial information; hence forward-looking information about an entity's long-term sustainability and prospects is needed to present a more holistic view of the entity;
- information about an entity's key resources and relationships. To make better-informed decisions, stakeholders require more information about key resources, particularly resources unrecognised in the financial statements, such as unrecognised intangible assets. Stakeholders also require information about key relationships, including information about how key management personnel are remunerated; and
- greater visibility around corporate citizenship – the concept of social licence, or license to operate, is increasingly being seen as critical to an entity's success.

An increasing number of entities in New Zealand have responded to stakeholder demand for EER and have taken a proactive approach, adopting various forms of EER on a voluntary basis. The XRB is also aware of the increased pressure on regulators, legislators and public policy setters to establish EER requirements – both in New Zealand and internationally.

The XRB has a significant interest in EER, given its role as an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand. In issuing its standards, the XRB focuses on users' needs for information in general purpose financial reports (GPFR). The primary users of GPFR of for-profit entities are existing and potential investors, lenders and other creditors.[1] The primary users of GPFR of public benefit entities are resource providers (e.g. taxpayers, ratepayers, donors and grantors), service recipients and their representatives.[2]

The XRB acknowledges the demand for EER by stakeholders and is strongly supportive of entities presenting EER. However, when considering what EER information should be included in annual reports, the XRB considers that a distinction needs to be drawn between EER relevant to users of GPFR and EER provided for other purposes, such as public policy purposes. This distinction is illustrated in the diagram below.



Drawing this distinction helps to ensure that EER enhances, rather than impairs, the effective communication of relevant information to the intended users of annual reports. Where detailed EER on a specific topic (for example, climate change, remuneration processes and environmental impacts) is required for public policy purposes but is not relevant to users of the annual report, in order to avoid 'information overload' the XRB believes that such EER should be presented outside the annual report., Information overload undermines the relevance and understandability of the annual report for its intended users. Equally, the XRB believes that detailed EER on a specific topic may be more visible/accessible to its intended audience if it is reported outside the annual report, for example, in a separate report to a regulator, prudential supervisor or government agency or presented on an entity's website.

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[1] New Zealand Equivalent to the *IASB Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*) – https://www.xrb.govt.nz/accounting-standards/conceptual-frameworks/

[2] *Public Benefit Entities' Conceptual Framework* – https://www.xrb.govt.nz/accounting-standards/conceptual-frameworks/

The XRB strongly supports the reporting of EER information by entities within their annual reports to the extent that the information is relevant to primary users of general purpose financial reports. Although other types of, or more detailed, EER information may also be demanded by other stakeholders, the XRB considers that the annual report may not be the appropriate location for reporting such information.

The XRB supports the continued innovation in EER and is committed to working collaboratively with key stakeholders, including policy makers and regulators to help generate the right balance between policies, regulation and innovation.

In addition, the XRB is undertaking other activities relating to EER including the following.

- The development of an EER navigational resource. The increase in EER has seen the increase in frameworks, guidance and initiatives in the corporate reporting arena. The XRB has heard concerns that entities can find it challenging to make an informed decision when selecting a resource to use or framework to implement. The XRB is developing an EER navigational resource to help EER stakeholders distinguish between existing frameworks and make better-informed decisions when considering EER. The XRB will make this resource available on its website. The XRB was also pleased to hear the recent announcement by the Corporate Reporting Dialogue[3] of its project focused on driving better alignment in the corporate reporting landscape, to make it easier for entities to prepare effective and coherent disclosures that meet the information needs of capital markets and society.
- Considering developing guidance on the reporting of EER. This includes monitoring and contributing to the International Accounting Standards Board (IASB) project to update its Management Commentary IFRS Practice Statement (MCPS). The IASB has acknowledged that some significant broader financial information is not adequately captured in financial statements (for example, information above some intangibles, the entity's business model, the economic environment and sustainability issues). The IASB is in the process of updating the MCPS to reflect new developments in integrated and sustainability reporting, particularly the growing interest in long term value creation.
- Considering the assurance implications of EER. Assurance over EER is a rapidly-evolving area and, at present, there is significant variation across jurisdictions. The majority of assurance engagements over EER tend to be narrow in scope, typically only covering selected indicators rather than a whole report. Almost all are limited assurance engagements rather than reasonable assurance engagements. The International Auditing and Assurance Standards Board (IAASB) is currently developing guidance for practitioners to apply the applicable assurance standard[4] in a consistent and appropriate way so that users and investors can have greater justified confidence and trust in the EER information, irrespective of the EER framework applied.

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3 Participants are CDP, the Climate Disclosure Standards Board, the Financial Accounting Standards Board*, the Global Reporting Initiative, the International Accounting Standards Board, the International Organisation for Standardisation, the Sustainability Accounting Standards Board, and is convened by the International Integrated Reporting Council. *The Financial Accounting Standards Board participates in the Corporate Reporting Dialogue as an observer.

4 International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements other than Historical Financial Information.*

Extended External Reporting (EER)

Introduction to EER

What do we mean by EER?

- Extended External Reporting (EER) is an umbrella term adopted by the External Reporting Board (XRB) to refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements. EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects, strategies and its economic, environmental, social and cultural impacts.

Why undertake EER?

Tell your story

- Entities are wanting to report in a more holistic manner (tell their story), acknowledging that, on its own, financial reporting cannot present a complete picture of an entity's business performance and prospects.
- Entities want to present their strategy and business model, explain how they performed, the value they created and their plans for the future.
- Entities want to be able to focus on what matters most to their stakeholders and their business, namely the material issues, in the short, medium and long term.

> Extract from Z Energy 2017 Annual Report
>
> The financial outcomes, however, are just part of the year's performance. There's a broader story we want to tell. It's not a longer story. It's a more concise and a more relevant story that links back to our business model. In this year's annual report, we've chosen to adopt the principles of Integrated Reporting because investors and other stakeholders are increasingly interested in sustainable value creation. The Framework helps explain how a business creates value over time and provides transparency on every aspect of its activity. We think is best practice reporting. At the core of our business model is integrated thinking, which drives everything we do. When we're making decisions, we're asking: How do we manage risk? What will it cost? What return will we receive? How does it tie into our long-term view? How does it align with what we stand for as a company?

Because of the benefits

- Research suggests that an integrated approach to reporting can showcase how sustainability can act as a holistic driver for growth and value across a business, resulting in higher market valuation, increased stock liquidity and a longer-term investor base.
- Emerging academic evidence that entities with robust sustainability practices and reporting deliver improved economic performance.
- Entities demonstrate better operational performance.
- Entities have seen positive results relating to cost of capital and share price.

Investors and other stakeholders want this information

Investors and other stakeholders are indicating that they want:

- increased transparency on material risks (including environmental, economic and social risks) and strategies for managing those risks. Stakeholders want to know that entities are ready to respond to material risks and take advantage of opportunities to enhance long-term value creation;
- forward-looking information about an entity's long-term sustainability. Financial statements generally provide historical financial information; hence forward-looking information about an entity's long-term sustainability and prospects is needed to present a more holistic view of the entity;
- information about an entity's key resources and relationships. To make better-informed decisions, stakeholders require more information about key resources, particularly resources that have not been recognised in the financial statements, such as unrecognised intangible assets. Stakeholders also require information about key relationships, including information about how key management personnel are remunerated; and
- greater visibility around corporate citizenship – the concept of social licence, or license to operate, is increasingly being seen as critical to an entity's success.

Listed on the NZX

- In 2017 the New Zealand Stock Exchange (NZX) released the NZX Corporate Governance Code (the NZX Code). The NZX Code operates on a 'comply or explain' basis. The NZX Code recommends that an issuer provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. The disclosure of other non-financial information such as a description of the performance of an issuer's business against strategic goals is also recommended.

EER Navigational Resource

<u>*How do I report EER?*</u>

- The increase in EER has been accompanied by an increase in frameworks, guidance and initiatives in the corporate reporting arena. The XRB has heard concerns that entities can find it challenging to make an informed decision when selecting a resource to use or framework to implement.
- In response to this, the XRB has developed an EER Navigational Resource. The objective of this resource is to help EER stakeholders distinguish between existing frameworks, helping them make better-informed decisions when considering EER. The resource is divided into New Zealand EER resources, Global EER resources and Global EER initiatives.
- The frameworks and standards should not be seen as competing with one another, but rather as coexisting, for example, here in New Zealand entities have adopted both the Integrated Reporting Framework and the GRI Framework when reporting EER information.

- Users of the Navigational Resource should consult source documents for complete framework or standard details and implementation requirements. Links are provided in the resource for this purpose.

- Please note that the inclusion of a resource in the Navigational Resource does not imply an endorsement by the XRB. The XRB does not have a preference for any particular resource.

Assurance over EER

- Assurance over EER is a rapidly-evolving area with significant variation across jurisdictions. The majority of assurance engagements over EER tend to be narrow in scope, typically only covering selected indicators rather than a whole report. Almost all are limited assurance engagements rather than reasonable assurance engagements.

- The International Auditing and Assurance Standards Board (IAASB) is currently developing guidance for practitioners to apply the International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements other than Historical Financial Information* in a consistent and appropriate way so that users and investors can have greater justified confidence and trust in the EER information, irrespective of the EER framework applied.

Corporate Reporting Dialogue

- One of the Global EER Initiatives included in the Navigational Resource is the Corporate Reporting Dialogue. The XRB acknowledges the need for better alignment between the various EER frameworks and was pleased to hear the recent announcement by the Corporate Reporting Dialogue of its project focused on driving better alignment in the corporate reporting landscape, to make it easier for entities to prepare effective and coherent disclosures that meet the information needs of capital markets and society. In undertaking this project, participants of the Corporate Reporting Dialogue[1] are focused on bringing about visible improvement in the coherence, consistency and comparability of corporate reporting by business. An important aspect of conducting this project in the context of the Corporate Reporting Dialogue is to undertake this work with the overview of financial standard-setters, consistent with the ultimate aim of integrating financial and non-financial reporting.

[1] Participants are CDP, the Climate Disclosure Standards Board, the Financial Accounting Standards Board*, the Global Reporting Initiative, the International Accounting Standards Board, the International Organisation for Standardisation, the Sustainability Accounting Standards Board, and is convened by the International Integrated Reporting Council. *The Financial Accounting Standards Board participates in the Corporate Reporting Dialogue as an observer.

EER Resources – New Zealand

Organisation and Resource	Links	Description	Comments
Organisation: NZX (New Zealand Stock Exchange) The NZX operates New Zealand capital, risk and commodity markets. *Resource:* ESG Guidance Note Issued December 2017 	https://www.nzx.com/regulation/guidance-notes	This guidance note is for NZX listed issuers that are considering the disclosure of ESG factors under the NZX Code. It is built on the understanding that most businesses will have some sort of interaction with one or more of the branches of ESG. While not exhaustive, this guidance note aims to help issuers better understand the benefits of ESG reporting and the global reporting regimes available.	The ESG Guidance Note also references to other resources for guidance on materiality. The NZX short-listed the global reporting frameworks down to three commonly used in Australia and New Zealand, namely, GRI, <IR> and UNGC.
Resource: Guidance Note: Diversity Policies and Disclosures Issued February 2015 	https://www.nzx.com/regulation/guidance-notes	This guidance note covers reporting gender composition, and diversity policies in a variety of forms. Note that the NZX Rules do not require a listed company to adopt a diversity policy. However, if the listed company does adopt a diversity policy then a statement in the company's Annual Report evaluating the diversity policy is required by NZX.	
Organisation: FMA (Financial Markets Authority) The FMA regulates capital markets and financial services in New Zealand. *Resource:* Disclosing non-GAAP financial information Issued 14 July 2017 	https://fma.govt.nz/compliance/guidance-library/disclosing-non-gaap-financial-information/	This guidance note contains general principles that FMC reporting entities should follow when presenting non-GAAP financial information. Entities following these principles will contribute to the reliability and comparability over time of non-GAAP financial information and reduce the potential for misleading disclosure.	This guidance note sets out the FMA's expectations on the use any non-GAAP financial information an FMC reporting entity discloses outside its financial statements, including any non-GAAP information presented on a pro-forma basis.

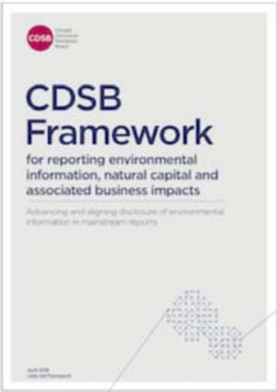
EER Resources – New Zealand

Organisation and Resource	Links	Description	Comments
Organisation: NZASB (New Zealand Accounting Standards Board) The NZASB is a sub-board of the XRB responsible for the development and issue of accounting standards in New Zealand. *Resource:* Financial Reporting Standard No. 42 *Prospective Financial Statements* (FRS-42) Issued December 2005  XRB	https://www.xrb.govt.nz/accounting-standards/for-profit-entities/frs-42/	FRS-42 is an accounting standard that applies to entities that are required, by legislation or regulation, to present general purpose prospective financial statements that comply with GAAP. Hence, compliance is not compulsory in other circumstances, such as when entities voluntarily provide forward-looking information in their annual report.	

EER Resources – Global

Organisation and Resource	Links	Description	Comments
Organisation: IIRC (International Integrated Reporting Council) Member of the CRD The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting. *Resource:* The International <IR> Framework. Issued December 2013 	http://integratedreporting.org/resource/international-ir-framework/	The <IR> Framework is a reporting framework designed to create a more holistic picture of how a company creates value. The Framework introduces the concept of six capitals (financial; manufactured; intellectual; human; social, cultural and relationship; and natural) whose values increase or decrease as they are transformed through the organisation's business model. The primary purpose of an integrated report is explaining to stakeholders the focus on value creation across the six capitals, rather than value extraction.	<IR> and GRI are the most widely adopted reporting frameworks used in New Zealand for organisations to disclose non-financial information. <IR> and GRI coexist rather than requiring one to be chosen over the other. Additional resources on Integrated Reporting: Click here
Organisation: GRI (Global Reporting Initiative) Member of the CRD GRI is an independent international organisation that has pioneered sustainability reporting since 1997. *Resource:* GRI Sustainability Reporting Standards (GRI Standards). Issued October 2016, effective 1 July 2018. Earlier adoption is encouraged.	https://www.globalreporting.org/standards	The GRI Standards are designed to be used by organisations to report about their impacts on the economy, the environment, and/or society. The GRI Standards are structured as a set of interrelated standards. They have been developed primarily to be used together to help an organisation prepare a sustainability report which is based on the Reporting Principles and focuses on material topics. Preparing a report in accordance with the GRI Standards demonstrates that the report provides a full and balanced picture of an organisation's material	<IR> and GRI are the most widely adopted reporting frameworks used in New Zealand for organisations to disclose non-financial information. <IR> and GRI coexist rather than requiring one to be chosen over the other.

EER Resources – Global

Organisation and Resource	Links	Description	Comments
		topics and related impacts, as well as how these impacts are managed. A report in accordance with the GRI Standards can be produced as a stand-alone sustainability report, can reference information disclosed in a variety of locations and formats (e.g., electronic or paper-based). Any report prepared in accordance with the GRI Standards is required to include a GRI content index, which is presented in one location and includes the page number or URL for all disclosures reported.	Additional resources on GRI Standards: Click here
Organisation: CDSB (Climate Disclosure Standards Board) - Member of the CRD. - CDSB is an international consortium of business and environmental NGOs. *Resource:* CDSB Framework  	https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital	The CDSB Framework for reporting environmental information, natural capital and associated business impacts is designed to help organisations prepare and present environmental information in mainstream reports for the benefit of investors. It allows investors to assess the relationship between specific environmental matters and the organisation's strategy, performance and prospects. The CDSB Framework was updated in April 2018 to align with the recommendations of the Task Force on Climate-related Financial Disclosures and other key mainstream reporting requirements, helping to streamline the reporting cycle for many organisations.	

EER Resources – Global

Organisation and Resource	Links	Description	Comments
Organisation: FSB (the G20's Financial Stability Board) The FSB is an international body that monitors and makes recommendations about the global financial system. *Resource:* TCFD (Climate-related Financial Disclosures)  	https://www.fsb-tcfd.org/	Since the publication of the previous version of the CDSB Framework in June 2015, the G20's Financial Stability Board convened a Task Force on Climate-related Financial Disclosures (TCFD), which produced its final report in June 2017, establishing recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. There are significant parallels between the TCFD recommendations and the updated CDSB Framework, which are highlighted throughout, so the CDSB Framework is an essential tool for companies seeking to implement the TCFD Recommendations.	
Organisation: UN (United Nations) The UN is an international organisation founded in 1945. It is currently made up of 193 member states one of which is New Zealand. *Resource:* UNGC (United Nations Global Compact) United Nations Global Compact	https://www.unglobalcompact.org/library/5628	The Global Compact requires companies to commit to a set of ten universal principles concerning human rights, about, environment and anti-corruption.	

EER Resources – Global

Organisation and Resource	**Links**	**Description**	**Comments**
Resource: Sustainable Development Goals (SDGs) adopted on 25 September 2015 	https://www.un.org/sustainabledevelopment/	In 2015, with the 2030 Agenda for Sustainable Development, the world's leaders set out on an ambitious path to end poverty, fight inequality and injustice, and protect the planet. The Member States of the United Nations unanimously agreed upon the 17 Sustainable Development Goals (SDGs), making them the world's agenda for sustainable development. The SDGs provide a coherent, holistic, integrated framework for addressing the world's most urgent sustainability challenges and creating a better future for all. The success of the agenda will be based on collaborative efforts by all parties in society, including businesses.	Additional resources on reporting on the SDGs: Click here
Organisation: SASB (The Sustainability Accounting Standards) Foundation - The SASB Foundation has established an independent standard-setting arm, the Sustainability Accounting Standards Board, that sets sustainability disclosure standards that are industry-specific and tied to the concept of materiality to investors. - Member of the CRD.	https://www.sasb.org/	The Sustainability Accounting Standards Board (SASB) develops industry-specific sustainability accounting standards suitable for disclosure in standard filings such as the Form 10-K required by the US Securities and Exchange Commission. As the missions of CDSB and SASB are aligned, they recognise close cooperation is equally beneficial to both organisations and we are, in turn, supported by and receive governance and technical input from a large number of similar organisations. The CDSB Framework cross-references SASB's standards as a recognised approach.	SASB's Field Guide provides investors and companies with a high-level overview of the key characteristics of an industry, while also addressing what related sustainability challenges it faces compared to other industries. Helping readers easily and quickly understand the sustainability-related risks and opportunities of each of the 77 industries, the guide identifies specific SASB topics and metrics per industry,

EER Resources – Global

Organisation and Resource	Links	Description	Comments
Resource: The sustainability accounting standards (77 industry-specific standards)			how they are linked to value and their financial impact.
Organisation: IASB (The International Accounting Standards Board The IASB is the standard-setting body of the IFRS Foundation, made up of experts from diverse professional backgrounds and geographical regions Member of the CRD. *Resource:* IFRS Practice Statement 1 - *Management Commentary* Issued December 2010. 	https://www.xrb.govt.nz/accounting-standards/ifrs-practice-statements/	Issued in December 2010, this IFRS Practice Statement provides a broad, non-binding framework for presenting management commentary on financial statements that have been prepared in accordance with IFRS Standards. Entities preparing general purpose financial reports in accordance with NZ IFRS, may elect to apply the principles contained in MCPS 1 to management commentary that relates to those financial reports.	On 14 November 2017, the IASB added a project to its agenda to revise and update the IFRS Practice Statement 1 *Management Commentary* (Practice Statement) issued in 2010. In undertaking the project, the Board will consider how broader financial reporting could complement and support IFRS financial statements. The Board expects to publish an Exposure Draft in the first half of 2020.

EER Resources – Global

Organisation and Resource	Links	Description	Comments
Organisation: AccountAbility AccountAbility is a global consulting and standards firm that works with business, governments and multi-lateral organisations to advance responsible business practices and improve their long term performance. *Resource:* AccountAbility's AA1000 Series of Standards  	https://www.accountability.org/wp-content/uploads/2016/10/AA1000SES_2015.pdf	AccountAbility's AA1000 Series of Standards are principles-based Standards and Frameworks used by a broad spectrum of organisations – global businesses, private enterprises, governments and civil societies – to demonstrate leadership and performance in accountability, responsibility and sustainability.	

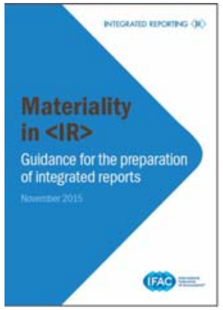
EER Resources – Global Initiatives

Organisation and Resource	Links	Description	Comments
Organisation: CRD (Corporate Reporting Dialogue)  The CRD participants are: CDP, CDSB, the Financial Accounting Standards Board (FASB)*, GRI, IASB, the International Organisation for Standardisation (ISO), the SASB, and is convened by the IIRC. *The FASB participates in the Corporate Reporting Dialogue as an observer.	http://corporatereportingdialogue.com/	**The Corporate Reporting Dialogue** is an initiative, convened in June 2014 by the International Integrated Reporting Council, designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.	**The Better Alignment Project** On Wednesday 7 November 2018 the CRD announced a ground-breaking new two-year project focused on driving better alignment in the corporate reporting landscape, to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society.
Resource: Corporate Reporting Landscape Map 	http://corporatereportingdialogue.com/landscape-map/	The Corporate Reporting Landscape Map provides a snapshot of corporate reporting initiatives and is intended to be a simple navigational tool. Users of the map should consult source documents for complete framework or standard details and implementation requirements.	Useful map constructed through the lens of <IR>.
Organisation: World Business Council for Sustainable Development (WBCSD) initiative developed by CDSB and Ecodesk and supported by the Gordon and Betty Moore Foundation. The Reporting Exchange WBCSD is a CEO-led organisation of forward thinking companies that	https://www.reportingexchange.com/	The Reporting Exchange is a free online platform that connects you to reliable, comparable information on sustainability reporting requirements and resources. It provides in-depth and up to date coverage across over 70 sectors and 60 countries.	Has an interactive map to search for reporting requirements and resources from 60 countries. Contains 1882 global reporting provisions You can build your profile and they will match reporting

EER Resources – Global Initiatives

Organisation and Resource	Links	Description	Comments
galvanises the global business community to create a sustainable future for business, society and the environment. *Resource:* The Reporting Exchange.			provisions relevant to your specific country and sector, as well as subjects and SDGs of interest.
Organisation: CDP (Formerly the Carbon Disclosure Project). CPD is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Member of the CRD. *Resource:* Global disclosure platform.	https://www.cdp.net/en/companies-discloser	The CDP runs a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts.	CDP ask companies, cities, states and regions for data on their environmental performance. They then transform that data into detailed analysis on critical environmental risks, opportunities and impacts. Investors, businesses and policy makers use the data and insights to make better decisions, manage risk and capitalise on opportunities.

Additional resources on Integrated Reporting

Organisation and Resource		Links	Description	Comments
Organisation: IFAC (International Federation of Accountants) and IIRC *Resource:* Materiality in <IR>		http://integratedreporting.org/resource/materiality-in-integrated-reporting/	The guidance explains materiality and the corresponding materiality determination process, in the context of Integrated Reporting. It also outlines expectations for materiality-related disclosures. The interpretation of materiality varies across report forms due to differences in audience, purpose and scope. In Integrated Reporting, a matter is material if it could substantively affect the organisation's ability to create value in the short, medium and long term. The process of determining materiality is entity specific and based on industry and other factors, as well as multi-stakeholder perspectives. The paper looks at how to prepare content, establish parameters for the materiality determination process, how to embed the process into management and the extent to which integrated thinking underpins materiality.	
Organisation: IIRC *Resource:* <IR> Examples Database		http://examples.integratedreporting.org/home	The database contains examples of emerging practice in Integrated Reporting that illustrate how organisations are currently reporting concise information about how their strategy, governance, performance and prospects, in the context of their external environment, lead to the creation of value over the short, medium and long term.	This section of the IIRC website features extracts from reports that illustrate <IR> guiding principles, content elements and fundamental concepts. The section shows reports that have been recognised as leading practice by a reputable awards process or through benchmarking. A commentary is supplied by IIRC staff.

Additional resources on Integrated Reporting

Organisation and Resource		**Links**	**Description**	**Comments**
Organisation: Integrated Reporting Committee (IRC) of South Africa *Resource:* Starter Guide to <IR>		http://integratedreportingsa.org/ircsa/wp-content/uploads/2018/08/IRC_Starters_Guide_20180820_12663_LN.pdf	Since it was first published in 2014, this paper has been a practical guide for organisations in South Africa and other countries embarking on their integrated reporting journey.	
Organisation: <IR> Academic Network The network brings together leading academics in this field, ensuring the IIRC is abreast of relevant academic thinking, informing its work at every stage. The network provides a space for connecting theory and practice by bridging academia to those who directly prepare and benefit from integrated reports. *Resource:* <IR> Academic Database		http://www.iracademicdatabase.org/	In August 2018 The International Integrated Reporting Council (IIRC) launched a new <IR> Academic Database, bringing together over 200 academic studies highlighting the potential positive ramifications of adopting integrated reporting, as well as commenting on emerging best practice. The Database includes Integrated Reporting related academic research, both published (books, chapters and articles) and unpublished (dissertations, PhD theses, and working papers).	Useful resource if need to make a case for integrated reporting.

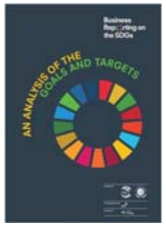
Additional information on GRI Standards

Organisation and Resource	**Links**	**Description**	**Comments**
In this section we have provided some more information about the GRI Standards. The GRI Standards are divided into four series: Universal Standards 100 series, the 100 series includes three universal Standards: *GRI 101: Foundation, GRI 102: General Disclosures*, *GRI 103: Management Approach*. Topic-specific Standards 200 series (Economic topics) 300 series (Environmental topics) 400 series (Social topics).			
Organisation: GRI *Resource*: *GRI 101 Foundation*  	https://www.globalreporting.org/standards/gri-standards-download-center/	*GRI 101: Foundation* is the starting point for using the set of GRI Standards. *GRI 101* sets out the Reporting Principles for defining report content and quality. It includes requirements for preparing a sustainability report in accordance with the GRI Standards, and describes how the GRI Standards can be used and referenced. *GR 101* also includes the specific claims that are required for organisations preparing a sustainability report in accordance with the Standards, and for those using selected GRI Standards to report specific information.	By applying the materiality principle from this standard, you identify your material topics - those with the most significant impacts and influence on your stakeholders. This focus on materiality helps you report on the impacts that matter most. Based on your material topics you select the topic specific standards that are relevant for you.
Organisation: GRI *Resource*: *GRI 102 General Disclosures*  	https://www.globalreporting.org/standards/gri-standards-download-center/	*GRI 102: General Disclosures* is used to report contextual information about an organisation and its sustainability reporting practices. This includes information about an organisation's profile, strategy, ethics and integrity, governance, stakeholder engagement practices, and reporting process.	
Organisation: GRI *Resource*: *GRI 102 Management Approach*  	https://www.globalreporting.org/standards/gri-standards-download-center/	*GRI 103: Management Approach* is used to report information about how an organisation manages a material topic. It is designed to be used for each material topic in a sustainability report, including those covered by the topic specific GRI Standards (series 200, 300, and 400) and other material topics. Applying *GRI 103* with each material topic allows the organisation to	

Additional information on GRI Standards

Organisation and Resource	Links	Description	Comments
		provide a narrative explanation of why the topic is material, where the impacts occur (the topic Boundary), and how the organisation manages the impacts.	
Organisation: GRI *Resource:* The 200 series of the GRI Standards 	https://www.globalreporting.org/standards/gri-standards-download-center/	The 200 series of the GRI Standards include topic-specific Standards used to report information on an organisation's material impacts related to economic topics. For example, *GRI 203: Indirect Economic Impacts 2016; GRI 205: Anti-corruption 2016*.	Each GRI Standard has a similar structure with clear distinction between reporting requirements, recommendations and guidance.
Organisation: GRI *Resource:* The 300 series of the GRI Standards 	https://www.globalreporting.org/standards/gri-standards-download-center/	The 300 series of the GRI Standards include topic-specific Standards used to report information on an organisation's material impacts related to environmental topics. For example, *GRI 303: Water and Effluents 2018, GRI 305 Emissions 2016.*	
Organisation: GRI *Resource:* The 400 series of the GRI Standards 	https://www.globalreporting.org/standards/gri-standards-download-center/	The 400 series of the GRI Standards include topic-specific Standards used to report information on an organisation's material impacts related to social topics. For example, *GRI 403 Occupational Health and Safety 2018, GRI 408 Child Labor 2016*.	
Organisation: GRI *Resource:* GRI reporting database	http://database.globalreporting.org/	Free database owned and operated by GRI. Organisations can register their sustainability, corporate responsibility, or integrated report.	

Additional resources on reporting on the UN SDGs

Organisation and Resource		**Links**	**Description**	**Comments**
Organisations: GRI and UNGC *Resource:* Business Reporting on the SDGs: An Analysis of the Goals and Targets		https://www.unglobalcompact.org/library/5361	This report is a first step towards a uniform mechanism for business to report on their contribution to, and impact, on the SDGs in an effective and comparable way. It contains a list of existing and established disclosures that businesses can use to report, and identifies relevant gaps, where disclosures are not available. It also lists illustrative actions that businesses can take to make progress towards the SDG targets.	
Organisations: GRI and UNGC *Resource:* Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide		https://www.unglobalcompact.org/library/5628	Outlines a three-step process to embed the Sustainable Development Goals (SDGs) into existing business and reporting processes. It helps business to better report their impact on the SDGs and address the information needs of relevant stakeholders. This Guide follows an approach that is aligned with the UN Guiding Principles on Business and Human Rights and the GRI Standards.	
Organisations: GRI, UNGC and World Business Council for Sustainable Development *Resource:* SDG Compass		https://www.unglobalcompact.org/library/3101	The objective of the SDG Compass is to guide companies on how they can align their strategies as well as measure and manage their contribution to the Sustainable Development Goals. The guide presents five steps that assist companies in maximising their contribution to the SDGs. Companies can apply the five steps to set or align their course, depending on where they are on the journey of ensuring that sustainability is an outcome of core business strategy.	Not all 17 SDGs will be equally relevant for an entity. The extent to which an entity can contribute to each, and the risks and opportunities they individually represent, will depend on many factors. Taking a strategic approach to the SDGs, the first task should be to conduct an assessment on the current, potential, positive and negative impacts that your business activities have on the SDGs throughout

				the value chain. This will help identify where positive impacts can be scaled up and where negative impacts can be reduced or avoided.
Organisations: GRI, UNGC and World Business Council for Sustainable Development *Resource:* SDG Compass website	*Learn More About the SDGs*	https://sdgcompass.org/sdgs/	Please click any of the 17 SDG icons below to learn more about the goal and its targets.	
	Inventory of Business Tools	https://sdgcompass.org/business-tools/	This inventory maps existing business tools against the Sustainable Development Goals (SDGs). It allows an entity to explore commonly used business tools that may be useful when assessing your organization's impact on the SDGs. Later additional types of tools will also be added.	
	Inventory of Business Indicators	https://sdgcompass.org/business-indicators/	This inventory maps existing business indicators against the Sustainable Development Goals (SDGs). It allows you to explore commonly used indicators and other relevant indicators that may be useful when measuring and reporting your organisation's contribution to the SDGs.	