EXPLANATORY GUIDE A1: GUIDE TO APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK (EG A1)

Issued by the External Reporting Board

April 2016

Relevant to reporting periods beginning on or after 1 January 2016

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

XRB A1 Application of the Accounting Standards Framework (XRB A1), issued in December 2015, gives effect to the Accounting Standards Framework on completion of its staged implementation. XRB A1 is applicable to all reporting entities for reporting periods beginning on or after 1 January 2016, with early application permitted from 1 April 2015.

This Explanatory Guide is based on Standard XRB A1. It is an explanatory document and has no legal status. It was issued in April 2016 and updated in December 2017, June 2018, July 2019 and October 2019.

ISBN 978-0-947505-07-3

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EXPLANATORY GUIDE A1: GUIDE TO APPLICATION OF THE ACCOUNTING STANDARDS FRAMEWORK (EG A1)

1. Introduction

Purpose and Content of this Explanatory Guide

1 This Explanatory Guide (EG) provides an overview of the reporting requirements for entities that have a statutory obligation (or that optionally elect under an enactment) to prepare general purpose financial reports (GPFR) in accordance with XRB standards.

2 The contents of this Explanatory Guide reflect the requirements of Standard XRB A1 *Application of the Accounting Standards Framework* (XRB A1). XRB A1 is the overarching standard issued by the External Reporting Board (XRB Board) to give effect to the Accounting Standards Framework.[1] It is relevant for reporting by entities for annual or interim reporting periods beginning on or after 1 January 2016, with early application permitted for all reporting entities for reporting periods beginning on or after 1 April 2015.

3 This Explanatory Guide has been issued for explanatory purposes only and has no legal status. It covers five main topics:

- The roles and responsibilities of the XRB Board, and its sub-Board the New Zealand Accounting Standards Board (NZASB);
- The legal requirement on certain entities to prepare financial reports that comply with generally accepted accounting practice (GAAP) and what GAAP consists of;
- The legal requirement that permits certain public sector public benefit entities and not-for-profit public benefit entities that are not "specified not-for-profit entities" to prepare financial reports in accordance with "non-GAAP standards"[2] issued by the XRB and what non-GAAP standards consist of;
- The standards and other documents issued by the XRB and the NZASB, and the legal standing of those documents; and
- The standards and other pronouncements that reporting entities are required to comply with, including the tiers and sets of standards that apply to particular reporting entities.

4 A separate Explanatory Guide (EG A2 *Overview of the Accounting Standard-Setting Process*) provides an overview of the process that the XRB Board expects the NZASB to follow in developing, or adopting, and issuing accounting standards.

The Accounting Standards Framework

5 In April 2012, the Minister of Commerce approved the Accounting Standards Framework[3] submitted by the XRB Board. The Accounting Standards Framework (which was updated in December 2015)[4] reflects the XRB Board's decision to adopt a multi-standards approach in New Zealand.[5] The Accounting Standards Framework comprises different sets of accounting standards for for-profit entities and for public benefit entities (PBEs), together with a formalised tier structure. The tier structure is designed to better balance the relative costs and benefits of reporting by entities of different sizes.

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[1] Previous versions of EG A1 relate to previous versions of XRB A1 and apply to entities reporting for annual or interim reporting periods covered by those versions of XRB A1. They are available at https://www.xrb.govt.nz/accounting-standards/archived-accounting-standards/general-standards-and-explanatory-guides-current/

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

[3] The Accounting Standards Framework as approved by the Minister in April 2012 is available on the XRB website: http://www.xrb.govt.nz/why-report/history/

[4] The updated version of the Accounting Standards Framework is available on the XRB website: http://www.xrb.govt.nz/why-report/accounting-standards-framework/

[5] The decision to adopt a multi-standards approach followed an extensive consultation and deliberation process undertaken by the XRB Board and its predecessor, the Accounting Standards Review Board (ASRB). Further information about this process and the rationale for the multi-standards approach is available on the XRB website: http://www.xrb.govt.nz/why-report/history/

2. Roles of the XRB Board and the NZASB

6 The XRB is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013 and is subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide, the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.

7 The functions of the XRB are specified in the Financial Reporting Act 2013. In relation to accounting standards they comprise:

- Developing and issuing accounting standards and amendments to accounting standards for application by entities that have a statutory obligation (or that optionally elect under an enactment) to prepare financial statements in accordance with generally accepted accounting practice (GAAP) or non-GAAP standards issued by the XRB (section 12(a));
- Developing and issuing authoritative notices for the purposes of the definition of GAAP (section 12(c));
- Developing and implementing strategies for the issue of accounting standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 12(d)), including establishing a system for tiers of financial reporting that imposes different financial reporting requirements in respect of different classes of relevant entities in order to ensure that the requirements that apply in respect of those entities are appropriate (section 29);
- Liaising with international or national organisations that have responsibility for accounting standard setting (section 12(e)); and
- Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an accounting standard or authoritative notice (section 22).

8 Although all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has delegated the responsibility for accounting standard setting to a committee (generally referred to as a sub-board), the NZASB. The NZASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.

9 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZASB. The financial reporting strategy setting function (required by section 12(d) of the Financial Reporting Act 2013) includes the establishment (and, if necessary, the revision) of the Accounting Standards Framework.

10 The NZASB is responsible for developing and issuing accounting standards and authoritative notices. In doing so the NZASB must:

- Operate within the Accounting Standards Framework established by the XRB Board;
- Liaise with the Australian Accounting Standards Board (AASB) with the objective of harmonising accounting standards in Australia and New Zealand for for-profit entities; and
- Ensure an appropriate consultation process (due process) is followed – see EG A2 for an explanation of these requirements.

11 The NZASB operates under delegated authority from the XRB Board.

3. Legislative Framework

Requirement to Prepare

12 Various pieces of legislation require entities to prepare GPFR that comply with XRB standards. These "reporting entities"[6] are required to comply with XRB standards that are GAAP or non-GAAP standards issued by the XRB.

13 Entities required to comply with GAAP include:

- "FMC reporting entities"[7] as defined by the Financial Markets Conduct Act 2013;
- Large companies[8,9] (with total assets of over $60 million or total revenue of over $30 million in the two preceding reporting periods) under the Companies Act 1993;
- Large overseas companies,[9] large subsidiaries of overseas companies and large New Zealand businesses of large overseas companies (with total assets of over $20 million or total revenue of over $10 million in the two preceding reporting periods) under the Companies Act 1993;
- Local authorities and council controlled organisations under the Local Government Act 2002;
- State sector bodies under the Public Finance Act 1989 and the Crown Entities Act 2004;
- Other public entities under the Public Audit Act 2001;
- Registered charitable entities that are specified not-for-profit entities under the Charities Act 2005;[10] and
- Large registered friendly societies, large registered industrial and provident societies, large partnerships and large limited partnerships (with total assets of over $60 million or total revenue of over $30 million in the two preceding reporting periods) under their respective governing legislation.

14 Most small and medium sized for-profit entities have no obligation to prepare financial statements that comply with GAAP. However, entities may optionally elect under an enactment to prepare financial reports in accordance with GAAP, for example, a company that has fewer than 10 shareholders.

15 Certain public sector PBEs and not-for-profit PBEs that do not meet the criteria to be specified not-for-profit entities are permitted by legislation to prepare financial statements in accordance with non-GAAP standards issued by the XRB (i.e. cash-based standards). Specified not-for-profit entities are required to prepare financial statements that comply with GAAP.

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

7 FMC reporting entity is defined in the Financial Markets Conduct Act 2013 and includes:
- an issuer of a regulated product;
- a person who holds a licence to provide certain market services under Part 6 of the Act;
- a licensed supervisor;
- a listed issuer;
- an operator of a licensed market;
- a recipient of money from a conduit issuer;
- a registered bank;
- a licensed insurer;
- a credit union;
- a building society; and
- an FMC reporting entity under clause 27A of Schedule 1.

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

9 Except for large companies or large overseas companies if they are a subsidiary of another New Zealand entity that is required to prepare group financial statements.

10 The reporting provisions relating to registered charities came into force on 1 April 2015.

Definition of GAAP

16 GAAP is defined in section 8 of the Financial Reporting Act 2013 and means compliance with:

(a) Applicable accounting standards; and

(b) Authoritative notices.

17 In accordance with this definition, accounting standards issued by the XRB Board or the NZASB are the primary indicators of GAAP in New Zealand. They set out the recognition, measurement, presentation and disclosure requirements for transactions and events that are important in the preparation of GPFR, including those that may arise in specific industries.

Definition of "Non-GAAP Standard"

18 Some enactments permit certain entities that would otherwise be required to prepare financial statements in accordance with GAAP to apply a non-GAAP standard issued by the XRB. In order to do so, an entity must not be a specified not-for-profit entity. Standard XRB A2 *Meaning of Specified Statutory Size Thresholds* defines a specified not-for-profit entity as an entity whose total operating payments for each of the two preceding accounting periods are $125,000 or more. For the purpose of applying the legislative size threshold, where an entity has controlled entities,[11] total operating payments means the combined operating payments of the entity and all its controlled entities.

19 Non-GAAP standard is defined in section 5 of the Financial Reporting Act 2013 and means a financial reporting standard issued by the XRB that is stated in the standard to be a non-GAAP standard. All the non-GAAP standards issued by the XRB are cash-based standards.

20 Legislation that allows entities to apply non-GAAP standards issued by the XRB include:

- Certain public sector entities under the Burial and Cremation Act 1964, the Maori Purposes Fund Act 1934-35, the Patriotic and Canteen Funds Act 1947, the Reserves Act 1977 and the Reserves and Other Lands Disposal Act 1995; and
- Registered charitable entities, friendly societies and other entities under the Charities Act 2005, the Friendly Societies and Credit Unions Act 1982 and the Agricultural and Pastoral Societies Act 1908.

General Purpose Financial Reports

21 GPFR comprise financial statements accompanied by:

(a) Non-financial information, such as service performance information; and

(b) Explanatory material, including that required by legislation.

22 The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seeks to provide information to a range of general purpose users with different interests in that information. GAAP and non-GAAP standards issued by the XRB reflect this.[12]

23 By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or Statistics New Zealand, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

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[11] The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

[12] The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 *NZ Conceptual Framework)* and the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework).

Types of Documents Issued by the XRB

24 As outlined above, under section 12 of the Financial Reporting Act 2013, the XRB is responsible for issuing accounting standards (including non-GAAP standards) and authoritative notices.

25 Compliance with GAAP or non-GAAP standards issued by the XRB is a legal requirement for certain entities and XRB standards therefore have legal standing. Under section 25 of the Financial Reporting Act 2013, accounting standards and authoritative notices (including any amendments or revocations) issued under section 12 are classified as disallowable instruments for the purposes of the Legislation Act 2012.

26 However, not all the documents issued by the XRB have legal status. Between them, the XRB Board and the NZASB issue four types of documents:

- Accounting standards (including non-GAAP standards) and related interpretations which are issued under section 12(a) of the Financial Reporting Act 2013;
- Documents or pronouncements, such as conceptual frameworks, that are issued as authoritative notices under section 12(c) of the Financial Reporting Act 2013;
- Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
- Explanatory documents (such as this Explanatory Guide) that have no legal status.

Only the documents issued under sections 12(a) and 12(c) of the Financial Reporting Act 2013 have legal standing and form part of GAAP or non-GAAP standards.

27 While GAAP comprises applicable accounting standards and authoritative notices, the authoritative notices have a “lower” level of authority than accounting standards. For example, under the Financial Markets Conduct Act 2013, failure to comply with an authoritative notice does not subject an FMC reporting entity to pecuniary penalties.

28 The XRB Board considers it important that the legal status of each document issued by the XRB Board or the NZASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document. In addition, each non-GAAP standard issued by the XRB states that it is a non-GAAP standard.

4. Accounting Requirements to be Applied

29 There are multiple sets of accounting requirements that apply to New Zealand reporting entities preparing GPFR in accordance with GAAP or non-GAAP standards issued by the XRB for periods beginning on or after 1 January 2016. Establishing exactly which set of those accounting requirements is applicable to a particular reporting entity can be determined in two steps.

Step 1: Determine Whether a For-profit Entity or a Public Benefit Entity (PBE)

30 The following are the different accounting requirements that apply under the Accounting Standards Framework: NZ IFRS, NZ IFRS RDR, PBE Standards, PBE Standards RDR, PBE SFR-A (PS), PBE SFR−C (PS), PBE SFR-A (NFP) and PBE SFR-C (NFP). Exactly which of these accounting requirements a particular reporting entity must, or may, apply is specified in XRB A1.[13]

31 XRB A1 establishes two broad groups of accounting standards: those to be applied by for-profit entities and those to be applied by public benefit entities (PBEs). Having determined that it is required (or chooses) to prepare financial statements in accordance with XRB standards, an entity's next step is to determine whether it is a for-profit entity or a PBE.

32 The definitions of "for-profit entities", "public benefit entities (PBEs)", "public sector PBE" and "not-for-profit PBE" are specified in XRB A1. XRB A1 also contains integral guidance relating to the definitions of for-profit entities and public benefit entities in an Appendix.[14] XRB A1 defines:

- For-profit entities as reporting entities that are not public benefit entities;
- Public benefit entities (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;
- Public sector PBEs as PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament; and
- Not-for-profit PBEs (NFP PBEs) as PBEs that are not public sector PBEs.

33 Although under the Accounting Standards Framework the term public benefit entities (PBEs) refers to both public sector PBEs and not-for-profit PBEs, a distinction has been made between these two categories of PBEs because XRB A1 specifies different accounting requirements for these two categories of PBEs in certain areas.

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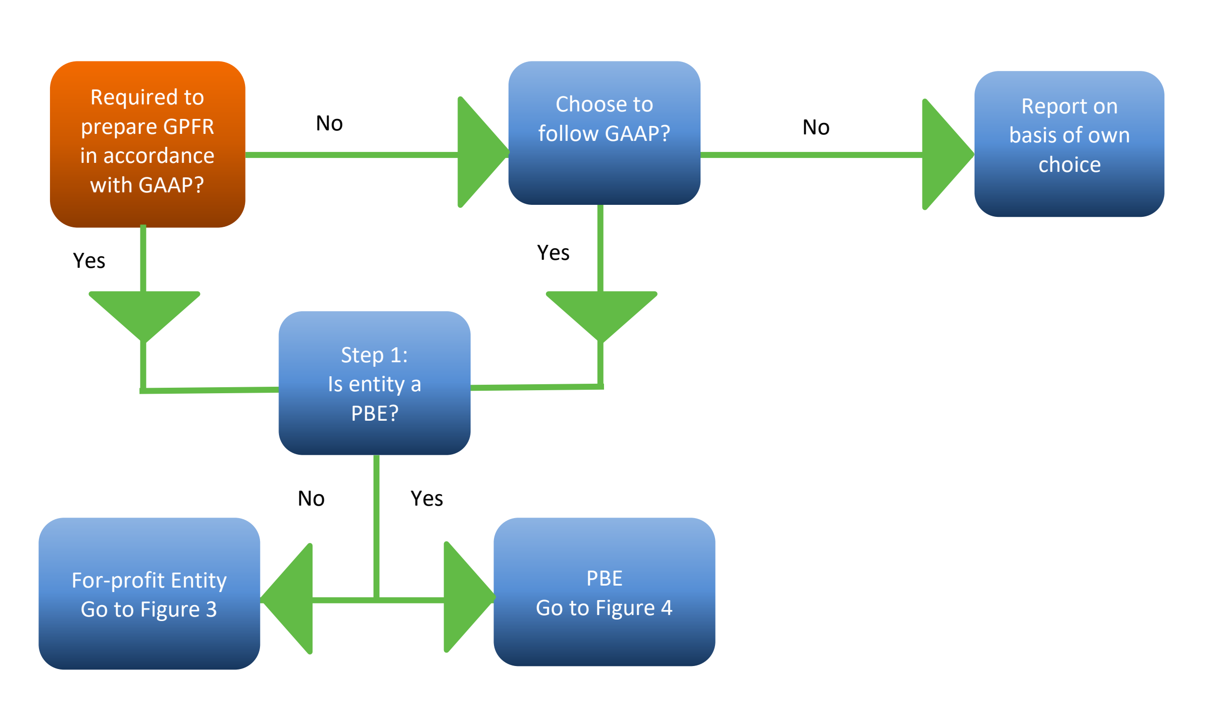
[13] Standard XRB A1 *Application of the Accounting Standards Framework* is available on the XRB website: http://www.xrb.govt.nz/accounting-standards/for-profit-entities/ or http://www.xrb.govt.nz/accounting-standards/not-for-profit/ or http://www.xrb.govt.nz/accounting-standards/public-sector/

[14] Appendix A *When is an Entity a Public Benefity Entity?* of XRB A1 was last updated in 2019.

34 Step 1 is illustrated in Figure 1 below.

Figure 1: Identify the Entity Type – Step 1



Step 2: Identify Applicable Accounting Requirements: For-profit Entities

35 Having determined whether it is a for-profit entity or a PBE, the second step is to determine which set of accounting requirements is applicable to the entity. The approach to identifying the applicable accounting requirements for a for-profit entity set out in XRB A1 is as follows.

Tier Structure

36 XRB A1 contains a two-tier structure for the for-profit sector. The requirements that an entity applies depend on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each tier are summarised in Table 1.

Table 1: For-profit Entity Tiers and Requirements

Tier	Tier Criteria	Standards Set
Tier 1	• Has public accountability (as defined); or • Is a for-profit public sector entity that has total expenses >$30 million	NZ IFRS
Tier 2	• Has no public accountability (as defined); and • Is a for-profit public sector entity that has total expenses ≤$30 million *and elects to be in Tier 2.*	NZ IFRS RDR

37 The way the for-profit tier structure works under XRB A1 is that all entities are initially in Tier 1 as the default. However, if they meet the criteria to be in Tier 2, and elect to be in that tier, then they may report in accordance with the requirements for Tier 2.

38 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have "public accountability"; and public sector for-profit entities that have total expenses greater than $30 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, an entity has public accountability[15] if it:

(a) Meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:

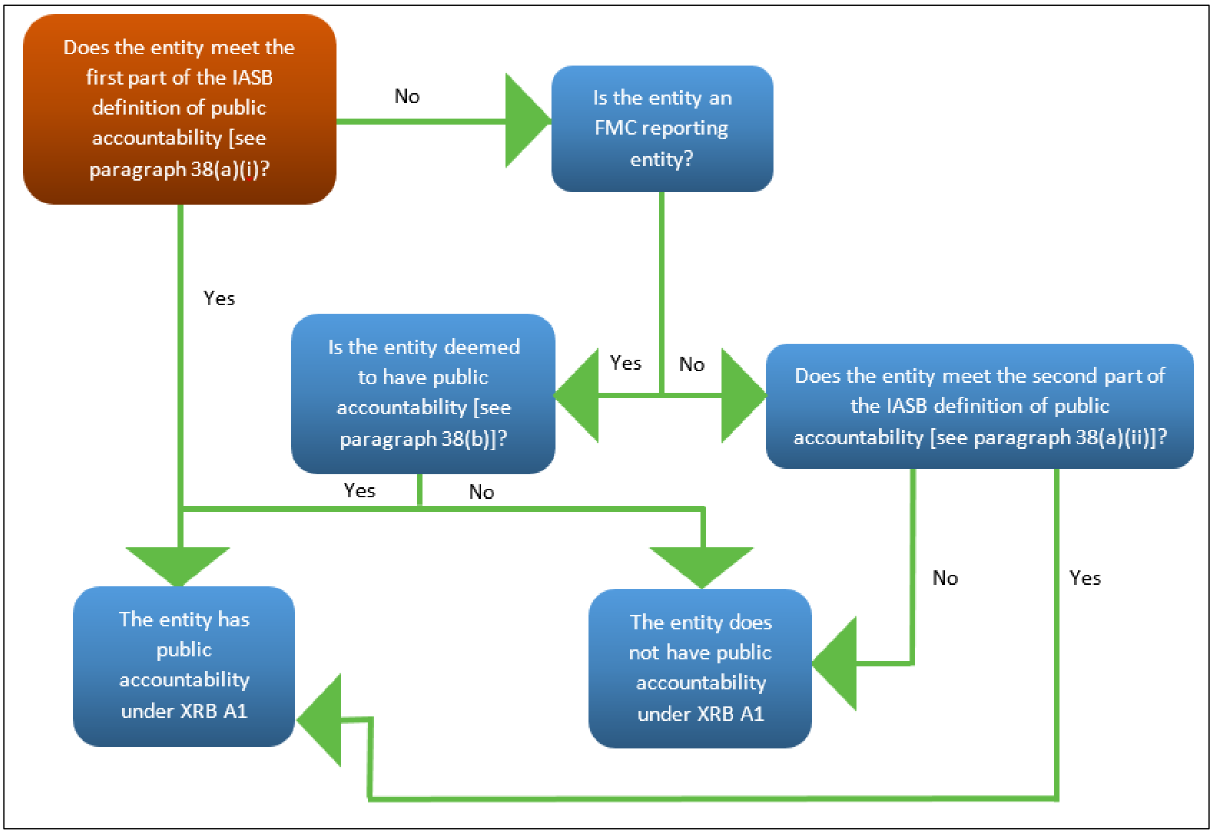
(i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); or

(b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the Financial Markets Authority (FMA) under that Act.

39 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 38(a)(ii)) unless it is deemed to have public accountability (see paragraph 38(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

Figure 2: Identifying Public Accountability

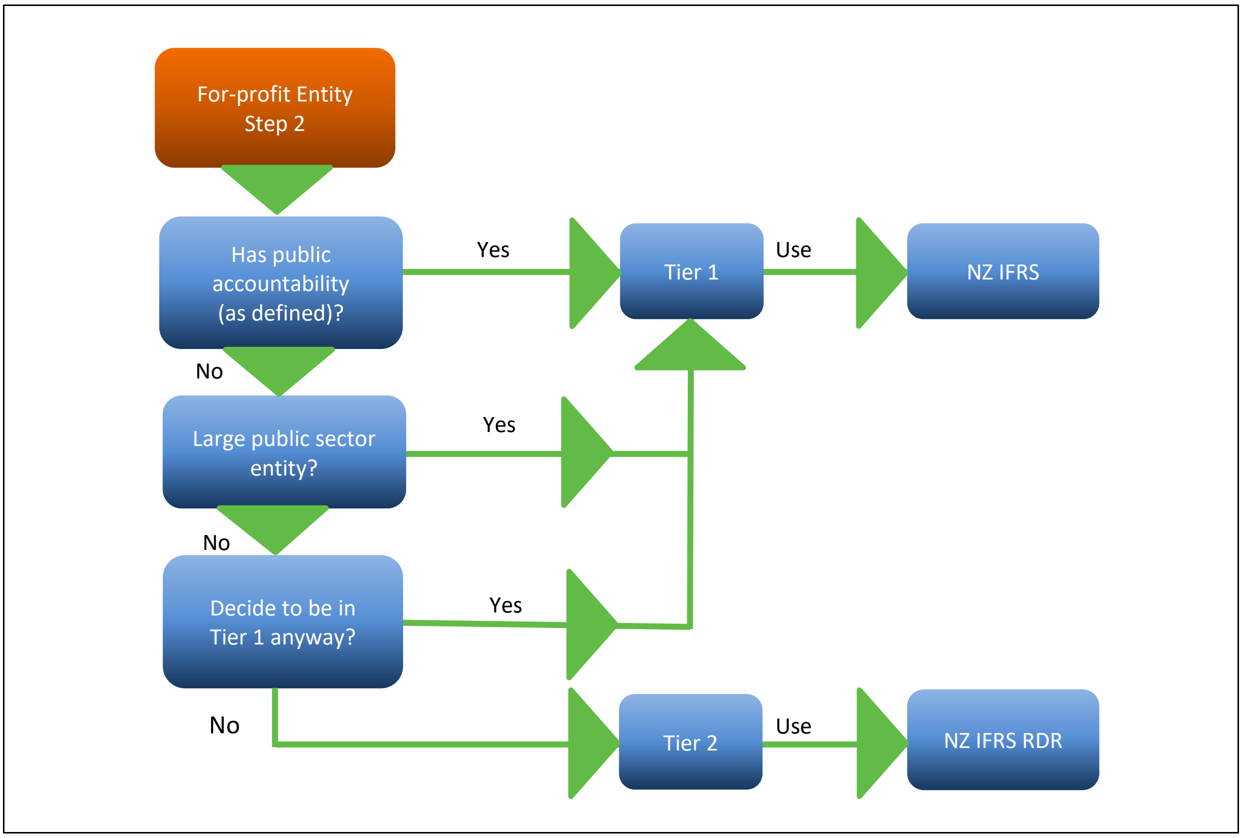


40 Any entity that does not meet the Tier 1 criteria may elect to be in Tier 2 although it need not do so: it can report in accordance with Tier 1 requirements if it so wishes. There are no additional criteria for Tier 2. This means any entity that is not required to be in Tier 1 may be in Tier 2, including large non-public sector

[15] XRB A1 *Application of the Accounting Standards Framework* defines public accountability.

for-profit entities that do not have public accountability (as defined). Figure 3 provides a decision tree to assist in this tier selection process.

Figure 3: Identify the Applicable Standards – Step 2 (For-profit Entities)



For-profit Requirements

41 The requirements to be applied by for-profit entities are the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS is the set of standards and interpretations issued by the NZASB. It comprises New Zealand equivalents to:

(a) International Financial Reporting Standards;

(b) International Accounting Standards;

(c) IFRIC Interpretations; and

(d) SIC Interpretations.

The NZ IFRS set of standards also includes a small number of (domestic) New Zealand Financial Reporting Standards (FRSs) and the 2018 *NZ Conceptual Framework*.[16]

42 NZ IFRS is substantively identical to the IFRS® Standards on which it is based and is generally harmonised with the Australian equivalent requirements. NZ IFRS follows the format of the pronouncements issued by the IASB and, since IFRS Standards were adopted in New Zealand, have the same effective dates as their corresponding IFRS Standards.

16 The 2018 *NZ Conceptual Framework* (issued May 2018) is effective for annual periods beginning on or after 1 January 2020. From the point at which the 2018 *NZ Conceptual Framework* becomes effective, entities will refer to New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2010) (NZ *Framework*) in the limited circumstances that they are required to do so by the relevant NZ IFRS.

NZ IFRS (Tier 1)

43 The requirements to be applied by Tier 1 for-profit entities are the requirements in NZ IFRS, excluding any requirements that apply only to Tier 2 entities (see paragraphs 47–50 below). In adapting an IFRS Standard for issue as a New Zealand pronouncement for Tier 1 for-profit entities, the NZASB has adopted the following protocols:

(a) Recognition and measurement requirements in an IFRS Standard cannot be amended;

(b) Disclosure requirements cannot be reduced; and

(c) Additional disclosure requirements can be added (these are included in a separate standard: FRS-44 *New Zealand Additional Disclosures*).

44 The topics addressed in the 2018 *NZ Conceptual Framework* are:

(a) Status and purpose of the 2018 *NZ Conceptual Framework*;

(b) Chapter 1—The Objective of General Purpose Financial Reporting;

(c) Chapter 2—Qualitative Characteristics of Useful Financial Information;

(d) Chapter 3—Financial Statements and the Reporting Entity;

(e) Chapter 4—The Elements of Financial Statements;

(f) Chapter 5—Recognition and Derecognition;

(g) Chapter 6—Measurement;

(h) Chapter 7—Presentation and Disclosure; and

(i) Chapter 8—Concepts of Capital and Capital Maintenance.

45 In the absence of an accounting standard, the 2018 *NZ Conceptual Framework* assists the NZASB in developing a New Zealand FRS or in its role in commenting on the development of an IFRS Standard by the IASB. The 2018 *NZ Conceptual Framework* also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of an NZ IFRS or when a standard allows a choice of accounting policy.

46 Where a for-profit entity prepares its financial report in compliance with NZ IFRS, the entity will be able to assert compliance with IFRS.

NZ IFRS RDR (Tier 2)

47 The requirements to be applied by Tier 2 for-profit entities are NZ IFRS Reduced Disclosure Regime (RDR concessions) (NZ IFRS RDR). NZ IFRS RDR has the same recognition and measurement requirements as NZ IFRS but with significantly reduced disclosure requirements. The reduced disclosures are consistent, and are substantially harmonised, with the requirements in Australia for Tier 2 entities.

48 Tier 2 entities may apply whichever of the disclosure concessions they wish – either some or all.

49 The RDR concessions are incorporated in NZ IFRS by way of an asterisk (*) or by an additional RDR paragraph. Accordingly, NZ IFRS and NZ IFRS RDR form one physical set of standards.

50 For-profit entities applying NZ IFRS RDR are not able to assert compliance with IFRS.

Moving between Tiers

51 It is expected that for-profit entities will move between the two tiers over time either as a matter of choice, as their circumstances change or if they meet the criteria for Tier 1. XRB A1 therefore sets out the timing and other requirements for moving between tiers.

52 An entity moving from Tier 1 to Tier 2 because it no longer meets the public accountability criteria must continue to apply the Tier 1 accounting requirements in the period in which it ceases to meet the public accountability criteria. A for-profit public sector entity moving from Tier 1 to Tier 2 because it no longer meets the size criterion (i.e. it is no longer large) may do so in the annual or interim reporting period in which it is no longer large, and elects to do so.

53 An entity moving from Tier 2 to Tier 1 as a result of the entity meeting the public accountability criteria must apply the Tier 1 accounting requirements in the annual or interim reporting period that this occurs. A for-profit public sector entity moving from Tier 2 to Tier 1 because it meets the size criterion (i.e. it becomes large) may continue to apply Tier 2 accounting requirements in the period in which it becomes large, unless it was applying Tier 1 accounting requirements in the period before it became large. Under those circumstances the entity continues to apply Tier 1 accounting requirements.

54 Entities moving from Tier 2 to Tier 1 must apply NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

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

Step 2: Identify Applicable Accounting Requirements: PBEs

56 The approach to identifying the applicable accounting requirements for a PBE set out in XRB A1 is as follows.

Tier Structure

57 XRB A1 contains a four-tier structure for PBEs. The requirements an entity applies depend on the tier that it reports under. The tiers, criteria for the tiers, and the requirements applying to each PBE tier are summarised in Table 2 below.

Table 2: Public Benefit Entity Tiers and Requirements

Tier	Tier Criteria	Standards Set
Tier 1	• Has public accountability (as defined); or • Has total expenses (including grants) > $30 million	PBE Standards
Tier 2	• Has no public accountability (as defined); and • Has total expenses (including grants) ≤ $30 million *and elects to be in Tier 2.*	PBE Standards (RDR)
Tier 3	• Has no public accountability (as defined); and • Has expenses ≤$2 million *and elects to be in Tier 3.*	PBE SFR-A (PS) or PBE SFR-A (NFP)
Tier 4	• Has no public accountability (as defined); and • Has total operating payments of less than $125,000 in each of the previous two reporting periods (i.e. not a specified not-for-profit entity); and • Is permitted by an enactment to comply with a non-GAAP Standard *and elects to be in Tier 4.*	PBE SFR-C (PS) or PBE SFR-C (NFP)

58 The way the PBE tier structure works under XRB A1 is that all entities are initially in Tier 1 as the default. However, if they meet the criteria to be in another tier, and elect to be in that other tier, then they may report in accordance with the requirements of the lower tier.

59 Two groups of PBEs must report in accordance with Tier 1 requirements: entities that have public accountability; and entities that have total expenses greater than $30 million.

60 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. The definition, is the same as that used for the for-profit tier structure. In general, an entity has public accountability if it:

(a) Meets the IASB definition of public accountability, i.e.:

(i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); and

(b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.

61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

62 It is important to note that the term public accountability is used in the tier framework in a particular technical way. This technical meaning is quite different from the way in which the term "publicly accountable" is normally used in the PBE context and in which it was used prior to 2011 in the Accounting Standards Framework.

63 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. Applying this test in a PBE context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity's primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.

64 Some PBEs hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. In the public sector context, this is typically the case for central government entities that hold and/or manage trust money under the Public Finance Act 1989 (for example the Department of Corrections holds money for inmates). In the majority of cases the holding or management of money is not the entity's primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

65 In the not-for-profit PBE context, this is typically the case where an entity that holds and/or manages trust money entrusted to it by a client, customer or member who is not involved in the management of the entity (for example, welfare benefits held on behalf of beneficiaries as part of the entity providing welfare services to the beneficiaries). In the majority of cases the holding or management of money is not the entity's primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

66 Any entity that does not meet the Tier 1 criteria may elect to be in a lower tier (provided it meets the criteria for the lower tier) although it need not do so; it can report in accordance with Tier 1 requirements (the requirements of PBE Standards in full) if it so wishes. In fact an entity can elect to be in any of the four tiers provided that it meets the criteria for the tier under which it is electing to report. However, a PBE can only report under Tier 4 if it is not a specified not-for-profit entity (that is, its total operating payments[17] (excluding capital payments) for each of the two preceding accounting periods are $125,000 or less) and is permitted by its governing legislation to report in accordance with non-GAAP standards issued by the XRB.

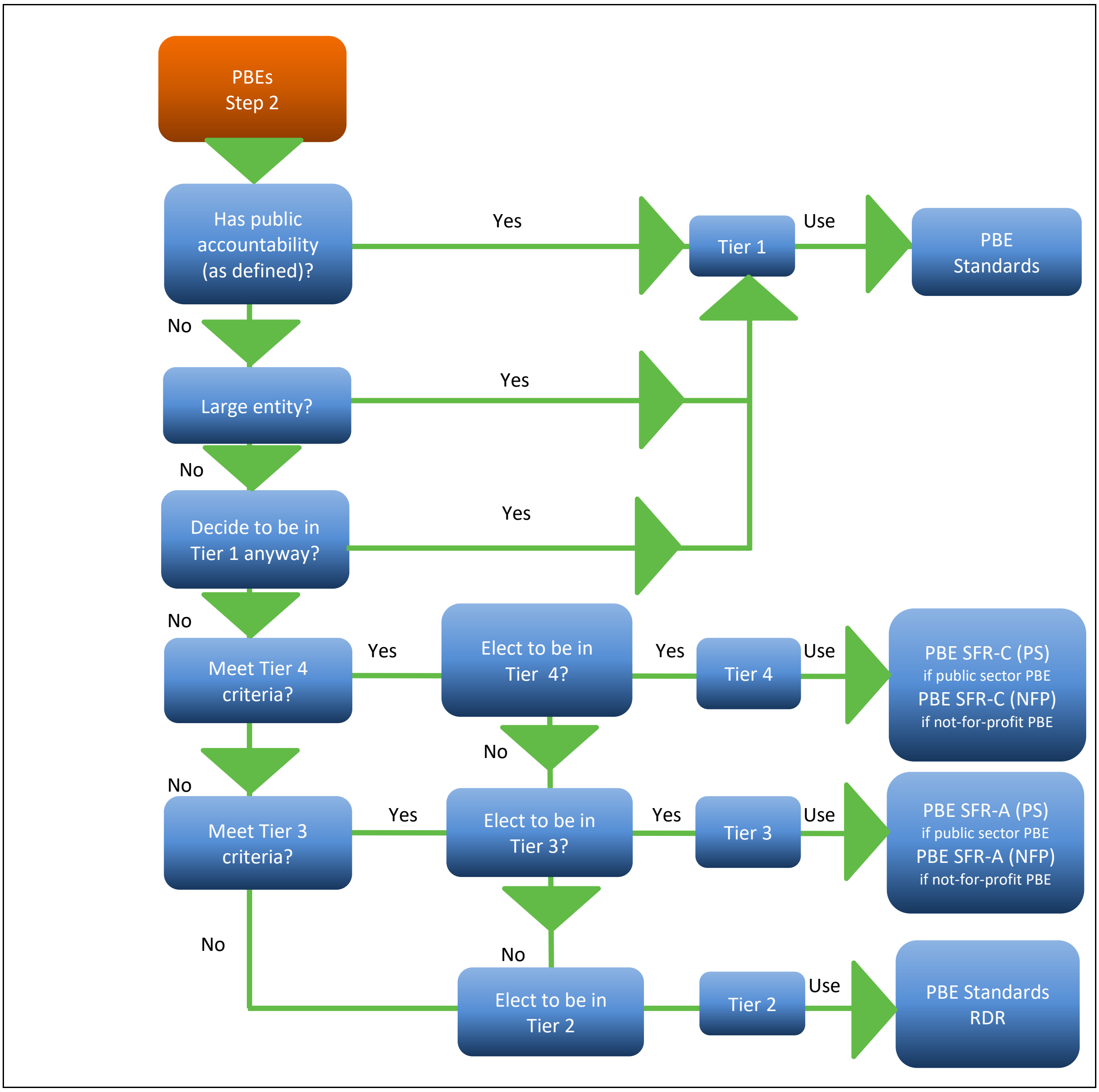
67 For the purposes of the size criterion in the PBE tier structure, "total expenses" comprises all expenses reported by the entity including any losses incurred, any grants made by the entity, and any net expense

[17] For this purpose, total operating payments means the combined operating payments of the entity and all its controlled entities.

resulting from any offset of revenue and expenses allowed by a PBE Standard. However, it does not include an expense included in "other comprehensive revenue or expense" where this is reported (Tier 1 and Tier 2).

68 Figure 4 provides a decision tree to assist PBEs in the tier selection process.

Figure 4: Identify the Applicable Accounting Requirements – Step 2 (PBEs)



Accounting Requirements for PBEs

<u>PBE Standards (Tier 1)</u>

69 The requirements to be applied by Tier 1 PBEs are the PBE Standards, excluding any RDR concessions.

70 The bulk of the PBE Standards are based substantially on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). IPSAS are, in turn, based substantially on IFRS Standards.

71 However, PBE Standards also include certain standards based on NZ IFRS and some domestic FRSs (for example, to cover gaps in accounting requirements not covered by IPSAS). All the standards have the

prefix “PBE” to identify them. The PBE Standards therefore comprise a combination of PBE IPSAS, PBE IFRS, PBE IAS and PBE FRS.

72 Accompanying the PBE Standards is the *Public Benefit Entities' Conceptual Framework* (PBE Conceptual Framework). The PBE Conceptual Framework establishes the concepts that underpin general purpose financial reporting by public benefit entities. The PBE Conceptual Framework sets out:

(a) The role and authority of the PBE Conceptual Framework;

(b) The objectives and users of GPFR;

(c) The qualitative characteristics of useful information;

(d) The key characteristic of a reporting entity;

(e) The elements in GPFR;

(f) The criteria for recognition of an element;

(g) The concepts for selection of measurement bases; and

(h) The concepts applicable to presentation of information in GPFR.

73 In the absence of an accounting standard, the PBE Conceptual Framework assists the NZASB in developing PBE Standards and in commenting on the development of IPSAS by the IPSASB. The PBE Conceptual Framework also assists preparers of GPFR. For example, it may assist preparers in developing consistent accounting policies when dealing with topics that have yet to form the subject of a PBE Standard or when a standard allows a choice of accounting policy.

PBE Standards RDR (Tier 2)

74 The requirements to be applied by a Tier 2 PBE are PBE Standards Reduced Disclosure Regime (PBE Standards RDR). PBE Standards RDR have the same recognition and measurement requirements as PBE Standards. However, they contain reduced disclosures which are substantially aligned with the reduced disclosures in NZ IFRS RDR.

75 Tier 2 entitities may apply whichever of the disclosure concessions they wish – either some or all.

76 The RDR concessions are incorporated in the PBE Standards by way of an asterisk (*) or by an additional RDR paragraph. Accordingly, PBE Standards and PBE Standards RDR form one physical set of standards.

PBE SFR-A (Tier 3)

77 Separate accounting requirements are to be applied by Tier 3 public sector PBEs and Tier 3 not-for-profit PBEs.

78 In the public sector, this is the Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR-A (PS)). In the not-for profit sector, this is the Simple Format Reporting Standard – Accrual (Not-for-profit) (PBE SFR-A (NFP)).

79 Although based on Tier 1 and Tier 2 PBE Standards, the requirements in PBE SFR-A (PS) and PBE SFR−A (NFP) are substantially reduced and simplified in nature. The Tier 3 requirements require the preparation of a “Performance Report” covering both financial and non-financial information.

80 The Tier 3 requirements are accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 3 entities to apply their respective requirements.

PBE SFR-C (Tier 4)

81 Separate accounting requirements are to be applied by Tier 4 public sector PBEs and Tier 4 not-for-profit PBEs.

82 In the public sector, this is the Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR-C (PS)). In the not-for profit sector, this is the Simple Format Reporting Standard – Cash (Not-for-profit) (PBE SFR-C (NFP)).

83 The Tier 4 requirements also require the preparation of a Performance Report covering both financial and non-financial information, but with the financial information reported using the cash basis of accounting.

84 The Tier 4 requirements are also accompanied by Explanatory Guides containing optional templates and guidance notes to assist Tier 4 entities to apply their respective requirements.

Moving between Tiers

85 It is expected that PBEs will move between tiers over time either by choice, or as their circumstances change and they no longer meet the criteria for the tier under which they report. XRB A1 therefore sets out the timing and other criteria for moving between tiers:

- An entity that meets the criteria to report under a lower tier is generally permitted to move to the lower tier in the annual or interim reporting period in which it meets the lower tier's criteria, and elects to report under the lower tier. However, an entity that no longer meets the public accountability criteria must continue to apply Tier 1 accounting requirements in the period in which it fails to meet those criteria;
- An entity moving from a lower tier to a higher tier is generally permitted one or two annual reporting periods before it is required to apply the higher tier's accounting standards. One exception is where an entity fails to meet the lower tier's criteria because it now has public accountability (as defined). In that instance, the entity must apply the Tier 1 accounting requirements in the annual or interim reporting period in which it meets the public accountability criteria; and
- A Tier 2 PBE that becomes large may continue to report under Tier 2 accounting requirements in the annual and interim reporting periods in which it becomes large unless it was reporting under Tier 1 requirements in the annual period immediately before it became large.

86 XRB A1 also sets out the "first-time adoption" requirements that must be applied when an entity first moves into a particular tier: a Tier 3 or Tier 4 PBE that subsequently applies Tier 1 or Tier 2 PBE Accounting Requirements is required to apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.