

Board Meeting Agenda

Wednesday 4 December 2019

External Reporting Board, Level 7, 50 Manners Street, Wellington

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
Accounting Standards Framework					
12.30 pm	4	Targeted Review of the ASF	(AH/GS)		
	4.1	Preliminary analysis of feedback received	Consider	Paper	
	4.2	Submissions received			
	4.2.1	Auckland Council	Note	Paper	
	4.2.2	BDO	Note	Paper	
	4.2.3	CA ANZ	Note	Paper	
	4.2.4	Carolyn Cordery	Note	Paper	
	4.2.5	Charities Services	Note	Paper	
	4.2.6	CPA Australia	Note	Paper	
	4.2.7	KPMG	Note	Paper	
	4.2.8	OAG	Note	Paper	
	4.2.9	PWC	Note	Paper	
	4.2.13	Online feedback received	Note	Paper	
	4.3	Summary Document	Note	Supp paper	
PBE Item for Consideration					
1.10 pm	5	Tier 3 and Tier 4 Post-implementation Review	(LK/JS)		
	5.1	Project scope and approach	Consider	Paper	
	5.2	Article: A holistic look at IFRS Standards: the role of Post-implementation Reviews	Note	Paper	
PBE Item for Approval					
1.40 pm	6	Service Performance Guidance	(JS)		
	6.1	Cover memo	Note	Paper	
	6.2	EG A10 <i>Service Performance Reporting</i>	Approve	Paper	
2.10 pm	7	Collective and Individual Services	(JS)		
	7.1	Memo: PBE Policy Approach	Consider	Paper	
	7.2	<i>Policy Approach to Developing the Suite of PBE Standards</i>	Note	Supp paper	

Est Time	Item	Topic	Objective		Page
2.25 pm		<i>Afternoon tea</i>			
Standard-setting Process					
2.35 pm	8	EG A2	(JS/VSF)		
	8.1	Cover memo	Note	Paper	
	8.2	EG A2 <i>Overview of the Accounting Standard-setting Process</i> (Clean)	Approve	Paper	
	8.3	EG A2 <i>Overview of the Accounting Standard-setting Process</i> (Marked-up)	Note	Supp paper	
Standards for Noting					
2.55 pm	9	Standards Approved	(VSF)		
	9.1	Approval 112 <i>Interest Rate Benchmark Reform</i>	Note	Paper	

Supporting papers

B: PUBLIC SESSION	
4	Targeted Review of the ASF
4.3	Summary document
7	Collective and Individual Services
7.2	<i>Policy Approach to Developing the Suite of PBE Standards</i>
8	EG A2
8.3	EG A2 <i>Overview of the Accounting Standard-setting Process</i> (marked up)

Next NZASB meetings:

- Thursday 13 February 2020 (morning 9.00am to 1.00pm Joint NZASB/NZAuASB meeting)
- Thursday 13 February 2020 (afternoon 1.30pm to 4.30pm, non-public)
- Friday 14 February 2020 (morning 8.30am to 12.30pm)



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 November 2019

To: NZASB Members

From: Anthony Heffernan and Gali Slyuzberg

Subject: **Targeted Review of the New Zealand Accounting Standards Framework**

Purpose¹

1. The purpose of this agenda item is to:
 - (a) INFORM the Board about the informal feedback received by staff during outreach activities in relation to the XRB's Discussion Paper (DP) *Targeted Review of the New Zealand Accounting Standards Framework*; and
 - (b) provide the Board with a HIGH-LEVEL UPDATE on the submissions received in relation to this DP.
2. The submissions received are included in this agenda item for the Board's information. We have yet to complete a full analysis of these submissions.

Background

3. The XRB DP was issued for public consultation in July 2019. This document was developed with input from this Board and the XRB Board.
4. The objective of the Targeted Review is to "check in" on whether the New Zealand Accounting Standards Framework (ASF) is operating as intended and achieving its original objectives, and whether any refinements are required. The DP sought general feedback on whether constituents are aware of any developments in the financial reporting environment or any unintended consequences that would require refinements to the ASF.
5. In addition to general feedback on the application of the ASF, the DP also sought feedback on the following specific matters for comment (SMCs):
 - (a) the importance of maintaining close alignment between PBE Standards (for public sector and NFP entities) and International Public Sector Accounting Standards (IPSAS);
 - (b) the importance of harmonisation with Australia for Tier 2 for-profit disclosures; and
 - (c) whether the PBE tier size criteria need to be revisited.

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).

6. The DP was accompanied by a Summary Document which summarised the information contained in the DP and included links to the relevant sections of the full DP. (see agenda item 4.3 in the supplementary papers).
7. When the DP and Summary Document were issued, a Targeted Review webpage was launched on the XRB website. This webpage contained summarised information on the Targeted Review. In addition, the webpage provided two options to submit feedback online: constituents could either fill out an online submission (answering any or all of the questions) or upload their submission as a document. This is the first time that the XRB has used an online submission form to receive comments on a DP. The intention was to make the submission process easier and faster for constituents.
8. During the public consultation period, staff undertook various outreach activities to inform constituents about the Targeted Review of the ASF and to encourage submissions.
9. As recommended by this Board and the XRB Board, given the limited scope of the Targeted Review, staff took a selective approach to outreach, aiming to achieve a balance between general and targeted outreach activities. Outreach for this project included running a webinar, discussions with the XRAP and TRG, roundtable meetings with representatives of the public and not-for-profit (NFP) sectors, presenting to public sector CFOs, discussion with Treasury representatives, presenting to members of professional accounting bodies and to a university's accounting department staff, publishing articles in relevant publications and posting on social media. The full list of outreach activities is included in Appendix 1.
10. This paper provides an overview of the informal feedback received by staff while conducting outreach activities. This feedback will also be considered when analysing the submissions received.
11. The DP comment period closed on 15 November 2019. We are currently in the process of analysing the submissions received. At this meeting, we will give the Board a general overview of the feedback. We will present a more detailed analysis of the submissions at the Board's meeting in February 2020.

Structure of this memo

12. The remaining sections in this memo are as follows.
 - (a) Summary of informal feedback from outreach activities
 - (b) High-level information on the submissions received
 - (c) Next steps

Summary of informal feedback from outreach activities

13. The following is an overview of the informal feedback received during outreach activities:

- (a) SMC 1 – Importance of maintaining close alignment between PBE Standards and IPSAS:
Overall, there seemed to be more support at outreach events for a more flexible approach to the development of PBE Standards. In particular, constituents working in or with the NFP sector tended to prefer the prioritisation of local considerations over close alignment with IPSAS. On the other hand, while some public sector representatives supported more flexibility, others expressed strong views in favour of maintaining close alignment with IPSAS. Key points in support of more flexibility included the importance of ensuring that PBE Standards are suitable for New Zealand PBEs – particularly NFPs, which mostly have a local focus – given that IPSAS are being developed for a wide range of international constituents and focus on public sector-specific issues. Key points in support of close alignment with IPSAS included enhanced credibility and international comparability, the importance of using standards developed through an international due process, and for New Zealand as a global citizen to be seen as supporting the IPSASB as an international Board.
- (b) SMC 2 – Importance of harmonisation with Australia for Tier 2 for-profit disclosures:
During outreach, SMC 2 was subject to less discussion than the other two SMCs. We heard some views that it would be preferable to wait for an international reduced disclosure regime to become available, rather than changing the Tier 2 disclosure regime in New Zealand to align with the upcoming proposed changes in Australia. However, we also heard a view that harmonisation with Australia for Tier 2 disclosures is important, due to Australia and New Zealand being major trading partners.
- (c) SMC 3 – Do the PBE tier size criteria need to be revisited?: Overall, attendees at outreach events tended to be comfortable with the PBE tier size criteria amounts. However, one topic that was raised at several outreach events was the possibility of adding an asset-based threshold to the PBE tier criteria – particularly to address concerns about asset-rich charities reporting in Tier 4.
- (d) General feedback: During outreach, we did not receive feedback on any significant unintended consequences or new developments that would require refinements to the ASF. The overall view expressed was that the current Framework based on a multi-standard, tiered approach was working well and achieving its desired objectives.

Feedback from targeted outreach activities

14. The following table summarises the feedback received by staff while conducting targeted outreach with key stakeholder groups.

Table 1 Summary of informal feedback received from targeted outreach

Targeted Review Roundtable – Public Sector (focus on SMC 1)	
SMC 1	<p>Most attendees strongly supported the status quo and considered it important to maintain close alignment between PBE Standards and IPSAS. Reasons included the following views.</p> <ul style="list-style-type: none"> • Close alignment with IPSAS is important for the credibility of New Zealand and its public sector. • Close alignment with IPSAS enhances international comparability. • The status quo is working well: the level of flexibility within the current approach is sufficient, and mixed group issues resulting from the “time lag” between IPSAS and IFRS Standards are manageable through the consolidation process. • The XRB has sufficient input into the IPSASB’s standard-setting process to ensure that matters important to New Zealand constituents are considered. • There is a risk that a more flexible approach to developing PBE Standards could go too far – it could bring PBE Standards too close to IFRS Standards (which is inconsistent with the ASF’s multi-sector approach), or it could move the XRB too close to being a “standards maker”. <p>However, another attendee noted that more flexibility to develop PBE Standards ahead of the IPSASB could lead to more consistent accounting treatment across the for-profit and PBE sectors for transactions that are similar in substance. The attendee thought that such consistency is important and would be beneficial for “mixed groups”.</p>
SMC 3	The attendees were comfortable with the current PBE tier size criteria, and preferred to keep them aligned with the statutory financial reporting thresholds for for-profit entities.
General	<p>It was noted that the ASF was generally working well.</p> <p>An attendee suggested that it would be useful to develop a framework for determining RDR concessions for Tier 2 PBEs, and that these concessions should not necessarily be the same as for for-profit entities.</p>
Targeted Review Roundtable – NFP Sector (focus on SMC 1 and SMC 3)	
SMC 1	<p>Most attendees did not consider close alignment with IPSAS to be important for New Zealand NFPs. Attendees noted the following points in favour of a more flexible approach to developing PBE Standards.</p> <ul style="list-style-type: none"> • More flexibility could lead to more consistent accounting requirements (where appropriate) across the for-profit and NFP sectors – this would help address “mixed group” issues, and reduce confusion for directors who serve on the boards of both for-profit and NFP entities. • There are probably not many charities in New Zealand that report internationally. <p>One attendee noted that close alignment with IPSAS is useful for some entities that report to an international group. However, that attendee also noted the large “time lag” between IPSAS and IFRS Standards as a concern, given that many international NFP parent entities are reporting under IFRS Standards.</p> <p>Some attendees noted that the XRB has already demonstrated some flexibility in the past (for example, with PBE IFRS 9), and the decision on when (and if) to move ahead of the IPSASB should continue to be considered on a case-by-case basis.</p>
SMC 3	Attendees did not have significant concerns about the current PBE tier size thresholds. However, they discussed the possibility of asset-based thresholds. An attendee noted hearing concerns about charities with high asset values but low expenditure reporting under Tier 4.
General	Comments were made about the NFP sector “coming a long way” over the past five years since the ASF was introduced, and that NFPs are now sufficiently familiar with the ASF to know what standards they need to apply – hence now is not the time to consider introducing significant change.

Table 1 Summary of informal feedback received from targeted outreach

Discussion with XRAP	
SMC 1	<p>XRAP members generally supported more flexibility in developing PBE Standards. Members noted that possible reasons for maintaining close alignment with IPSAS could be international comparability, enhanced credibility, cost savings and meeting the information needs of international funders. However, members heard during the discussion that countries comparable to New Zealand are either taking a flexible approach to developing NFP standards based on IPSAS or a not using IPSAS at all, the IPSASB has certain challenges around resources, more flexibility would not necessarily result in a significant increase in costs for the XRB, and international funders are more interested in alignment with IFRS Standards than alignment with IPSAS.</p> <p>One member noted that with a more flexible approach, in situations where the XRB develops a PBE Standard ahead of the IPSASB it would be important to avoid having a “second round” of changes in accounting requirements when the IPSAS is eventually issued.</p>
SMC 2	<p>One member commented that they would prefer waiting for an international Tier 2 disclosure regime to become available (as a result of the IASB’s project on “Subsidiaries that are SMEs”), rather than changing the approach to developing Tier 2 for-profit disclosures to align with the upcoming proposed changes in Australia. The member noted that New Zealand Tier 2 entities with trans-Tasman connections often need to use special purpose or Tier 1 requirements for the purpose of reporting in Australia. Therefore, a temporary lack of harmonisation with Australia for Tier 2 for-profit disclosures would not cause significant issues.</p>
SMC 3	<p>No significant concerns were noted regarding the current PBE tier size thresholds. However, XRAP members discussed the possibility of asset-based and revenue-based thresholds.</p>
Discussion with TRG	
SMC 1	<p>Most TRG members seemed comfortable with more flexibility in developing PBE Standards. Reasons included the following.</p> <ul style="list-style-type: none"> • More flexibility could improve consistency between NZ IFRS and PBE Standards (where relevant) – this would help reduce “mixed group” issues, allow PBEs to benefit from the more extensive IFRS-related guidance, and assist practitioners in maintaining their knowledge of both suites of standards. • Recent IPSASB EDs and standards focus on major public sector-specific issues that could have a big impact in New Zealand – it is important to carefully consider the consequences of applying these standards in New Zealand and to have flexibility around whether and how they are adopted into PBE Standards. • Future IPSAS focusing on major public sector-specific issues might not necessarily address the needs of New Zealand NFPs. • It is important that the ASF and the resulting standards are fit-for-purpose in New Zealand. • On the international stage, Europe is developing “EPSAS”, rather than adopting IPSAS. <p>However, some members expressed caution regarding taking a more flexible approach, noting the following arguments in support of close alignment with IPSAS.</p> <ul style="list-style-type: none"> • Close alignment with IPSAS means that New Zealand can benefit from the IPSASB’s international due process and expertise. • Adopting a more flexible approach could negatively affect our relationship with the IPSASB and the IPSASB’s credibility as an international standard setter. • More flexibility could increase the costs of standard setting in New Zealand. • International comparability and alignment with international views on public sector matters could be important for the public sector. • The current approach already provides flexibility where needed.

Table 1 Summary of informal feedback received from targeted outreach

SMC 2	The members who expressed a view on this matter thought that harmonisation with Australia for Tier 2 disclosure requirements was not highly important. They considered that waiting for an international Tier 2 disclosure regime to become available would be preferable to changing the approach in New Zealand to align with the upcoming proposed changes in Australia, and then changing it a second time to align with the international regime. It was also mentioned that New Zealand Tier 2 entities forming part of trans-Tasman groups often need to use special purpose requirements or disclosures specified in group reporting packages for the purpose of reporting in Australia.
SMC 3	TRG members did not have significant concerns about the current PBE tier size thresholds. However, some members suggested exploring the possibility of an asset-based threshold, to address concerns around asset-rich charities reporting in a low tier due to low expenditure.
Discussion with Treasury representatives	
SMC 1	<p>Overall, the attendees agreed that more flexibility in developing PBE Standards makes sense, but it is important not to go too far in this regard.</p> <p>The following points were noted in favour of a more flexible approach.</p> <ul style="list-style-type: none"> • The IPSAS suite is currently “out of sync” with IFRS Standards. • The IPSASB has a very full work programme, but it has challenges around resourcing. • While the IPSASB has been focusing a lot on the concepts underlying new standards, sometimes it does not have enough time to focus on drafting the wording in these standards (i.e. making sure that the wording is clear and would be interpreted as intended). Under a more flexible approach, it would be easier for the XRB to ensure that the wording of PBE Standards based on IPSAS is clear and makes sense in New Zealand. <p>However, attendees noted the importance of aligning PBE Standards with international standards – i.e. IPSAS or, in some cases, IFRS Standards. The following points were noted.</p> <ul style="list-style-type: none"> • Alignment with international standards provides a protection mechanism – it is easy to justify PBE Standards when they are closely based on international standards, which have been through an international due process. • It is important that accounting standards are not influenced by politicians – close alignment with international standards ensures that this is the case. • New Zealand is not unique, therefore in general it would not need its own unique standards that are different to international standards. There needs to be a fundamental reason to depart from international standards. <p>Attendees were also cautious about moving too far away from close alignment with IPSAS, noting the following benefits of close alignment.</p> <ul style="list-style-type: none"> • It is important to support the IPSASB and its international framework. • A more flexible approach could put more pressure on the XRB’s resources. • The issuing of major standards tends to be cyclical – the IPSASB might catch up to the IASB in the future. <p>Other points noted by the attendees were as follows.</p> <ul style="list-style-type: none"> • It is important to consider what more flexibility would mean for the XRB’s work plan. • Flexibility should be implemented on a case-by-case basis – sometimes it might make sense to wait for the IPSASB.

Feedback from general outreach events

15. Feedback received during general outreach activities is summarised in Table 2.

Table 2 Summary of informal feedback received from general outreach

Presentation at Public Sector CFO forum	
SMC 1	Of those attendees who voted in a show of hands, more voted for more flexibility than for maintaining close alignment with IPSAS.
Webinar	
General feedback	Using a poll, we asked webinar attendees whether they agree that the ASF is working well. Of the attendees who voted, 39% thought the ASF was working very well, and 61% thought the ASF was working well, but there is room for improvement. No-one voted for “substantial changes to the ASF are required”.
Presentation to CPA Australia members (Auckland) – NFP focus	
SMC 1	Of those attendees who expressed a view, most voted for of more flexibility.
Presentation to Auckland University of Technology accounting department academic staff	
SMC 1	Those attendees that had a view on the matter voted for more flexibility (although there was also a suggestion to go back to sector-neutrality). A view was expressed that for many PBEs, including most charities, international comparability is generally not important.
SMC 2	One view was that harmonisation with Australia is generally important, due to Australia being a major trading partner of New Zealand. However, another view questioned the current and future importance of harmonisation with Australia.
SMC 3	Some attendees noted that smaller charities are struggling to understand and comply with their reporting requirements. There was discussion on the possibility of introducing another tier for very small charities, and a suggestion that small charities should report only service performance information (not financial information).
Presentation to CA ANZ members (Wellington)	
SMC 1	<p>Most attendees did not express a view on this matter, but those who did expressed support for more flexibility. An attendee who supported more flexibility noted that:</p> <ul style="list-style-type: none"> the imperative for close alignment with international standards in the for-profit sector does not translate well to the PBE sector, and; as a “social lab”, New Zealand should be able to innovate in the PBE space. <p>Other points noted by attendees included:</p> <ul style="list-style-type: none"> the importance of close alignment with IPSAS depends on the size of the entity and whether it has a local or global focus, and; alignment with international standards is important for entities searching for capital investment.
SMC 3	There was some support for increasing the PBE tier size thresholds. A question was raised as to whether the costs of complying with the requirements in each tier have been quantified.

Table 2 Summary of informal feedback received from general outreach

Presentation to CPA Australia members (Wellington)	
SMC 1	<p>Of those attendees who expressed a view on this matter, more supported more flexibility. Comments in favour of more flexibility included:</p> <ul style="list-style-type: none"> • Very few charities in New Zealand need alignment with international standards, and; • The important question is how much weight is given to close alignment with IPSAS as compared to more flexibility, and the timing of when IPSAS are issued could affect this weighting in favour of more flexibility. <p>On the other hand, comments in favour of close alignment with IPSAS included:</p> <ul style="list-style-type: none"> • It is important to be part of the international community, and; • More flexibility to move ahead of the IPSASB would mean that PBE Standards change at a faster rate that NFPs might struggle to keep up with. <p>A question was raised as to whether any research was carried out to determine the needs of users in the NFP sector.</p>
SMC 3	<p>No comments were made about the current PBE tier size thresholds. However, an attendee expressed concern about asset-rich charities being able to report under Tier 4. Another attendee expressed concern about the possible "Tier 5" (i.e. possible exemptions from applying XRB standards for small charities) discussed as part of the Charities Act review.</p>
General feedback	<p>There was some discussion about the rationale for applying PBE Standards to both the public sector and the NFP sector, given the differences between these sectors.</p>

16. We also heard comments on matters that are outside the scope of the Targeted Review. For example, an attendee at a general outreach event criticised the requirement to prepare consolidated financial statements, and there were some discussions among attendees regarding the audit requirements for charities.

High-level information on the submissions received

Number of submissions and respondent information

17. At the time of writing we have received 16 submissions, comprising 9 submissions uploaded as documents (formal submissions) and 7 online feedback forms submitted through our website. We expect to receive three more formal submissions, which will bring the total number of submissions received to 19.
18. The formal submissions received to date are from the following respondents.
- Auckland Council
 - BDO
 - CA ANZ
 - Carolyn Cordery
 - Charities Services
 - CPA Australia
 - KPMG
 - OAG
 - PWC

19. We are currently treating the seven online feedback forms as confidential submissions, for the following reasons.
 - (a) Of the respondents who submitted online feedback forms, some specifically requested their feedback to be confidential, while others did not. However, we assume that some of those respondents that did not request confidentiality may still prefer not to have their name made publicly available.
 - (b) Given the nature of the online feedback form, it is not always clear whether the feedback represents the personal views of the respondent, or those of the respondent's organisation.
20. The majority of the respondents who submitted online feedback forms work for PBEs (three NFP PBEs and two public sector PBEs). One respondent works for a for-profit entity and one did not specify the type of organisation. Most of these respondents (or their organisations) appear to be preparers of financial statements. The tiers under which these respondents prepare financial statements range from Tier 1 to Tier 3.
21. The formal submissions received are attached as agenda items 4.2.1–4.2.9 (we expect to receive three more formal submissions, to be added as agenda items 4.2.10–4.2.12). The combined comments from the online feedback forms are attached as agenda item 4.2.13.

High-level summary of feedback

22. The following is a high-level summary of the feedback received. The summary is based on an initial high-level reading of the submissions and is intended to show the general direction of the comments received. It is not a complete analysis of the submissions. Staff will perform a detailed analysis of the submissions and will present it to the Board in February 2020.

SMC 1: The importance of close alignment between PBE Standards and IPSAS

23. Fifteen out of 16 respondents commented on this SMC.
24. Overall, the majority of respondents supported a more flexible approach to developing PBE Standards and thought that local considerations should be prioritised over close alignment between PBE Standards and IPSAS.
25. Five respondents considered close alignment between PBE Standards and IPSAS to be important and favoured maintaining the status quo. Reasons for supporting close alignment with IPSAS included enhanced credibility and international comparability for the New Zealand Government and public sector, cost-effectiveness, ability to benefit from international due process, importance of supporting the IPSASB's international standard-setting efforts, and the risk that "moving ahead" of the IPSASB could result in multiple rounds of accounting changes.

26. Ten respondents considered the prioritisation of local considerations to be more important than close alignment between PBE Standards and IPSAS. These respondents favoured a more flexible approach to developing PBE Standards (except that one respondent did not specifically mention more flexibility but seemed to favour alignment with IFRS Standards where relevant). Reasons for supporting more flexibility included enhanced ability to address issues arising from the “time lag” between IPSAS and IFRS Standards, including “mixed group” issues; ability to address local issues in a more timely manner; the importance of similar accounting treatment across the sectors for transactions of similar substance; the importance of standards being fit-for-purpose for New Zealand PBEs and users, and; the risk that new IPSAS developed to meet the needs of a wide range of jurisdictions might not fully meet the (relatively more sophisticated) needs of New Zealand constituents.

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

27. Eleven out of the 16 respondents commented on this SMC.
28. Overall, the majority of respondents considered harmonisation with Australia for Tier 2 for-profit disclosures to be important.
29. Nine respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important. However, two of these respondents intend to recommend to the AASB to delay the mandatory application of the proposed changes to the Australian Tier 2 regime, and one respondent notes that some divergence in disclosure could be tolerable if the recognition and measurement policies are clearly understandable to users.
30. Two respondents were of the view that harmonisation with Australia for Tier 2 for-profit disclosures is not overly important and preferred to wait for an international Tier 2 regime (resulting from the IASB’s project on Subsidiaries that are SMEs) to become available, rather than making changes in New Zealand to align with the upcoming proposed changes to the Australian Tier 2 regime.

SMC 3: Do the PBE tier size criteria need to be revisited?

31. All 16 respondents commented on this SMC.
32. Overall, most respondents were not aware of significant unintended consequences or new developments that would require changes to the current PBE tier size thresholds. The following types of responses were received.
 - (a) Only three respondents considered that changes to the existing tier size thresholds were needed – they proposed increasing the \$2m threshold between Tier 2 and Tier 3.
 - (b) Seven respondents noted that they are not aware of any significant issues and did not think changes to the tier size thresholds are needed.
 - (c) Four respondents did not mention significant issues, but noted the importance of regularly reviewing the tier size thresholds for factors like inflation, growth in the charities sector, and new accounting standards that cause changes in reported expenses.

- (d) Two respondents suggested considering additional tier criteria for PBEs (in addition to expenditure): one respondent suggested an asset-based threshold, and another suggested considering the level of “public interest” in the organisation.
- (e) One respondent noted the importance of considering the impact of the upcoming legislative changes for incorporated societies.

General feedback on the application of the ASF

- 33. Thirteen of the 16 respondents commented on the application of the ASF in general.
- 34. Respondents did not note any significant unintended consequences that require refinements to the ASF. In terms of new developments, a respondent noted the proposed amendments to the Public Finance Act 1989 to provide for an increased focus on wellbeing and intergenerational sustainability, and wondered how this may impact the development of accounting standards for PBEs. No other new developments that could require refinements to the ASF were noted.
- 35. Having said this, two respondents noted that the ASF is complex, and one respondent noted that the definition of public accountability could be clearer. A respondent also noted the challenges faced by small charities and expressed support for the upcoming standards-level review of the Tier 3 and Tier 4 standards for PBEs.

Next steps

- 36. We will continue analysing the submissions received and will present a detailed analysis of the submissions and a proposed project plan (for the remaining stages of this project) in February 2020.

Attachments

- Agenda item 4.2: Submissions received (including formal submissions and online feedback forms)
- Agenda item 4.3: Summary Document (in supporting papers)

Appendix 1 Outreach activities – Targeted Review of the ASF

Date (2019)	Outreach activity
31 July	Discussion Paper and Summary Document issued, Targeted Review webpage launched
31 July	Emails with links to DP, Summary Document and website sent to the members of all three Boards and the Targeted Review Working Groups
1–9 August	Emails sent to TRG members, XRAP members, universities (heads of accounting departments) and other key contacts
2 August	LinkedIn post – notifying that the DP was issued and encouraging feedback
2 August	XRB Update issued – special edition, focusing on the Targeted Review
12 August	NZASB Update – notifying that the DP was issued and providing links to the website
14 August	Presentation at Public Sector CFO forum
16 August	NFP Update issued, including an article on the Targeted Review
21 August	Webinar on the Targeted Review (Previously advertised in an XRB Update, NZASB Update and on LinkedIn)
August–September	LinkedIn posts, including “sound bite” posts on each of the three SMCs
16 September	Targeted Review Roundtable meetings: <ul style="list-style-type: none"> • Public Sector Roundtable (focus on SMC 1) and; • NFP Roundtable (focus on SMC 1 and SMC 3)
18 September	Presentation to CPA Australia members (Auckland) – with focus on NFPs
19 September	Discussion at XRAP meeting
24 September	Discussion at TRG meeting
27 September	Fundraising NZ Magazine publishes our article on the Targeted Review (with focus on charities)
15 October	CA ANZ publishes our “Perspective” article on the Targeted Review in its Reporting and Assurance newsletter
16 October	Presentation to AUT accounting department academic staff
29 October	Discussion with Treasury representatives – focus on SMC 1
4 November	Presentation to CPA Australia members (Wellington)
6 November	Presentation to CA ANZ members (Wellington)
7 November	LinkedIn post – encouraging submissions, highlighting the ease of using the online feedback form
11 November	LinkedIn post – reminding the submissions are due by the end of this week
15 November	LinkedIn post – last day for submissions

14 November 2019

April MacKenzie
Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Dear April

Auckland Council's submission to Targeted Review of New Zealand Accounting Standards Framework

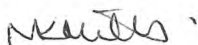
Thank you for the opportunity to comment on the discussion paper on the Targeted Review of New Zealand Accounting Standards Framework.

Auckland Council is Australasia's largest local government entity and is made up of the council and six substantive council-controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations.

We have provided our responses to the specific questions for the respondents in Appendix 1 to this letter, along with our additional comments for the XRB's consideration.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang using the details provided below.

Yours sincerely



Nicola Mills
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Section A: Questions for Respondents

General Comments

1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?

We are not aware of any additional developments in the financial reporting environment or any unintended consequences requiring refinements to the Accounting Standards Framework.

2. Do you have any other comments about the Accounting Standards Framework?

We do not have any other comments about the Accounting Standards Framework.

Specific Matters for Comment (SMCs)

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

Question 3: Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?

Please provide reasons for your response.

From Auckland Council Group's point of view, we are in favour of prioritising local consideration to ensure that PBE Standards are "fit for purpose" for the New Zealand environment. This is because Auckland Council Group is a mixed group with a subsidiary reporting under IFRS and debt instruments listed in New Zealand, Singapore and Switzerland. We believe it is important for the accounting of transactions of the same substance for there to be close alignment between PBE standards and NZ IFRS (transaction neutrality); unless the NZASB believe there is a clear public sector reason to deviate. This eliminates the need to account for differences between NZ IFRS and PBE IPSAS upon consolidation while providing investors with financial information prepared using accounting standards that are not significantly different from IFRS.

Compliance costs are also a factor in considering whether a PBE standard is “fit for purpose”. Public benefit entities, including not-for-profit entities are mainly funded by monies collected from taxpayers, ratepayers and donors. This places a duty on these organisations to ensure prudent management of public funds, with minimal waste or unnecessary costs. When considering whether to require a change in accounting treatment the benefits to public sector stakeholders must outweigh the cost of implementation.

Where a new IPSAS proposes an accounting treatment which differs from an existing IFRS standard, the benefits to the user must outweigh the costs of deviating. A current example is the proposed fair valuation of concessionary leases under ED64, where the compliance costs to implement the standard will be significant, with little benefit to users. Alternative narrative disclosures may provide useful information to users in a cost-effective way, ensuring better use of public funding. Compliance costs should always be considered where the “theoretical” approach on paper may not be the most suitable approach in practice.

We note IPSAS are developed to suit a wide range of jurisdictions around the world, and as such is not at the stage where all local considerations can be considered. New Zealand PBEs are relatively advanced compared to many other constituents in IPSASB, for example the preparation of New Zealand general purpose financial reports (GPFR) on an accrual basis. There is a risk that IPSASB may develop standards which are not suitable for the advanced minority such as New Zealand. “Fit for purpose” should be a key indicator of whether an IPSAS standard, or parts of, should be adopted. As adoption of IPSAS increases, the risk of IPSAS not being relevant for New Zealand decreases, because more of the standard setters will be the standard users.

Question 4: If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

We do not think that close alignment is more important than prioritising local considerations.

Question 5: If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under [Option 2 in Chapter 4 of the Discussion Paper](#)?

Flexibility to consider whether to incorporate IPSAS into PBE Standards rather than maintaining close alignment with IPSAS

We agree with the proposed Option 2 in Chapter 4 of the Discussion Paper. In this situation, the NZASB will be the PBE standard setters, and the key considerations when setting PBE standards will be what works for New Zealand, rather than what modifications should be made to IPSAS to fit New Zealand.

Where a new IPSAS is issued, NZASB has the option to incorporate as much of IPSAS as possible, where the outcomes benefit NZ PBEs, such as improving the quality of financial reporting. Key situations which can be avoided are:

- 1) incurring costs to comply with IPSAS without any financial reporting benefit to users of NZ PBEs
- 2) NZ PBEs fundamentally disagreeing with accounting treatments proposed by IPSAS
- 3) newly issued IPSAS which are not relevant to the NZ Public Benefit Entity.

Developing IFRS equivalent standard for PBE sector ahead of IPSAS rather than waiting for IPSASB to complete an alignment project

We agree with this suggestion as this helps to eliminate the need of preparing consolidation adjustments to account for difference between IFRS and IPSAS for a mixed-group entity like Auckland Council.

With IPSASB lagging in this aspect, New Zealand can contribute by taking a proactive role in developing an IFRS equivalent standard to address public sector needs. Should IPSASB decide to develop a similar standard in future, New Zealand would be in a good position to provide useful recommendation to refine the requirement of standard after going through the thought process and implementation stage.

Question 6: Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

We do not have further comments.

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

Question 7: How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Question 8: If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

Please provide reasons for your response.

Australia is one of New Zealand's largest trading partner. We believe aligning New Zealand's accounting standards with Australia is very important for comparability purposes.

More than 90% of New Zealand companies are small medium enterprises and there are companies that report using Tier-2 for-profit regime with operations in both Australia and New Zealand. These entities would benefit from retaining harmonisation with Australia.

Question 9: Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

We do not have further comments.

SMC 3: Do the PBE tier size criteria need to be revisited?

Question 10: Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We are not aware of any.

Question 11: If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

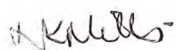
We believe the current PBE tier size is still fit for purpose.

Question 12: Do you have any other comments on the tier size criteria for PBEs?

We do not have further comments.

Text to be input into online submission form.

Approved by:



Nicola Mills
GM Financial and Business Performance

Date: 13 /11/2019



Matthew Walker
Group Chief Financial Officer

Date: 13 /11/2019

12 November 2019

Mr Warren Allen
The Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington
6142

Dear Sir

Requests to comment on Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework*

Thank you for the opportunity to comment on the above Discussion Paper.

We are making this submission to you to assist the External Reporting Board (XRB) with the above Discussion Paper. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

Overall we are supportive of the proposals contained in the Discussion Paper.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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Audit Technical Director

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Appendix 1 - Response to questions

Question	Response
General Comments	
<p>Question 1</p> <p>Are you aware of any other developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?</p>	<p>We are not aware of any such other developments.</p>
<p>Question 2</p> <p>Do you have any other comments about the ASF?</p>	<p>We have no further comments.</p>
SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS	
<p>Question 3</p> <p>Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important? Please provide reasons for your response</p>	<p>Yes, we agree that the XRB should prioritise local New Zealand considerations when developing PBE standards, to ensure these are "fit for purpose".</p> <p>The time lag in the IPSASB addressing accounting issues that have been addressed in the IFRS standards by the IASB can lead to significant divergence in accounting between for-profit and public benefit entities, which can lead to significant consolidation issues in mixed groups. This is not ideal and can add significantly to consolidation costs and efforts.</p> <p>In addition, as there is a lack of guidance for IPSAS standards, the current default position for any unusual or complex transactions is to revert back to IFRS guidance. Thus any major divergence between IPSAS standards and IFRS standards is problematic, and could lead to significant divergence in practice between PBE entities, which is not desirable.</p>
<p>Question 4</p> <p>If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?</p>	<p>N/A</p>

<p>Question 5 If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?</p>	<p>Yes, we agree that prioritising local considerations is more important.</p> <p>We are firmly of the view that PBE standards should be aligned as closely as possible to NZ IFRS standards.</p>
<p>Question 6 Do you have any other comments on the way IPSAS are used as the base for PBE Standards?</p>	<p>IPSAS standards are written for the public sector and are not aimed at not-for-profit entities.</p> <p>The requirements in the NZ IFRS standards may make more sense for not-for-profit entities in certain scenarios compared to IPSAS requirements.</p> <p>Thus it would be beneficial for the NZASB to have more flexibility in moving away from IPSAS standards (where applicable) in setting PBE standard requirements for not-for-profit entities.</p>
<p>SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures</p>	
<p>Question 7 How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements? Please provide reasons for your response.</p>	<p>We do not believe that it is vitally important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements.</p> <p>In our experience, there is very little overlap between Tier 2 entities in New Zealand and Australia in relation to group reporting requirements. In addition, if there are Trans-Tasman reporting requirements, entities tend to issue group reporting packages which detail the required disclosures for the parent entity, which often exceed what is required by Tier 2 entities.</p> <p>We are aware that Australia is in the process of reforming its Tier 2 disclosure requirements. We are also aware that the IASB is investigating a new small entity disclosure regime for entities that are subsidiaries and it is likely that both New Zealand and Australia could adopt this framework in the future.</p>

	<p>We would be very hesitant in requiring entities to harmonise with the (to be) updated Australian requirements in a few years and then requiring them to change again in a few years after that to comply with the (future) IASB requirements (if these are considered suitable).</p> <p>It is our experience that the Tier 2 framework as it currently stands works well and is fit-for-purpose for the vast majority of entities that report thereunder.</p>
<p>Question 8</p> <p>If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?</p>	<p>We do not see this as being important at the present time.</p>
<p>Question 9</p> <p>Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?</p>	<p>We have no further comments.</p>
<p>SMC 3: Do the PBE tier size criteria need to be revisited?</p>	
<p>Question 10</p> <p>Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?</p>	<p>We are not aware of any such unintended consequences.</p>
<p>Question 11</p> <p>If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?</p> <p>Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.</p>	<p>We do not believe the PBE tier size criteria should be revisited.</p>
<p>Question 12</p> <p>Do you have any other comments on the tier size criteria for PBEs?</p>	<p>We have no further comments.</p>

Appendix 2 - Information on BDO

1. BDO New Zealand is a network of ten independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency supporting over 28,000 SME, mid-market and corporate clients.
3. BDO in New Zealand has 88 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 70,000 people in over 1,500 offices across over 162 countries and territories.

14 November 2019

Warren Allen FCA
Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

By email: submissions@xrb.govt.nz

Dear Warren

Submission on Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework

We appreciate the opportunity to provide feedback on the above Discussion Paper ("the DP"). We agree it is a good time to 'check in' with constituents on whether the Accounting Standards Framework (ASF) is functioning as anticipated and is achieving its original objectives.

Our feedback indicates that the framework is generally working well, although we consider that the board should do whatever is procedurally necessary to ensure that it is able to promptly address local issues. It also needs to consider legislative moves around introducing asset thresholds to avoid the framework and legislation becoming inconsistent.

Appendix A contains our responses to the specific questions raised in the DP. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ).

We would be pleased to provide further information or assist in any way that may be helpful as you continue work on this important review. If you have any questions about our submission, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at Zowie.Pateman@charteredaccountantsanz.com.

Yours sincerely

Amir Ghandar CA
Leader, Reporting and Assurance

Simon Grant FCA
Group Executive, Advocacy and Professional Standing

Appendix A

Responses to specific questions

General comments

- 1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?**

We believe the DP sufficiently covers the developments in the financial reporting environment.

- 2. Do you have any other comments about the ASF?**

The feedback we have received indicates that the ASF is generally working well.

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

- 3. Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important? Please provide reasons for your response.**

In our view prioritising local considerations is of more benefit to the New Zealand framework than maintaining close alignment with IPSAS. The challenges of the current approach, which are discussed in Section 4C of the DP (e.g. time lag between IFRS projects and IPSASB projects), are producing issues locally which stakeholders wish to have addressed in a timely manner. Also, we are not hearing a demand to move *towards* adoption of 'pure' IPSAS.

- 4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?**

Not applicable.

- 5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?**

We agree the 'bar' is currently too high to permit the prioritisation of local considerations with relative ease, so we support a change to the XRB's policy to allow for more flexibility in this regard.

On this basis we support amending the PBE Policy Approach to allow the NZASB more flexibility to (i) modify IPSAS when developing PBE Standards; and (ii) develop PBE Standards ahead of the IPSASB, as suggested under Option 2 in Section 4D of the DP.

In the case of (ii) however, the timing of any two-step approach to change needs to be carefully considered to ensure that going ahead of the IPSASB, rather than waiting is the more cost-effective option for both standard setters and preparers.

6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

No further comments.

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements? Please provide reasons for your response.

We consider that maintaining harmonisation with Australia remains as important to constituents now as it was in the original ASF consultation. However, we do not believe the NZASB should immediately respond to the pending changes to the Tier 2 regime in Australia.

CA ANZ and CPA Australia's joint submission to the AASB on ED 295 will be recommending a two-year delay to the mandatory adoption of these reforms, allowing time to address several identified challenges. One of these is our concern about Australian Tier 2 for-profit entities with New Zealand reporting obligations. A delay will allow the IASB time to progress or conclude its 'Subsidiaries that are SMEs' project before the NZASB (and the AASB) addresses this issue further. Our aim is to avoid existing Tier 2 entities in either country needing to make multiple structural changes to their disclosure framework.

8. If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

The implementation of the Tier 2 for-profit reporting framework in both Australia and New Zealand was designed to increase the ease with which both businesses and people can operate across the Tasman for this group of entities. This is in keeping with the [Single Economic Market \(SEM\) agenda](#) - which builds on the foundation of the [Closer Economic Relations \(CER\) agreement](#) - to create a seamless trans-Tasman business environment.

The AASB's 'special purpose reforms' that will mandate the application of the recognition and measurement requirements for all Australian Tier 2 for-profit entities further this original objective by enforcing a framework that is consistent with the New Zealand requirements. We are therefore supporting these reforms in Australia.

However, the planned amendments to the Australian Reduced Disclosure Regime that support these special purpose reforms pose a challenge for Australian Tier 2 for-profit entities with New Zealand reporting obligations. These entities do not need to make recognition and measurement changes but would have their dual reporting obligations complicated by differing disclosures in the short term. This concern is one of the reasons that supports our call for a delay to the mandatory adoption of the AASB's ED 295. Such delay will allow the opportunity for these disclosures to be more closely realigned as discussed in Question 7.

9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

Given the demand for a new Tier 2 disclosure regime in Australia, the AASB has indicated¹ it does not see the IASB's research project on 'Subsidiaries that are SMEs' as its short-term solution. Instead it expects that its work will inform the IASB project and that only in the longer term will its outcomes replace the AASB's current Tier 2 proposals in the interests of international harmonisation. Therefore, we do not consider that the benefits of following the AASB in the interim then adopting the IASB solution will exceed that of waiting for the IASB solution for existing Tier 2 entities.

SMC 3: Do the PBE tier size criteria need to be revisited?

10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We believe introducing an asset-based threshold to the PBE size criteria should be considered to avoid additional complexity in the financial reporting framework that may arise if potential asset-based changes to relevant legislative thresholds proceed.

We note that the review of the Charities Act 2005² includes consideration of the introduction of a new 'micro-entity' tier for registered charities with \$10,000 or less operating expenditure (which we believe was meant to be payments) whereby entities would not have to prepare a general purpose financial report (GPFR). We understand a number of submitters raised the possibility of a dual-test that includes an asset-based measure. This is because there are a few entities that have very low levels of operating payments but own assets of significant value, and there is a view that using cash accounting does not provide adequate information to users on the stewardship around such assets.

In addition, the forthcoming Incorporated Societies Bill³ proposes GPFR be required for entities who satisfy one or more of the following criteria:

- Annual payments of \$10,000 or more
- Assets of \$30,000 or more
- "Donee status" under the Income Tax Act 2007.

Given about one third of all incorporated societies are also registered charities, we consider it important to ensure there is conceptual alignment between the legislative thresholds for the requirement to prepare GPFR for charities and incorporated societies. Our views on alignment also extend to the PBE tier criteria in the ASF.

¹ http://www.aasb.gov.au/admin/file/content105/c9/ACCED295_08-19.pdf BC24

² [https://www.dia.govt.nz/diawebsite.nsf/Files/Charities-Modernising-the-Charities-Act-Discussion-Documents-April2019/\\$file/Charities-Modernising-the-Charities-Act-Discussion-Documents-April2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Charities-Modernising-the-Charities-Act-Discussion-Documents-April2019/$file/Charities-Modernising-the-Charities-Act-Discussion-Documents-April2019.pdf) page 20

³ <https://www.mbie.govt.nz/assets/57bb1d328b/reform-of-the-incorporated-societies-act-1908.pdf> page 12

11. If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)? Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

If an asset-based threshold is introduced to determine which charities and/or incorporated societies need to prepare GPFR, then we recommend that, in the interests of consistency and simplicity, the same approach be taken for the PBE tier criteria in the ASF. This would of course mean that the definition of 'specified not-for-profit entity' (i.e. the Tier 4 PBE criteria) would need to follow suit when it is next reviewed by the MBIE.

We believe the tier thresholds should be designed with research and consideration of the number of entities affected and the appropriate level of risk.

12. Do you have any other comments on the tier size criteria for PBEs?

No further comments.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

15 November 2019

Warren Allen
Chief Executive
External Reporting Board
P O Box 11250
Manners St Central
Wellington 6142

Dear Warren

Submission on Targeted Review of the New Zealand Accounting Standards Framework

Thank you for the opportunity to make a submission on the above Review. I have answered the questions below:

SMC 1: Importance of close alignment between PBE Standards and IPSAS

Q3. Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important? Please provide reasons for your response.

My response is driven by a reflection on the period between 2002 and 2007 when IFRS was imposed upon the public sector and public sector-specific guidance was lost (Cordery & Simpkins, 2016). At that time, and since, there has been a push to meet the needs of users of public sector (and now also charities – private sector) PBEs. The close tie to IPSAS was agreed with the longer term goal of adopting the majority of these standards in order to meet user needs (Cordery & Simpkins, 2016) and to draw on and be part of international efforts to harmonise accounting that meets those user needs. Since then, the IPSASB Conceptual Framework has been developed and many more standards promulgated which raised the attractiveness of the IPSASB suite.

The XRB states the Targeted Review has arisen due to a need to assess when it should 'get ahead of the IPSASB' by following IFRS. Such action involves standard setting effort in New Zealand that is focused on New Zealand (rather than international effort). This effort is a scarce resource wherever it is undertaken and therefore must be used wisely. Where we push domestic issues solely, we run the risk that in 'getting ahead of the IPSASB' New Zealand standards would evolve quite differently from those later developed by IPSASB. If this occurred, a clash could result in standards being changed more frequently than preparers and users would

like and/or moving away from the central strategy of the XRB towards alignment with IFRS for PBE preparers and users. Therefore, I would be concerned that changing the current strategy/policy approach to attempt resolution of issues with domestically-focused standards would result in decisions that are contrary to the intent of the Framework that prioritises users' needs. This could result in not realising the full benefits of this Framework.

Therefore I believe that the 'high hurdle' for changing in the PBE Policy Approach should be maintained.

Q4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

Please see above, the reasoning behind the alignment has been fully discussed since 2009 as being important to meet users' needs across a wide range of entities in both the public and not-for-profit sectors. I do not believe that the environment has changed so radically as to suggest there is a need to change this position.

SMC 3: Do the PBE tier size criteria need to be revisited?

Q10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

No. In respect of charity reporting, the international comparators (e.g. the levels for application of the SORP used by all UK regulators and the filing requirements in the US) have remained unchanged. Further, while I am unaware of specific percentages, anecdotal evidence suggests that a number of charities choose to use higher tiers of reporting than they are required to.

While recognising that this consultation is not about the \$125,000 expenditure break between Tier 3 and 4, this was set at a high level so that current preparers were not required to change much. Research showed that a very small number of charities (7.1% of a stratified sample) were reporting using the cash basis above the \$125,000 expenditure level (Cordery & Sim, 2014), therefore they were the most affected, but at this level of expenditure should be able to follow simple accrual accounting (Tier 3). Further, while other countries use revenue as a basis to define tiers/requirements, Cordery and Sim (2014) showed that when revenues were more private (i.e. investment returns), charities were more likely to use cash reporting. This suggests a further reason (on top of revenue volatility) not to select revenue as an underlying basis to segregate reporting levels. Because investment revenue can be both volatile and private, the use of expenditure as a basis for the tiers appears to be the best way forward.

In addition, using two sets of data from different XRB projects, Cordery, Sim and van Zijl (2017) found that charities with up to \$2 million in expenditure could be segmented into different types based on both their revenues and expenditures. In other words, in general, charities' reliance on certain types of revenues results in certain patterns of expenditures, suggesting that the use of expenditure as a basis for the tiers may not only reduce the dysfunction of revenue volatility, but also that users can expect regular patterns of expenditure and reporting standards to meet those.


Therefore I continue to support expenditure as the factor for segmenting the tiers and have not found evidence to suggest that the \$2 million and \$30 million levels are inappropriate at this stage.

Q12. Do you have any other comments on the tier size criteria for PBEs? Do you have any other comments on the ED?

No.

I trust these comments are helpful.

Yours sincerely,



Professor Carolyn Cordery,
Aston Business School

References:

- Cordery, C. J., & Sim, D. (2014). Cash or accrual: What basis for small and medium-sized charities' accounting? *Third Sector Review*, 20(2), 79–105.
- Cordery, C. J., Sim, D., & van Zijl, T. (2017). Differentiated regulation: The case of charities. *Accounting and Finance*, 57(1), 131–164.
- Cordery, C. J., & Simpkins, K. (2016). Financial reporting standards for the public sector: New Zealand's 21st-century experience. *Public Money & Management*, 36(3), 209–218.



19 November 2019

External Reporting Board

Targeted review of the accounting standards framework

I am pleased to provide a submission to the External Reporting Board ("the XRB") on the Targeted Review of the New Zealand Accounting Standards. Charities Services' functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to prepare financial statements that comply with generally accepted accounting practice.

Our vision is that our work contributes to a well-governed, transparent, and thriving charitable sector with strong public support. We strongly support any changes to the Framework that make it easier for charities to comply, and that promote public trust and confidence in the charities sector. Now that the not-for-profit financial reporting standards have been in place for four years, we support this review as an opportunity to assess whether the Framework is functioning well for charities and the public. It also represents timely consideration of the process by which the financial reporting standards are set to ensure they remain relevant and appropriate for registered charities.

Summary of key points of our submission (more detail is in the appendix)

- We are not aware of any developments in financial reporting by registered charities that would suggest the fundamental features of the Framework are inappropriate.
- In our experience it is more important to registered charities that the financial reporting standards appropriately reflect the environment in which they operate, rather than that they closely align to international standards. We support formalisation of a more flexible approach to setting not-for-profit financial reporting standards to allow for this.
- We do not consider that the benefits of introducing an asset-based threshold to the reporting tier criteria would outweigh the costs to the charitable sector. Given the increase over time in the number of entities that are required to move from Tier 3 to Tier 2 reporting we recommend considering adjustments to the thresholds on a regular basis to reflect the growth of the sector.

While I am aware that this consultation is not considering the specific reporting requirements that apply to small charities, we are keen to engage with you about this. From our experience these charities struggle to meet current reporting requirements. We look forward to discussing how to make it easier for these charities when you start the next phase of the review.

If you have any questions about the matters discussed in this submission or would like to discuss further, please contact Jamie Cattell via email at Jamie.Cattell@dia.govt.nz or via phone at 04 382 3503.

Yours sincerely

Natasha Weight

General Manager – Charities Services Ngā Ratonga Kaupapa Atawhai
Department of Internal Affairs Te Tari Taiwhenua



Appendix A

General Comments: Accounting standards framework

1. As the New Zealand Accounting Standards Framework (“the Framework”) currently stands, Charities Services is not aware of any specific developments in financial reporting by registered charities that would require any changes to its fundamental features.
2. We consider that the split of the Framework into for-profit and Public Benefit Entity (“PBE”) standards is appropriate and allows for it to adequately address the unique circumstances that apply to PBEs, including registered charities. While an argument could be made that not-for-profits represent a third sector requiring an individual set of standards different than that which applies to public sector entities, we do not believe the costs of such an approach would outweigh the benefits. This is particularly true considering the flexibility the XRB has already demonstrated by allowing for differences between the way not-for-profit and public sector entities apply the PBE standards.
3. We also consider that the multi-tier approach is generally appropriate in ensuring the reporting requirements for PBEs reflect their size and nature. While several issues have been raised with us about the specific content of the Tier 3 and Tier 4 standards, none of them have been about use of the multi-tier approach in general. Further, we understand that the content of the Tier 3 and Tier 4 standards will be addressed in a separate review following this targeted review of the framework.

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

4. Most of the comments we receive on the standards relate to disagreement with specific elements of the PBE standards which is true across all reporting tiers. It has not been raised with us that registered charities or their advisors consider it important that PBE standards are closely aligned with IPSAS.
5. However, the feedback we have received on the elements of the standards has indicated that some are concerned they may not have been sufficiently tailored for New Zealand charities. We acknowledge that the XRB has already demonstrated flexibility in its approach to adopting IPSAS and we suggest that formalising this more flexible approach and lowering the threshold at which modifications may be made could help address some of these concerns in the future.
6. In cases where comments have been made which could apply to the Framework directly, they often reflect either:
 - a. Dissatisfaction with the length of time it may take to address any concerns raised. For example, difficulties in applying PBE IPSAS 23; or
 - b. The basis on which standards were adopted. In particular, why IPSAS was used.
7. We also consider that adopting a more flexible approach, which allows for early development of new PBE standards ahead of a related IPSAS, will make it easier to address any concerns in a timely manner.



SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

8. We have no comments on this SMC. As it relates to the for-profit standards, the relevance to registered charities in NZ is limited. While some registered charities control for-profit entities, these are often based and operate entirely in NZ.

SMC 3: Do the PBE tier size criteria need to be revisited?

9. We consider there are two key issues to discuss under this matter. First whether the operating expenditure thresholds need to be altered, and second, whether introduction of an asset-based threshold would be appropriate.
10. Given that the Tier 4 threshold cannot be altered by the XRB, the threshold with the largest potential impact being considered is the Tier 3 threshold of \$2m operating expenditure. Based on our data, moving the threshold would not have a significant impact on the number of entities which are eligible for Tier 3. For example, based on 2018 annual returns, moving the expenditure threshold from \$2m to \$10m would increase the percentage of entities which qualify for Tier 3 by approximately 3%.
11. Despite this, we also note that between 2013 and 2018 there has been a slight upward drift in terms of the number of entities reporting at Tier 3 and Tier 2 from 3% to 4%. This is to be expected while static thresholds are in place. If it is assumed that the Tier distribution as it stands is appropriate, then it would be reasonable to introduce adjustments considered on a regular basis to reflect the growth of the sector over time.
12. While some concerns have been raised with us about entities with large assets being eligible to report under Tier 4 due to its focus solely on operating expenditure, we agree with the preliminary view that introducing an asset-based threshold is not appropriate.
13. The rationale presented in the discussion paper that supports this view is persuasive. In particular, we agree that due to the nature of the assets held by these entities (generally endowment funds and heritage assets), introduction of an asset-based threshold would not present a useful benchmark for the size of an entity's operations. We also do not consider that the benefits of additional transparency by these entities reporting under a higher Tier outweighs the costs to the charitable sector of the additional complexity and compliance burden it would introduce. An asset-based threshold could force small entities with significant but passive assets into preparing Tier 2 financial statements in situations that would be overly burdensome.
14. Beyond the complexity of measuring against two thresholds, one of the most common challenges faced by registered charities is determining the value of heritage assets or specialised assets such as church buildings. Having an asset threshold would either require them to estimate the value, use rateable value which may not be appropriate, or obtain an independent valuation which is often costly.

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15 November 2019

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

Email: submissions@xrb.gov.nz

Dear Warren

Targeted Review of the New Zealand Accounting Standards Framework

CPA Australia represents the diverse interests of 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide feedback to the New Zealand External Reporting Board (XRB) on its targeted review of the New Zealand Accounting Standards Framework (ASF). We note and support the XRB's approach to conduct a targeted review rather than a comprehensive first-principles review as the ASF has only been operational for the last 4 to 5 years. Our comments in this letter and **attachment** are provided in this context.

CPA Australia is of the view that the multi-standard, multi-tiered ASF adopted by the XRB is complex but functioning as anticipated. Many of the issues and concerns that we have identified have already been identified by the XRB and discussed in the Discussion Paper. These include;

- The delay in development and issue of International Public Sector Accounting Standards (IPSAS) that are aligned with new International Financial Reporting Standards (IFRS). There is a cost involved with the ongoing efforts by the XRB to ensure timely development of Public Benefit Entity (PBE) accounting standards and timely resolution of PBE-specific reporting issues that may not yet be addressed through IPSAS. There are also costs incurred by constituents in applying the IFRS/IPSAS based ASF (e.g. IFRS or IPSAS specific training needs, potential non-transferability of accounting professionals between the for-profit and PBE sectors).

The XRB should consider undertaking a study to determine whether the costs of maintaining a dedicated PBE reporting framework is justified by the benefits arising from a tailored approach to meet the specific user-needs of PBEs. Such a study may better inform the future direction the XRB wishes to take when it undertakes a fundamental review of the ASF after 10 to 15 years of its operation.

- In relation to considerations around continuing Trans-Tasman harmonisation for financial reporting by for-profit entities, we note and agree with the comment made in the Discussion Paper that the original reasons for Trans-Tasman harmonisation are still applicable today. Although the XRB is not proposing any changes to its Tier 2 financial reporting framework, the Australian Accounting Standards Board (AASB) is proposing to make changes to the Australian Tier 2 financial reporting framework as part of its project to remove special purpose financial reporting from the Australian financial reporting framework. If the AASB's proposed changes to the Australian Tier 2 framework are implemented, the Australian and New Zealand Tier 2 frameworks are no longer likely to be harmonised in line with the Trans-Tasman harmonisation objective.

Anecdotal evidence indicates that there will be some for-profit entities that may be affected by the changes being proposed by the AASB to its Tier 2 reporting framework. In order to obtain a better understanding of the impact of the AASB's proposed changes on for-profit entities that undertake Trans-Tasman economic activities, we are proposing to recommend (in a joint submission with Chartered Accountants Australia and New Zealand (CA ANZ)) to the AASB that it delays the proposed implementation date of 1 July 2020 for its proposed Tier 2 reporting framework by two years. During this time, we suggest the XRB should work with the AASB to establish specific details around the number of entities that are likely to be affected by, and the extent of the impact arising from, the AASB's proposed change.

In the **attachment** to this letter, we provide responses to specific questions raised in the Discussion Paper. If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Your sincerely



Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Attachment

General comments

1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?
2. Do you have any other comments about the ASF?

Please refer to our overall comments provided in the cover letter to this submission.

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

3. Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?
Please provide reasons for your response.
4. If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?
5. If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?
6. Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

It is our view that the XRB is already adopting a policy of developing PBE Standards that prioritise local considerations, as reflected, for example, in the Tier 3 and 4 PBE Standards developed for reporting by private sector PBEs. We believe this approach remains appropriate.

The Discussion Paper highlights the "time lag" between IFRS and IPSAS which requires the XRB to consider whether it needs to develop and publish a New Zealand specific Standard in response to a new IFRS that has not yet been addressed in an IPSAS. Consideration also needs to be given to differences between IFRS Standards and their IPSAS "equivalents". For example, the proposals for developing an IPSAS aligned with IFRS 16 *Leases* are considering a fundamentally different approach to lessor accounting. When the AASB consulted on its approach to IPSAS in 2018, we suggested¹ that the AASB continues with its current approach of using IFRS as the basis for setting standards for the public sector, with reference to IPSAS Standards where relevant. Many of the reasons for our recommendation to the AASB in 2018 resonate with the challenges and issues identified by the XRB in this Discussion Paper.

We appreciate that the XRB has already adopted an approach of using IPSAS as the basis for setting standards for the PBE sector and has invested significant effort and resources in incorporating IPSAS within its PBE reporting framework. Given this consultation is a targeted review that is not seeking to make fundamental changes to the XRB's standard-setting approach, we suggest the XRB revisit this matter when it undertakes a fundamental review after 10 to 15 years of operation of its current reporting framework.

¹ <https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/media/submissions/reporting/aasb-approach-to-ipsas.pdf?la=en&rev=073e990d9a2d42818fcd3a259fe15c83>

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

7. How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Please provide reasons for your response.

8. If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

9. Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

As stated in our cover letter, we note and agree with the comment made in the Discussion Paper that the original reasons for Trans-Tasman harmonisation are still applicable today. Anecdotal evidence indicates that there will be some for-profit entities reporting under the Tier 2 reporting framework who may be affected if harmonisation between Australia and New Zealand is no longer retained. Consideration also needs to be given to the possible adoption of any Tier 2 Standard that may be issued by the International Accounting Standards Board (IASB) through its “Subsidiaries that are SMEs” project. The AASB has indicated in its Tier 2 consultation that any Tier 2 Standard that it develops and issues through its current consultation may ultimately be replaced by any Tier 2 Standard issued by the IASB. The XRB may adopt a similar approach to the AASB in relation to any future IASB Tier 2 Standard that is issued.

For the above reasons, it is our intention to recommend (in a joint submission with CA ANZ) to the AASB to delay the implementation date for its proposed Tier 2 framework by two years. This delay will allow the AASB and the XRB to obtain a better understanding of the impact of the AASB’s proposed changes on for-profit entities that undertake Trans-Tasman economic activities. Although we do not know exactly when the IASB is likely to complete its “Subsidiaries that are SMEs” project and issue a pronouncement, a two-year delay to the AASB Tier 2 proposals is likely to provide better insight into the direction that is likely to be taken in this regard.

We note the comment in paragraph 5.28 of the Discussion Paper that both the AASB’s and IASB’s project are at early stages. Whilst this may be the case for the IASB project, the AASB has indicated that it intends to finalise its proposals and issue a Tier 2 Standard to be applicable to annual reporting periods beginning on or after 1 July 2020.

SMC 3: Do the PBE tier size criteria need to be revisited?

10. Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

11. If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

12. Do you have any other comments on the tier size criteria for PBEs?

In the analysis provided in Appendix E to the Discussion Paper using registered charities as a proxy for the not-for-profit PBE sector, we note that there has not been a significant change in the distribution of charities between the tiers between 2013 and 2018 (figure E2). Table E2 in Appendix E provides a “what-if” analysis of changing the thresholds between Tiers 2 and 3, demonstrating that the difference in the number of charities moving tiers under the different scenarios presented is marginal. Based on the analysis presented in Appendix E to the Discussion Paper, we are of the view that there is no current need for an adjustment to the current tier size criteria.

However, in our submission² in response to the Department of Internal Affairs (DIA) Discussion Paper on the review of the Charities Act 2005, we suggested that the Tier 3 and 4 Standards and associated guidance could be simplified to reflect the level of transparency and accountability required from these segments of the charities sector. We suggested a review of the Tier 3 and 4 Standards that could be undertaken as part of the XRB's post implementation review (this targeted review) of the ASF. Accordingly, we suggest the XRB considers undertaking a project to review the Tier 3 and 4 Standards with a view to simplifying the Standards and associated guidance.

² <https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/media/submissions/not-for-profit/nz-charities-act-review.pdf?la=en&rev=eb39374d5ebd4242b6106920287dd500>



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Mr Warren Allen
Chief Executive
External Reporting Board
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15 November 2019

Dear Warren

Targeted Review of the New Zealand Accounting Standards Framework

We are pleased to provide our responses to the questions posed in the XRB's Targeted Review of the New Zealand Accounting Standards Framework. We support this timely review and look forward to participating in a more detailed review of the Framework as a whole in the future. Our responses are detailed in the appendix to this letter.

Yours sincerely

A handwritten signature in blue ink that reads 'Simon Lee'.

Simon Lee
National Technical Director

Appendix

General Comments

- 1 Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?

We do not have any further comments to those we have made in response to the specific matters for comment. We observe that the Accounting Standards Framework is arguably very complex for a country with an economy and population the size of New Zealand's. It has taken significant time for practitioners and clients to absorb and apply the Framework.

- 2 Do you have any other comments about the ASF?

No.

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

- 3 Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?

In our view it is important that the PBE Standards continue to be closely aligned with IPSAS as promulgated by the IPSASB. The IPSASB drafts standards specifically for use by governments and public sector entities and as PBE IPSAS is currently closely aligned to IPSAS, the PBE Standards should be "fit for purpose" by the New Zealand Government and other public sector entities.

We acknowledge that "pure IPSAS" may not be wholly suitable for other public benefit entities, particularly not-for-profit entities that have been required to move from Tier 3 to Tier 2.

It is unfortunate, particularly for mixed groups, that the IPSASB's timetable is somewhat behind that of the IASB and therefore IPSASs on topical issues such as revenue and leases are published significantly later than IFRSs promulgated by the IASB. However, in our view this is not such a significant issue so as to require the PBE Standards to depart from IPSAS or to change our approach to alignment with IPSAS.

The XRB's current policy provides some ability to develop standards ahead of the IPSASB. While there is a relatively high hurdle to be able to do this, our view is that this appropriate.

We also note that lowering the hurdle could sever the link with IPSAS altogether or could result in other difficulties, e.g. multiple changes of

standards for PBE entities where a standard based on IFRS is issued for PBEs, only to be replaced a few years later by a new PBE standard based on IPSAS.

- 4 If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

We believe close alignment between PBE Standards and IPSAS is important for the following reasons:

- *It is important that New Zealand supports international standard setting efforts as this will ultimately lead to stronger and more robust standards globally which are globally accepted and adopted;*
- *Consistency/comparability between governments may be less important than for for-profit entities – but it is still important to some degree.*
 - *Governments' financial positions are compared to some extent – for example by government analysts and statisticians, credit rating agencies, media, financial advisors, public interest and lobby groups and other international organisations;*
 - *Governments also make announcements which include information about their financial performance or position,–*

and it is important that any financial information is prepared on a robust and understood basis.

- 5 If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in 4 Chapter 4 of this DP?

It appears that the most pressing local issue as regards the application of IPSAS as the base to PBE Standards is that mixed groups have to apply different accounting standards depending on the nature of the entity, and consolidation into the parent entity can be rendered unnecessarily complex.

In our view the time lag between IASB and IPSASB issued standards which causes the New Zealand mixed group situation is not significant enough to justify New Zealand moving away from IPSAS. Nor do we think it would be appropriate to develop different streams of PBE Standards. For example, we may continue to apply PBE Standards based on IPSAS to the New Zealand Government and other public sector entities, but then apply localised PBE Standards to not-for-profit entities. This would result in further complexity to an already complex Accounting Standards Framework, which we do not think is in the reporting community's best interests.

If the XRB decides to adopt a more flexible approach in how IPSAS is used as the basis for PBE Standards, clear criteria will need to be developed as to how the local considerations are catered for. For example, we would expect that IFRS would be used as the basis for adaption, rather than developing PBE standards with reporting requirements that differ from IFRS and IPSAS.

- 6 Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

We support the current policy applied by the XRB to develop PBE Standards based on IPSAS.

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

- 7 How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Please provide reasons for your response.

In our view it is important for NZ IFRS RDR (Tier 2) to continue to be harmonised with Australian Reduced Disclosure Regime. A significant number of New Zealand for-profit entities applying Tier 2 accounting standards are subsidiaries of Australian parent entities.

Divergence from harmonisation with the Australian Reduced Disclosure Regime will likely result in New Zealand subsidiaries having to comply with two separate sets of reporting requirements– one to meet New Zealand requirements, and a second to provide the necessary information to their Australian parent entity to enable compliance with Australian reporting requirements. This will result in increased costs and preparation time with no discernible return to New Zealand entities.

We are aware of the IASB research project on SMEs that are subsidiaries of entities that apply IFRS Standards. While we are interested in the project and ultimately the possibility of incorporating an IFRS for SMEs Standard into the New Zealand Accounting Standards Framework, we think that such a standard is several years away in development. Therefore, we support continuing to harmonise with the Australian Regime for the foreseeable future.

- 8 If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

As noted above, we consider continued harmonisation with the Australian Reduced Disclosure Regime to be important for New Zealand entities that are Australian subsidiary entities currently reporting under Tier 2.

- 9 Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

As we believe it is preferable for New Zealand to harmonise with Australian RDR, we suggest the NZASB closely monitors and seeks involvement with the AASB project so New Zealand will be in a position to implement amendments to current Tier 2 disclosure requirements in a timely manner.

SMC 3: Do the PBE tier size criteria need to be revisited?

- 10 Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We are not aware of any unintended consequences stemming from the application of the current PBE tier size criteria. However, we are aware that many PBE entities believe that the \$2 million annual expenses threshold from Tier 3 to Tier 2 is too low. Based on the informal feedback received, we believe that the PBE tier size criteria should be reviewed.

- 11 If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

In our view the annual expenses threshold should be lifted significantly (for example from \$2 million to \$10 million) to reduce compliance costs. The current threshold captures a significant number of charitable entities which exist for a specific cause and do not necessarily have the capacity or resources to comply with Tier 2 reporting requirements. Such entities become encumbered with a regulatory reporting burden and their resources are diverted in order to achieve compliance. Furthermore we believe Tier 3 reporting requirements are likely to satisfy the information needs of users of these financial statements.

- 12 Do you have any other comments on the tier size criteria for PBEs?

No.



15 November 2019

Michele Embling
Chair
External Reporting Board
PO Box 11250
Manners Street Central
WELLINGTON 6142

Tēnā koe Michele

Targeted Review of the New Zealand Accounting Standards Framework - Discussion Paper

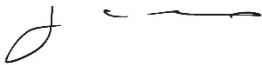
1. We appreciate the opportunity to comment on the External Reporting Board's (XRB's) Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework*.
2. We note below our high-level comments on alignment between PBE Standards and IPSAS. Our responses to the Questions for Respondents are attached to this letter and should be read in conjunction with this letter.

Alignment between PBE Standards and IPSAS

3. It is important for New Zealand to have accounting standards that meet user needs and that serve the best interests of New Zealand, subject to cost-benefit considerations. The XRB's strategy in its Accounting Standards Framework (ASF) is to base New Zealand accounting standards on international standards, and to this end:
 - adopt International Financial Reporting Standards (IFRS) without modification for for-profit entities; and
 - use International Public Sector Accounting Standards (IPSAS) as a base for PBE Standards for public benefit entities (PBEs).
4. We continue to support using IPSAS as a base for PBE Standards in the multi-standards strategy, and support maintaining a close alignment between them, to the extent it results in relevant PBE Standards for New Zealand, both for the public sector and the not-for-profit sector.
5. We think it is important to be able to state that PBE Standards are based on IPSAS, which is an internationally recognised suite of standards that is inherently suitable for PBEs. We think it is right to have a presumption or expectation that an IPSAS will be adopted in New Zealand (with appropriate modifications made for PBEs), and believe there needs to continue to be a high hurdle in place to override such a presumption or expectation.

6. We understand that the recent developments set out in the Discussion Paper were anticipated when the XRB decided to base PBE Standards on IPSAS. They formed the basis of the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach). The PBE Policy Approach sets out the approach for the NZASB to modify IPSAS or further develop PBE Standards where this is appropriate to ensure a relevant and high quality suite of PBE Standards in New Zealand.
7. We think there is already flexibility in the current PBE Policy Approach for the NZASB to use its best judgement to modify IPSAS or further develop PBE Standards, where necessary, and to develop standards ahead of the IPSASB, where appropriate, to address timing issues. However, we acknowledge that the degree of flexibility is not particularly clear. We think it would be helpful to set out clearly the circumstances in which it is appropriate to make modifications to an IPSAS, or not to adopt an IPSAS.
8. A PBE Policy Approach that was clearer would ensure a transparent and robust process for NZASB's decisions and provide a framework for interested stakeholders to understand how, and why, particular PBE Standards have been developed. We are of the view that it is essential for the NZASB to continue to apply a PBE Policy Approach that contains a presumption or expectation that IPSAS will be adopted when issued, with appropriate modifications for New Zealand PBEs.
9. It is important to us that the outcome of the Targeted Review is a coherent and conceptually-consistent suite of IPSAS-based PBE Standards that is fit for purpose for users of PBE financial reports.
10. If you have any questions about our submission, please phone Todd Beardsworth, Assistant Auditor-General, Accounting and Auditing Policy on +64 21 244 0727 or email him at todd.beardsworth@oag.govt.nz.

Nāku noa, nā



Greg Schollum
Deputy Auditor-General

Questions for Respondents

General comments

Q 1 Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?

No, we are not aware of any developments in the financial reporting environment or any unintended consequences that would require a change to the ASF. We do not think that circumstances have changed fundamentally to warrant changing the appropriateness of IPSAS as a base for PBE Standards.

The strategy of aligning PBE Standards with IPSAS results in PBE Standards that best meet the objectives and needs of users of PBE financial reports. We support the ASF, in conjunction with the PBE Policy Approach, for setting PBE Standards. This is in line with the XRB's strategy for multi-standards and for New Zealand standards to be based on international standards, that is, IFRS for for-profit entities and IPSAS for PBEs.

In our view, the recent developments raised in the Discussion Paper as the basis for re-considering the close alignment of PBE Standards with IPSAS are not fundamental. The possibility of such matters arising was anticipated, and was one of the reasons the XRB developed the PBE Policy Approach. The PBE Policy Approach provides the NZASB with a framework for developing PBE Standards based on IPSAS, and that is consistent with the ASF.

We think it is right to have a presumption or expectation that an IPSAS will be adopted for use by PBEs in New Zealand (subject to appropriate modifications). In our view, there needs to continue to be a high hurdle to rebut this presumption or expectation. The issue is then how to operationalise the rebuttable presumption or expectation. We think it is useful for the Policy Approach to set out clear circumstances that would need to be considered to rebut the presumption not to adopt an IPSAS as the base for a PBE Standard.

It is important for New Zealand PBEs to have relevant and high quality PBE Standards. As such, it is essential for the Policy Approach to set out the circumstances in which it is appropriate for the NZASB to make modifications to an IPSAS. There are likely to be different views about what those circumstances should be. In our view, it is just a matter of the Policy Approach being clearer on when modifications to an IPSAS are considered appropriate.

We note that there are positive developments in the PBE financial reporting environment. The XRB's historical concerns about IPSAS included the lack of a conceptual framework and independent governance arrangements for IPSASB. When the ASF was first developed, the XRB decided that it was premature to adopt "pure" IPSAS because, among other matters, IPSAS are 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. In addition, IPSAS did not represent a complete set of standards. Since the decision to base PBE Standards on IPSAS, the positive developments include:

- IPSASB issued its Conceptual Framework in 2014;
- IPSASB's governance has improved with the setting up of its oversight body, the Public Interest Committee (PIC), in 2015;
- IPSASB is focused on developing standards aimed at specific public sector issues and working towards a more complete and conceptually consistent suite of standards;
- IPSASB continues to work on aligning its standards with IFRS, where appropriate. IPSASB's Strategy and Work Plan 2019–2023 includes a Strategic Theme of *Maintaining IFRS alignment*. This should result in most transactions that are common between the PBE sector and the for-profit sector being accounted for similarly; and
- More countries are now adopting accrual accounting and IPSAS, with adoption of IPSAS expected to further increase in the next few years.

Q 2 Do you have any other comments about the ASF?

The Auditor-General's 2009 report to Parliament *The Auditor-General's views on setting financial reporting standards for the public sector* set out concerns about public sector standard setting in New Zealand, and in particular, about basing standards for PBEs on IFRS¹. The 2009 report, and the XRB's subsequent multi-standards strategy, determined that IPSAS is a credible (and the best alternative) set of international standards to use as a base for PBE Standards. Developed specifically for public sector entities, IPSAS are inherently more suitable for PBEs (than IFRS), ensuring that transactions and events are accounted for appropriately. The current ASF and the approach taken to set PBE Standards were endorsed in the Auditor-General's 2016 report *Improving financial reporting in the public sector* as being positive and setting a better foundation for future reporting by PBEs.

We would not want to see a move away from alignment with IPSAS as a base for PBE Standards, and believe there needs to continue to be a high hurdle in place to override a presumption or expectation that an IPSAS will be adopted with appropriate modifications for New Zealand PBEs. In our view, to do otherwise would require a fundamental first principles review.

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

Q 3 Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?

Please provide reasons for your response.

The XRB's policy for developing, or adopting, standards should always consider local considerations to ensure standards are fit for purpose for the New Zealand environment. This applies to the adoption of IFRS standards as well as developing PBE Standards. A coherent and conceptually consistent suite of IPSAS-based PBE Standards that is fit for purpose for users of PBE financial reports is, in our view, important.

In developing PBE Standards, whether local considerations should be taken into account depends on whether the standards produce financial reports that readers understand, and that can be used to properly hold PBEs to account. Local considerations include New Zealand legislative requirements, New Zealand PBE-specific issues (including issues relating to not-for-profit entities), or significant mixed group issues.

Adoption of an IFRS and its application at an earlier point in time for for-profit entities (in the absence of an equivalent IPSAS), in our view, does not necessarily create "local considerations" that would need to be prioritised over an IPSAS, or preclude its subsequent adoption. Furthermore, we do not think there should be a presumption that IFRS is always "better" than IPSAS, or that IPSAS must be aligned with IFRS.

Q 4 If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

Close alignment between PBE Standards and IPSAS that results in relevant PBE Standards is important for, and benefits, users of PBE financial reports, New Zealand as a country, and the XRB as a national standard setter.

For users, the benefits include:

- Users have access to PBE financial reports that are relevant and targeted to their needs. Users can have confidence that the PBE financial reports are based on internationally accepted reporting requirements that are relevant and appropriate to non-commercial entities. For public sector entities, whose primary users include Parliament and the public of New Zealand, the resulting financial

¹ IFRS were considered an inappropriate base for standards for PBEs as they are designed for commercial companies listed on stock exchanges.

statements provide information for public sector financial management, accountability and decision-making.

For New Zealand as a country, the benefits include:

- New Zealand benefits from reputational advantages attached to the ability to state that its standards (whether in the for-profit sector or in the PBE sector) are based on international standards. The financial statements of PBEs will have credibility and currency internationally. New Zealand is often highly ranked by international researchers and analysts: for example, the World Economic Forum's Global Competitiveness Report² uses, among other indicators, budget transparency, strength of auditing and reporting standards and incidence of corruption to rank New Zealand first out of 140 countries for Pillar 1 *Institutions*.
- Internationally-based standards result in PBEs having internationally comparable financial reports. Locally developed standards that result in different accounting for PBEs from IPSAS, can adversely affect the ability of international users to understand the Government's financial reports. This could ultimately lead those users to question the reliability and usefulness of the Government's financial reports. Similar to the for-profit sector and the benefits attributed to the adoption of IFRS, PBE Standards that are based on IPSAS enhance the comparability and transparency of the financial statements of the Government and other New Zealand PBEs. This, in turn may lead to economic benefits for the country in the form of lower cost of capital and attracting further international capital investment into New Zealand.

For the XRB as a national standard setter, the benefits include:

- Developing IPSAS-based PBE Standards is more cost-effective than modifying IFRS or developing local standards. This was one of the reasons for the decision to base PBE Standards on IPSAS in the XRB's ASF and multi-standards strategy.
- Aligning PBE Standards with IPSAS ensures a comprehensive, coherent suite of PBE Standards, not just across the individual standards but also with the PBE Conceptual Framework.
- New Zealand has significant skills and expertise in public sector and PBE accounting. Continuing to align PBE Standards with IPSAS provides a pathway for the XRB to continue to participate, contribute to, influence and support good quality public sector and PBE accounting internationally and help raise the standard and quality of those global standards. This allows the XRB to continue to maintain and further enhance New Zealand's leadership, influence and reputation.

Q 5 If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of this DP?

We do not support amending the PBE Policy Approach to provide unfettered flexibility in how IPSAS is used or in allowing a move away from IPSAS as a base for PBE Standards. Option 2, as expressed in the Discussion Paper, gives the NZASB a level of flexibility that we consider to be unwarranted.

We are also concerned that providing too much flexibility to modify underlying IPSAS could lead to significant and unnecessary delays in introducing a new or amended IPSAS into the PBE Standards. For example, the NZASB issued PBE IPSAS 40 *Public Benefit Entity Combinations* two and half years after the IPSASB issued IPSAS 40 *Public Sector Combinations*. This means the mandatory effective date of PBE IPSAS 40 was two years later than the mandatory effective date for the underlying IPSAS 40. We question whether the delay in developing PBE IPSAS 40 was necessary as many of the changes made were not of significance to the effective operation of that standard in practice.

As explained in our cover letter, we broadly support PBE Standards continuing to be based on IPSAS and applying the PBE Policy Approach where necessary. The PBE Policy Approach should continue to have a high hurdle for the NZASB to override the presumption or expectation that IPSAS will be adopted when

² For example, New Zealand was ranked best performer out of 140 countries for Pillar 1 *Institutions* in the World Economic Forum's Global Competitiveness Report 2018. Pillar 1 ranked New Zealand on a number of factors including budget transparency, strength of auditing and reporting standards and incidence of corruption.

issued. The current PBE Policy Approach has flexibility within the framework to enable the NZASB to develop relevant PBE Standards for New Zealand PBEs. However, we agree that the degree of flexibility could be made clearer in the PBE Policy Approach, to include the circumstances in which it is appropriate to make modifications to an IPSAS, or to rebut the presumption or expectation not to adopt an IPSAS.

Q 6 Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

We note that the Discussion Paper raises the following as a recent development for considering whether to continue to maintain close alignment with IPSAS:

- The issuing of several new IFRS Standards, with IPSAS projects lagging behind.

We note that timeliness in setting standards is not an IPSASB-specific issue. Many international standard setters, including the IASB, suffer from the same criticism. For example, the IASB's standard on insurance contracts took about 18 years (1999-2017) to develop, the standards on leases took about 10 years (2006-2016) and the standard on revenue took about 12 years (2002-2014). In this context, we think that the IPSASB is generally performing well in terms of timeliness in issuing IPSASs. Even if an IFRS represents IASB's latest thinking, it might not be appropriate for PBEs. The IPSASB should be given an opportunity (and sufficient time) to consider all relevant issues relating to standards to ensure any subsequent IPSAS is appropriate and of high quality.

While the time lag issue has implications for mixed groups, we are not aware of significant issues being raised in the context of mixed groups. Most public sector entities cope with making the necessary adjustments on consolidation. Moreover, other than financial instruments which permeated and affected most entities, the impact of other standards (for example, leases and insurance contracts) are limited to selected entities. In such instances, a time lag difference between the for-profit sector and the PBE sector is unlikely to cause a fundamental disruption.

There appears to be an underlying presumption in the Discussion Paper that the IPSASB and IPSAS have to continue to align and/or "keep up" with the IASB and IFRS. Most international standards that attempt to cater to international constituents contain compromises. New Zealand's adoption of IFRS without modification should not be used as a "benchmark" for IPSAS. IPSAS, similar to IFRS, will not be ideal for New Zealand in every instance but, in our view, IPSAS are still the most credible and appropriate base for PBE Standards.

In basing PBE Standards on IPSAS, we are of the view that modifications should be made only where the issue is considered to be substantive. It would also be useful for the Basis for Conclusions to clearly identify any changes to IPSAS.

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

Q 7 How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Please provide reasons for your response.

Q 8 If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

Q 9 Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

We agree it would be useful to have Tier 2 for-profit requirements aligned with Australia where possible. However, in the public sector, we do not see a need to do so. Further, PBE Tier 2 requirements should not be driven by New Zealand-Australian harmonisation in the for-profit sector.

We note that there is no separate framework for determining reduced disclosure requirements for Tier 2 PBEs. We consider it desirable to have a separate framework for Tier 2 PBEs that is de-coupled from the for-profit sector, focused on what are appropriate reduced disclosures for users of PBE financial statements. It is also important that RDR disclosures are aligned across public sector entities and not for-profit entities for consistency and simplicity.

SMC 3: Do the PBE tier size criteria need to be revisited?

Q 10 Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

Q 11 If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

Q 12 Do you have any other comments on the tier size criteria for PBEs?

We agree that size criteria in the ASF should be reviewed at regular intervals. In our view, any change to the size criteria in the ASF needs to be carried out in conjunction with the statutory review of size criteria for reporting and assurance requirements. We consider it important to ensure that the tier structure is consistent across both for-profit entities and PBEs to avoid complexity and potential reporting arbitrage.

The current tier structure in the ASF together with legislative size criteria for financial statement preparation and assurance presents a complex picture. We encourage the XRB not to make any modifications to the ASF tier structure without considering the legislative framework for reporting and assurance.

We note that the Financial Reporting Act 2013 allows for the size criteria to be reviewed in 2022. We encourage the XRB to work with policy makers at the Ministry of Business, Innovation and Employment (MBIE) to promote a sensible and simpler legislative framework that takes into account any size criteria arising from the Charities Act review and requirements for reporting by incorporated societies.



Warren Allen
Chief Executive Officer
External Reporting Board
PO Box 11250
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Wellington 6142

4 September 2019

Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework

Dear Warren

The External Reporting Board has sought comments on aspects of the New Zealand Accounting Standards Framework (ASF). PwC New Zealand is pleased to present its comment letter.

Our comments below are provided in the context that this is a limited scope review of the ASF and the fundamental elements of the ASF are not being reconsidered at this time.

General comments

We consider that the ASF is functioning as intended.

We are not aware of any significant unintended consequences arising from the ASF.

We are not aware of any refinements required to the ASF to address emerging issues that have arisen since the ASF was established.

The importance of maintaining close alignment between PBE Standards and IPSAS

In the context of the multi-standard approach which is not under review at this time, we consider that alignment with International Public Sector Accounting Standards (IPSAS) is important as it (i) helps **maintain an international reference point or base for New Zealand's financial** reporting requirements; (ii) derives benefits from the international due process followed by the International Public Sector Accounting Standards Board (IPSASB); (iii) avoids unnecessary cost to New Zealand of developing requirements locally by leveraging off work done internationally where possible; and (iv) avoids the risk of having to align with international standards in the future should there become a demand for alignment of public sector reporting internationally.

However, we consider that it is also essential that PBE Standards be fit for purpose in New Zealand and, therefore, that the XRB retains a degree of flexibility to allow for local standards to be developed or amendments to IPSAS to be made where there is not expected to be an international solution to a New Zealand issue proposed within an acceptable timeframe.

We consider that the current application of the XRB's PBE Policy Approach provides sufficient flexibility to consider the appropriateness of IPSAS for the New Zealand environment and whether to develop a PBE Standard ahead of, or in addition to, those developed by the IPSASB.

For example, we consider that suitable application of the PBE Policy Approach was demonstrated with the issue of PBE IFRS 9 *Financial Instruments* and PBE FRS 48 *Service Performance Reporting*.



The importance of retaining harmonisation with Australia for Tier 2 for-profit disclosure requirements

We consider that alignment of disclosure requirements between Tier 2 for-profit entities in New Zealand and Australia is not essential. Alignment of recognition and measurement requirements, however, is essential to ensure that the primary accounting for like transactions and balances remains the same across the Tasman and to avoid the need for consolidation adjustments when consolidating Tier 2 for-profit entities with larger, publicly accountable entities that apply International Financial Reporting Standards (IFRS).

We consider that it would be beneficial to await the outcome of the International Accounting Standard Board's (IASB's) research project on SMEs that are subsidiaries of entities that apply IFRS standards and decide at that time whether it is more beneficial to align with the Australian requirements or the IASB requirements.

In the meantime, we consider that there is unlikely to be any significant disadvantages arising if Tier 2 for-profit disclosure requirements in New Zealand are not aligned with those in Australia. This will also avoid the undesirable possible outcome of making changes to the current Tier 2 requirements to align with changes made by Australia and then a subsequent change to align with IASB SME requirements when issued.

Whether the PBE tier size criteria need to be revisited

We are not aware of any need to reconsider the size criteria for determining the tier of PBE Standards applicable to a PBE.

Given the proposals for Incorporated Societies to apply accounting standards issued by the XRB and the difficulties Registered Charities appeared to experience in adopting PBE Standards, it may be necessary to consider whether the size criteria give rise to an appropriate outcome for Incorporated Societies.

Should you wish to discuss the above, please do not hesitate to contact me on 021 734 021.

Yours sincerely

Stephen Hogg
Partner
Accounting Advisory Services

4.2.13 Targeted Review of the New Zealand Accounting Standards Framework – online feedback forms (excluding personal information)

The information below has been copied directly from the online feedback forms received through our website. The seven respondents who submitted online feedback forms are numbered R13–R19. As noted in the Cover Memo (agenda item 4.1), we have treated all responses provided via the online feedback forms as confidential. Therefore, any personal information identifying the respondents or their organisations has been excluded.

General comments:

1) Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?

R13	No
R14	N/A
R15	No
R16	I wonder how or if proposed amendments to the Public Finance Act to provide for an increased focus on wellbeing and inter-generational sustainability may impact accounting standards development and financial reporting requirements for PBEs.
R17	N/A
R18	Not aware of any developments.
R19	N/A

2) Do you have any other comments about the Accounting Standards Framework?

R13	I think it is fit for purpose for the bigger PBE's and Not for Profit PBEs but smaller charities still struggle with the Tiered approach. I support the idea of a standards-level review of especially tier 3 and 4.
R14	N/A
R15	I support the review of the framework as a "check-in". The framework works well ensuring that large entities are compliant with reporting and providing a sound basis for other entities to remain compliant and protecting public interest and confidence in the reporting of a wide range of entities in NZ.
R16	No
R17	The issue we have concerns the definition of what constitutes "Public Accountability". The definition from the IASB and XRB A1 appears aimed at specific organisations or institutions. Our Trust does not easily fall under any definition easily. Therefore I had to state a case to our the Trustees to be a Tier 1 PBE. i.e. that we were did have public accountability as we held assets in a fiduciary capacity for a broad group of outsiders. The definition was a bit scant however and should have been clearer for Trustees to rely on.
R18	No other comments.
R19	N/A

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

- 3) Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?
Please provide reasons for your response.

R13	Yes I think it is important to have close alignment between PBE Standards and IPSAS. Because <i>[Name of organisation]</i> is part of a bigger movement maintaining a close alignment with IPSAS makes international comparability easier, ensures transparency and strengthens accountability.
R14	Local considerations should be taken into account where there would be significant financial and/or logistical hardship to organisations in complying strictly with IPSAS requirements.
R15	<p>Maintaining close alignment with a recognized International Accounting Standards is important to attracting investment into a country. Where financial reporting is understood and clear it is easier to attract foreign investment. This is particularly important for mixed groups looking to raise capital and attract investment outside of NZ.</p> <p>With the above being said, the end goal of user understanding and balance between compliance cost and reporting outcomes play a significant role as well. As mentioned in the discussion document, the IPSAS standards consider many different scenarios that are not always relevant to New Zealand ("NZ") which in turn could lead to resulting accounting treatment that does not support user understanding of the accounts.</p> <p>In addition to this, the costs of compliance need to be considered. Obtaining Fair Values can be costly and time-consuming. If NFP organisations are having to incur additional costs for accounting compliance with no benefit to the users of the financial statements, it removes the ability of the organisation to spend these funds towards furthering their charitable causes and meeting their objectives.</p> <p>Having a set of accounts that are "fit for purpose" in the NZ context would be more beneficial to the users of these financial statements, if they are NZ based. If users of financial statements are in fact overseas based, it might be more difficult to have to explain different accounting treatments. In supporting the approach for a more bespoke NZ financial reporting standards, it would remain critical that sound principles for recognition and measurement are retained where-ever it adds to the end user understanding.</p>
R16	The status quo setting severely reduces opportunities for innovation and limits the ability of the XRB to respond to local conditions. Taking a global perspective, this is also disadvantageous. New Zealand has experience with developing and implementing new approaches and this has allowed it to contribute effectively to work at the international level. From a first principles perspective I am also a proponent of local responsiveness as this assists with relevance, engagement, uptake. It is a matter of integrity that New Zealand user's needs are given due consideration.
R17	We should prioritise local reporting needs ahead of the IPSASB's glacial progress. I believe we can co-ordinate effectively with the Australians to reduce costs in this regard.
R18	<i>[Name of organisation]</i> favours the first option: XRB adopting a more flexible approach to developing PBE Standards based on IPSAS, to prioritise local conditions.
R19	N/A

4) If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

R13	<p>I think close alignment between PBE Standards and IPSAS is more important for Tier1 entities and bigger organisations that have an international connection.</p> <p>I think it might be less important for Tier4 organisations as it might add a level of complexity for which these organisations does not have the money or expertise to properly manage. Simpler format Standards might work better in these areas.</p>
R14	N/A
R15	<p>While a close alignment between IPSAS and PBE ensures compliance with an international benchmark, it is more important to ensure that the PBE standards meet the user's requirements of those financial statements. This might mean that departure from IPSAS is of greater benefit to the users than compliance.</p> <p>NZ has a strong financial reporting framework in place that is bench-marked against its international peers. Any departure from IPSAS needs to be documented so that prepares can explain why this departure has been implemented. In doing so the premises for departure should always be to improve the reporting in the local environment and to better engage with users.</p>
R16	N/A
R17	<p>The alignment is very important for many reasons. On a larger scale, NZ is increasingly regarded as 'NZ Inc' with returns in Government investments coming more under scrutiny, Government decisions on 'Wellness' needing increased reporting and measurement, and international comparisons for overseas investors. Proper valuations and accurate holding costs of assets are paramount, including risk analysis. On a more granular scale, there is an increasing trend for public-private joint ventures. This requires consistent reporting standards for proper accountability.</p> <p>So, for whom? Voters, business, analysts, overseas investors.</p>
R18	N/A
R19	N/A

5) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?

R13	At current there is some flexibility to modify IPSAS requirements for New Zealand specific considerations. I feel that rather than moving away from close alignment with IPSAS as a starting point look at how to streamline the process for enabling the modifications if needed.
R14	Option 2 appears to be more sensible and workable, especially for smaller organisations. If there is a specific reason for aligning with IPSAS then that is sensible, however aligning with IPSAS just for the sake of doing so is not.
R15	<p>Yes. The end focus should be on the users of the financial statements and balancing the increase compliance costs with the additional benefit to the user of the financial statements. In addition, addressing the timing gap on critical standards could be beneficial, provided that these are not going to result in changes later when the IPSAS standard is released for issues not originally considered.</p> <p>PBE Standards should address the requirements of our local NZ environment. As stated, the IPSAS would provide guidance on international thinking to ensure that the NZ reporting remains world class, but not be the definitive voice of the local requirements.</p>
R16	<p>Yes.</p> <p>And I don't think a change to introduce more flexibility compromises the strength of NZ's support for the IPSASB's programme of change.</p>
R17	Yes, increased flexibility should apply. This should be more 'leading edge' than 'bleeding edge', with a strong collaboration with our cousins across the ditch. This would be where IFRS has been established or is in final draft, there should be, if applicable, a corresponding draft in play for PBEs. I am unsure of the strength of the communications from NZ XRB to the IPSASB, but the history is that we 'punch above our weight' in terms of international standard setting opinion. This should be fostered and continued, IMHO.
R18	<p>COMPARABILITY OF PBE STANDARDS</p> <p>Contrasting PBE Standards to Standards for other types of entities, the need for comparability is significantly less. We see the main needs being in selling NZ Government Bonds, and in setting NZ's credit rating.</p> <p>Our assumption is that introducing flexibility will not result in a major deviation from IPSAS – we don't believe differences will be material enough to impact the main needs.</p> <p>Also, the financial statements of the NZ Government are relatively transparent. This generates a certain amount of understanding and confidence that would likely over-ride differences in reporting Standards.</p> <p>FLEXIBILITY OF TIMING</p> <p>As noted in the presentation to the CFO forum, the XRB could have flexibility around the timing of changes.</p> <p>If a change to a Standard has been identified as beneficial it seems counter-productive to delay the change because of events outside NZ.</p>

- 5) **(Continued) If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under Option 2 in Chapter 4 of the Discussion Paper?**

R18 (cont.)	<p>RELEVANCE / SUITABILITY OF CHANGES</p> <p>Changes to Standards that are important to other countries may not be relevant to NZ.</p> <p>If the XRB adopt a more flexible approach to developing PBE Standards, those changes need not be adopted in NZ.</p> <p>If we don't adopt such changes, it eliminates the costs of adoption and reduces compliance costs moving forward.</p> <p>REMOVES UNWANTED CONSEQUENCES</p> <p>The interplay between the Standards and other legislation could mean that changes to Standards result in unwanted consequences – more so if NZ adopts unmodified IPSAS changes.</p> <p>[As a hypothetical – changes to the Standard for Leases could result in all Leases effectively becoming 'Finance leases', which would mean the Minister of Finance having to approve all of them].</p> <p>If the XRB adopt a more flexible approach to developing PBE Standards, such consequences could be mitigated.</p>
R19	N/A

- 6) **Do you have any other comments on the way IPSAS are used as the base for PBE Standards?**

R13	The most common issue is the alignment for specific NZ reporting requirements. While the IPSAS does provide an initial guidance in the PBE and NPF space we support that prior to the adoption there should be consideration given to the outcomes that will result in adoption and the resulting additional compliance and administrative costs, and whether these will be balanced by the value of the additional information to the users.
R14	No
R15	IPSAS needs to form the foundation of our PBE standards. This, however, should not hold NZ standard setters back if we need to be up to date with latest standards, e.g. crypto currency valuations, and disclosures for cybercrime risks.
R16	No other comments.
R17	N/A
R18	N/A
R19	N/A

SMC 2: Importance of harmonisation with Australia for Tier 2 for-profit disclosures

7) How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

R13	Our company do not report on Tier2 or for-profit but I would think it would be important to retain harmonisation as I imagine there would be a fair amount of companies with expenses of <\$30m that operates across the border between New Zealand and Australia. It would be cheaper and easier for these companies if harmonisation is there.
R14	Important where the organisaiton is operating in both countries to have harmonisation of requirements so that the organisaiton only has to produce one set of accounts. Otherwise wasting resources.
R15	<p>New Zealand ("NZ") and Australia ("AU") have always held close trading ties, with many AU and NZ entities trading in both spaces. This is particularly important with for profit entities where investments and funding are based off consolidated reporting.</p> <p>Disclosure reporting is still be important to the extent that it provides users information about the choices prepares have made for accounting policies. These may influence the recognition and measurement. User will need to understand the policy choices, assumptions and judgments applied to be able to understand the different accounting outcomes.</p> <p>So provided the disclosure departures do not impede the ability to understand that recognition and measurement applied, and therefore companies remain comparable to investors, then some miss-alignment could be tolerable.</p>
R16	N/A
R17	<p>This is very important due to the intertwined economic reality that is NZ and Australia. In some respects we have different currencies, different Governments, better rugby players, but constitute one economic block.</p> <p>Performance measures are mostly consolidated. USA enterprises group us as 'Asia Pacific'. The closer the accounting standards are with Australia, the more efficient and accurate those consolidations will be.</p> <p>Our regional considerations are the most important aspect of this argument I can assure you.</p>
R18	N/A
R19	N/A

8) If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

R13	I think it is important for companies operating in both countries as well as for accounting professionals training and working in both countries. It it becomes too hard or expensive to maintain different disclosure formats for different entities it might become a barrier to trade.
R14	Important for stakeholders in being able to compare entities and for entities themselves so only having to produce one set of accounts.
R15	<p>Due to the close ties between NZ and AU it would be important to keep the reporting requirements for recognition and measurement aligned. Disclosure reporting is important to the extent that it provides users information about the choices prepares have made for accounting policies. These may influence the recognition and measurement. User will need to understand the policy choices, assumptions and judgments applied to be able to understand the different accounting outcomes.</p> <p>So provided the disclosure departures do not impede the ability to understand that recognition and measurement applied, and therefore companies remain comparable to investors, then some miss-alignment could be.</p> <p>It is important that the users of financial statements are protected. If the proposed harmonization is detrimental to the user's understanding of the financial reporting, then it may be necessary to depart from the harmonization. This should be balanced against the costs incurred for compliance. If AU is departing from certain disclosures over cost, that are not be believed to add value to users, this should be considered, as it will add undue burden on companies to maintain compliance, thereby making it unable to complete for investment or funding.</p> <p>While harmonization is important from a trading and investment point, NZ should have the flexibility to depart from some concepts that it believed would not be beneficial to users.</p>
R16	N/A
R17	For businesses that require trans-tasman consolidations. Overseas owned corporates. Many large organisations are not listed on NZX.
R18	N/A
R19	N/A

9) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

R13	For comparability it is essentially that the recognition and measurement remain the same and aligned with this is that the size criteria for reporting is the same. This will allow comparability. Having the same disclosure would be advantageous as it makes it easier to compare entities of a similar size and nature.
R14	N/A
R15	This should also be aligned as CAANZ is cross Tasman and our standards should be as interchangeable as is practicable.
R16	N/A

9) (Continued) Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

R17	N/A
R18	N/A
R19	N/A

SMC 3: Do the PBE tier size criteria need to be revisited?

10) Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

R13	No
R14	No, the majority of entities are compliant and allows comparison.
R15	<p>Tier sizes should always be regularly reviewed considering growing inflation and changes in the regulatory and operating environment. This would mean that entities that previously in one tier automatically grow into the next tier from an accounting perspective.</p> <p>The tier sizes should have due consideration to the users of the financial statements and the nature of the organisation. The key is who are the users and what are they using the financial statement for. If the users are largely members of the public and widespread, then you may require more defined accounting principles. If the users are a few members contributing to a cause, there may not be significant public scrutiny. So perhaps there is a \$value to be attributed to expenses, alongside the public interest in the organisation when it comes to determining a cut-off for tier 2 and tier 3.</p> <p>The application of new accounting standards, depending on the requirements might inadvertently see entities jumping tiers as well, placing additional scrutiny and compliance costs without any change to the scale of the operations. An example of this could be if the ED64 was implemented. The increase in expenses for ROU assets previously show as operating expenses, now being fair value and depreciated would increase the costs of an organisation.</p>
R16	<p>I am not familiar enough with this area to provide useful feedback.</p> <p>In general, I support more rather than less disclosure and reporting.</p>
R17	I am not aware of any specific examples, however movements in expenditure quantum need to be regularly revisited. This will assess the stats to reflect the intentions of the reporting regimes accurately over time. In theory, reports available under the reporting standards since 2012 should make this task easier than the first time it was undertaken.
R18	I'm not aware of any of those things.
R19	Too many organisations are having to prepare Tier 2 due to the operating expenditure of their group being \$2m.

11) If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

R13	I think when looking at the Charities Services Compliance review results it showed that 100% of Tier1 and 2 is compliant with the new standard. Tier 4 cannot change because it is determined by Government. Tier 3 is the only one that would be a candidate for change. Maybe increase the reporting limit for this Tier from Under \$2 million of annual expenses to under \$5million of annual expenses to acknowledge some smaller charities that might be struggling with compliance cost in the Tier 2 category.
R14	No need to revisit Tier thresholds. Working well for most, However more education and support for small entities would be helpful in increasing the compliance levels. Those organisations having compliance issues generally have wider systemic issues within their organisations - this could be an indication for Charities Services that assistance is needed by those organisations on a wider basis than just reporting compliance.
R15	The Tier 2 and Tier 3 minimum expense of \$2m may need to be reviewed from time to time to see if this is still applicable. It may be necessary to increase this with the affects of inflation and consequences of applying new accounting standards.
R16	See response to question 10. That is, in general, I support more rather than less disclosure and reporting. Compliance costs are important - but reducing compliance costs on the account provider imposes other costs on account users.
R17	N/A
R18	No strong opinions about tier size.
R19	Tier 2 threshold needs changing. \$2m operating expenses is not of a significance size in today's terms and the complexity and compliance costs of meeting these standards far outweigh the benefits to readers. We have a number of Maori organisations that are required to prepare financial statements in accordance with generally accepted accounting practices (due to legislation) and have to report under Tier 2 for the group and Tier 3 for all of the individual entities. It is unnecessarily complicated and confuses the readers with terminology, disclosures and measurements. I suggest the Tier 2 operating expenditure range should be increased to \$4m - \$30m.

12) Do you have any other comments on the tier size criteria for PBEs?

R13	No
R14	Some entities that are technically Tier 4 are having (or choosing) to report at Tier 3 level due to depreciation of fixed assets. If there were an allowance for Tier 4 (cash) entities to depreciate but still report at Tier 4 then this might simplify things for many small entities.
R15	None
R16	No
R17	N/A
R18	No further comment.
R19	N/A

Respondent information (personal information excluded)

1. What type of entity is your organisation?

R13	A Not-for-profit PBE
R14	A Not-for-profit PBE
R15	A For-profit entity in the private sector
R16	A Public sector PBE
R17	A Not-for-profit PBE
R18	A Public sector PBE
R19	N/A

2. Is your organisation part of a “mixed group” (i.e. a PBE whose subsidiaries or parent are for-profit, or a for-profit entity whose subsidiaries or parent are PBEs)?

R13	No
R14	No
R15	No
R16	No
R17	No
R18	No
R19	N/A

3. Under which standards do you prepare financial statements?

R13	PBE Tier 1 (PBE Standards)
R14	PBE Tier 3 (PBE Simple Format Reporting – Accrual)
R15	For-profit Tier 2 (NZ IFRS RDR)
R16	PBE Tier 1 (PBE Standards)
R17	PBE Tier 1 (PBE Standards), PBE Tier 2 (PBE Standards RDR)
R18	PBE Tier 2 (PBE Standards RDR)
R19	N/A

4. Does your organisation have any of the following: (a) Australian parent, (b) Australian Subsidiary, (c) Financial reporting obligations in Australia?

R13	N/A
R14	N/A
R15	Australian subsidiary/subsidiaries
R16	N/A
R17	N/A
R18	N/A
R19	N/A

5. Which of the following best describes you, or the organisations you represent?

R13	Individual donor or member of a not-for-profit organisation
R14	Other (Accountant working in non-profit and preparing accounts for audit for a number of non-profits at Tier 3 level.)
R15	Lender
R16	Other (I am an accountant working in the public sector.)
R17	Other (Funder to Maori organisations who negotiate Waitangi Tribunal claims with the Government. We operate two trusts which are Tier 1 and Tier 2 respectively.)
R18	Other (Government Ministry)
R19	Other (Chartered Accountant)

6. Which entities' financial statements are you most interested in? (FP private, FP public, PS PBEs, NFP PBEs)

R13	Large for-profit entities in the private sector, medium for-profit entities in the public sector, large and medium public sector PBEs, large NFP PBEs
R14	Medium and small NFP PBEs
R15	Large and medium for-profit entities in the private sector and public sector, large and medium public sector PBEs, large NFP PBEs
R16	Large and medium for-profit entities in the public sector, large and medium public sector PBEs, large and medium NFP PBEs
R17	Large and medium NFP PBEs
R18	Large, medium and small public sector PBEs
R19	Medium for-profit entities in the private sector, medium and small NFP PBEs



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 November 2019

To: NZASB Members

From: Lisa Kelsey and Joanne Scott

Subject: **PIR of Tier 3 and Tier 4 Standards**

Purpose and introduction¹

1. The purpose of this session is to seek confirmation that we should begin work on the post-implementation review (PIR) of the Tier 3 and Tier 4 standards and seek feedback from the Board about the scope of, and approach to, the project.
2. The objective of a PIR is to assess whether an accounting standard is working as intended and achieving its objectives.
3. The Board's commitment to undertake a PIR of the Tier 3 and Tier 4 standards is set out in Action 1.9 of the NZASB's Strategic Action Plan for 2019–2024 (see below).

Action 1.9: Conducting a post-implementation review of Tier 3 and Tier 4 PBE Accounting Requirements

Following the completion of the XRB's PiR of the ASF (discussed under Action 1.8), the NZASB will complete a separate PiR of the Tier 3 and Tier 4 PBE Accounting Requirements. This PiR is considered important because the reporting requirements under these tiers were developed domestically and the NZASB is aware of some current implementation issues arising in practice.

The outcomes of this separate PiR will be used to determine whether any amendments to the Tier 3 and Tier 4 PBE Accounting Requirements are required.

NZASB actions will comprise:

- (a) undertaking a PiR of the Tier 3 and Tier 4 PBE Accounting Requirements; and
- (b) determining whether any amendments to the Tier 3 and Tier 4 PBE Accounting Requirements are required, based on the outcomes of the PiR.

4. The Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework* (Targeted Review DP) reiterated the XRB's commitment to a PIR of the Tier 3 and Tier 4 standards. The following extract from the Targeted Review DP (footnotes omitted) is one of many mentions of the planned PIR in that document.

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).

Future Post-implementation Review of the Tier 3 and Tier 4 PBE Reporting Requirements

- 1.19 The XRB and its sub-board, the New Zealand Accounting Standards Board (NZASB), are aware that some Tier 3 and Tier 4 PBEs are experiencing challenges in applying the PBE Simple Format Reporting Requirements⁸ issued by the XRB.
 - 1.20 The XRB and NZASB are conscious there is a significant number of smaller registered charities⁹ who are preparing annual performance reports in accordance with the Tier 3 or Tier 4 PBE Simple Format Reporting Requirements. These entities often have limited resources available and are reliant on the support of volunteers.
 - 1.21 The NZASB plans to conduct a separate standards-level review of the Tier 3 and Tier 4 PBE Simple Format Reporting Requirements shortly after the completion of the targeted review of the ASF. This separate review will consider whether refinements to current requirements or more guidance is needed to assist smaller not for-profit (NFP) entities in applying the specific reporting requirements within these standards.
5. Although the targeted review of the New Zealand Accounting Standards Framework is still in progress, the Discussion Paper comment period has closed. It is expected that the XRB's project on the targeted review of the New Zealand Accounting Standards Framework will be completed in five to six months. This will allow time to analyse submissions and to consider any amendments to the Framework and the *Policy Approach to Developing the Suite of PBE Standards*. However, we have a broad understanding of the feedback received, and the potential refinements to the Framework are not expected to have a direct impact on the Tier 3 and Tier 4 standards.
6. We therefore think it is appropriate to begin planning for the PIR of the Tier 3 and Tier 4 standards.

Recommendations

7. We recommend that the Board:
- (a) AGREES that staff should begin work on the PIR of the Tier 3 and Tier 4 standards;
 - (b) PROVIDES FEEDBACK on the scope of, and approach to, this project;
 - (c) PROVIDES FEEDBACK on the proposed sections in a Request for Information; and
 - (d) PROVIDES FEEDBACK on the proposed next steps.

Structure of this memo

8. In this memo we summarise the background to the development of the Tier 3 and Tier 4 standards and some of the issues that have been raised since they were issued. We also outline the steps in a PIR and consider how we might go about those steps in this project.
9. The sections in the memo are as follows.
- (a) The standards
 - (b) The preparers, auditors and users

- (c) Stable platform – amendments to date
- (d) What is a PIR?
- (e) Proposed scope and approach
- (f) Next steps.

The standards

10. XRB A1 *Application of the Accounting Standards Framework* specifies the tier criteria and the standards that comprise each tier of PBE Accounting Requirements.
11. The Tier 3 and Tier 4 criteria are as follows.

Tier 3	Does not have public accountability, has total expenses less than or equal to \$2million, and elects to be in Tier 3.
Tier 4	Is permitted by an Act to report in accordance with non-GAAP standards (i.e. the cash basis of accounting) because it does not have public accountability and has total operating payments less than \$125,000, and elects to be in Tier 4.

12. The Tier 3 and Tier 4 standards are listed in Table 1. They are commonly referred to as PBE Simple Format Reporting – Accrual and PBE Simple Format Reporting – Cash.

Table 1: Tier 3 and Tier 4 standards

Tier	Name of standard	Issued/Effective
Tier 3	PBE SFR-A (PS) Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)	Issued: November 2013 Effective: 1 July 2014
Tier 3	PBE SFR-A (NFP) Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)	Issued: November 2013 Effective: 1 April 2015
Tier 4	PBE SFR-C (PS) Public Benefit Entity Simple Format Reporting – Cash (Public Sector)	Issued: December 2013 Effective: 1 July 2014
Tier 4	PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)	Issued: December 2013 Effective: 1 April 2015

13. The public sector and not-for-profit version of each standard are almost identical.
14. The Tier 3 standards establish simple format accrual-based reporting requirements within a single standard, accompanied by optional performance report templates and associated guidance material. In broad terms, the recognition and measurement requirements are consistent with the requirements for Tier 1 and Tier 2 entities, but with some simplifications to reflect the nature of the entities in this tier. The Tier 3 standards include an option to apply the requirements in the Tier 2 PBE Standards for a specific type of transaction, as long as the entity applies those requirements to all transactions of that type.
15. The Tier 4 standards establish simple format cash-based reporting requirements within a single standard, accompanied by optional performance report templates and associated guidance material. The Tier 4 standards may be applied only by entities that are permitted to

use cash accounting. Various Acts, such as the Charities Act 2005, permit certain small entities to use a cash accounting standard (referred to in the legislation as a non-GAAP standard).

16. The explanatory guides issued by the XRB or NZASB and other resources on the NZASB website that may be relevant for a Tier 3 or Tier 4 entity are set out in Table 2.

Table 2: Explanatory guides and other resources

Explanatory guides	Relevant tiers
EG A1 <i>Application of the Accounting Standards Framework</i>	Tiers 1,2,3,4
EG A2 <i>Overview of the Accounting Standard-setting Process</i>	Tiers 1,2,3,4
EG A3 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)</i>	PS Tier 3
EG A4 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</i>	PS Tier 4
EG A5 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)</i>	NFP Tier 3
EG A6 <i>Optional Template and Associated Guidance Notes for Applying Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)</i>	NFP Tier 4
EG A8 <i>Financial Reporting by Not-for-profit Entities: The Reporting Entity</i>	NFP Tiers 1,2,3,4
EG A9 <i>Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes</i>	NFP Tiers 1,2,3
Tier 3 Public sector reporting templates: <ul style="list-style-type: none"> • SLSX version • PDF version 	PS Tier 3
Tier 4 Public sector reporting templates: <ul style="list-style-type: none"> • SLSX version • PDF version 	PS Tier 4
Tier 3 NFP reporting templates: <ul style="list-style-type: none"> • SLSX version • PDF version 	NFP Tier 3
Tier 4 NFP reporting templates: <ul style="list-style-type: none"> • SLSX version • PDF version 	NFP Tier 4
FAQs – Working with our templates	Tiers 3 and 4
FAQs – Worksheet protection	Tiers 3 and 4
FAQs – Worksheet appearance	Tiers 3 and 4
FAQs – Cash and Accrual Accounting	NFP Tiers 3 and 4
FAQs – Incorporated Societies	NFP Tiers 3 and 4
FAQs – Goods and Services Tax	NFP Tiers 3 and 4
FAQs – Non-cash Donations	NFP Tiers 3 and 4

17. The NFP standards were developed after extensive consultation with the not-for-profit sector and, in particular, with registered charities. A not-for-profit working group was formed and

provided a report to the XRB in November 2011 entitled *Simple Format Reporting for NFP Entities*. The working group focused on two main issues: what statements should be included in the simple format financial reports of NFP entities; and what specific items should be disclosed in those statements. Experienced preparers and users of financial reports from across the not-for-profit sector were members of this group. This report formed the basis for developing the Tier 3 and Tier 4 standards for registered charities.

18. The public sector standards were developed in consultation with the Office of the Auditor-General. Research was also undertaken into the types of transactions entered into by Tier 3 and Tier 4 public sector entities. This research helped to identify changes needed to the NFP standards to ensure that they are appropriate for public sector entities.
19. The NFP standards and the public sector standards are substantively the same, with changes made to cater for the differences between the types of transactions entered into by NFP entities and public sector entities and the fact that some public sector entities have legislative requirements to report some sort of service performance information. Examples of the differences between the NFP standards and the public sector standards include the following.
 - (a) Related party transactions: these are explained as “normal business transactions as well as transactions below market prices” for NFP entities and “significant transactions that are different from those conducted under normal terms and conditions” for public sector entities.
 - (b) Statement of financial performance: categories of revenue to be disclosed are different.
 - (c) Statement of service performance: required by all NFP entities and optional for public sector entities that are not required by law to present such a statement.
 - (d) Presentation of budgeted information: optional for all NFP entities and public sector entities that are not required by law to present such information.
20. A description of the approach to developing the Tier 3 and Tier 4 standards is available in the Bases for Conclusions that accompany the standards (see Appendix 1 to this memo).

The preparers, auditors and users

21. The way in which the PIR of the Tier 3 and Tier 4 standards is conducted will be shaped by the characteristics of the entities applying the standards and the constituents that help prepare, audit or use the performance reports of those entities. This section gives an overview of the entities applying the standards.
22. Future developments might lead to changes in the size criteria for entities that have reporting obligations. This could result in more, or fewer, entities being required to apply the standards in particular tiers. These developments include:
 - (a) proposals for the financial reporting requirements for incorporated societies which were set out in the Incorporated Societies Bill (issued in 2015). As discussed below, Cabinet agreed some changes to that draft in May this year; and
 - (b) a consultation about the Charities Act. The Discussion Document *Modernising the Charities Act 2005* was issued in February 2019. The Department of Internal Affairs is

still analysing feedback received. The XRB commented on these proposals. One of the XRB's comments was that the XRB was, in principle, opposed to the establishment of a new 'micro entity' tier for charities with less than \$10,000 operating expenditure and the suggestion that such entities should not be required to comply with current XRB accounting standards.

23. The 2015 draft Incorporated Societies Bill proposed that all incorporated societies prepare financial statements in accordance with the accounting standards set by the XRB. Following Cabinet decisions earlier this year, the draft Bill might be changed. It is now likely that incorporated societies which are not registered charities will be required to report using standards issued by the XRB only when they satisfy one or more of the following criteria:
 - (a) annual payments of \$10,000 or more; and/or
 - (b) assets of \$30,000 or more; and/or
 - (c) donee status under the Income Tax Act 2007.²
24. Because the requirements for incorporated societies have not yet been finalised and few incorporated societies currently apply the Tier 3 and Tier 4 standards, we do not think that the PIR should encompass incorporated societies. We could defer the PIR until incorporated societies have experience in applying the standards but we think that this would lead to an unreasonably long delay. Once the incorporated society requirements have been finalised we would need to consider the appropriateness of the standards for incorporated societies, propose amendments if required and, at some point in the future, seek feedback on implementation issues.
25. Because we cannot predict the timing or effect of the proposals and consultations mentioned above, the following information is based on what we know about entities currently applying the standards.³

Table 3: Information about Tier 3 and Tier 4 entities

Which entities apply the Tier 3 and Tier 4 standards?

Entities subject to legislative reporting requirements have to determine whether they are a PBE or a for-profit entity and which tier is appropriate. The following are examples of PBEs.

- Public sector entities (including council-controlled entities, and entities specified in various Acts such as the Burial and Cremation Act 1964 and the Reserves Act 1977)
- Registered charities (including incorporated societies that are also registered charities). Most registered charities determine that they are PBEs for financial reporting purposes
- Friendly societies under the Friendly Societies and Credit Unions Act 1982 (although there are some opt out provisions)

² Cabinet Minute DEV-19-MIN-0101 <https://www.mbie.govt.nz/assets/6f974df044/reform-of-the-incorporated-societies-act-1908-minute-of-decision.pdf> The Minister of Commerce and Consumer Affairs will have an obligation to review these thresholds at least every 8 years, and the ability to recommend that the Governor-General amend the threshold accordingly by Order in Council. Cabinet has also decided that incorporated societies that are not registered charities will have to have their annual financial statements audited if they have annual expenditure of \$2 million or more, or assets of \$4 million or more.

³ Much of this information comes from Appendix E of the Targeted Review DP (which discusses the spread of registered charities across the four PBE tiers). These figures are indicative as some are based on samples or on self-reported data.

Table 3: Information about Tier 3 and Tier 4 entities

<ul style="list-style-type: none"> Industrial and provident societies under the Industrial and Provident Societies Act 1908 (although there are some opt out provisions) Some incorporated societies that are not registered charities apply the standards on a voluntary basis <p>Note:</p> <ul style="list-style-type: none"> Some entities eligible for Tier 3 or Tier 4 choose to apply the Tier 2 PBE Standards Schools (around 2,400) are required to apply the Tier 2 PBE Standards, regardless of size 		
How many entities apply the Tier 3 and Tier 4 standards?⁴	Tier 3	Tier 4
<ul style="list-style-type: none"> Public sector entities 	220 (7%)	130 (4%)
<ul style="list-style-type: none"> Registered charities 	8,575 (24%)	13,844 (71%)
<ul style="list-style-type: none"> Other types of entities 	Not known	Not known
<p>What is the uptake and level of compliance with the Tier 3 and Tier 4 standards?</p> <p><i>Compliance refers to compliance with the basic requirements in the standards</i></p> <ul style="list-style-type: none"> Public sector entities – generally good, although there has been an issue with the timeliness of reporting by some small bodies Registered charities Tier 3 uptake – between 88% and 97% over the last three years Registered charities Tier 3 compliance – between 58% and 80% over the last three years Registered charities Tier 4 uptake – between 56% and 70% over the last three years Registered charities Tier 4 compliance – between 38% and 58% over the last three years <p>Tier 3 compliance continues to be much higher than Tier 4 compliance, possibly because of the higher reliance on volunteers and the turnover of office holders in Tier 4 entities.</p>		

26. If we want to find out about issues being experienced with the application of the standards we will need to seek feedback from the entities applying the Tier 3 and Tier 4 standards. We will also need to seek feedback from the wide range of accountants and auditors that provide services to those entities. Table 4 gives an indication of the resources available to Tier 3 and Tier 4 entities (some of which are specifically for charities) and some of the entities that provide services to them. Table 4 is not intended to be comprehensive – it merely illustrates the types of entities that we might need to engage with

Table 4: Examples of resources and entities providing services to Tier 3 and 4 PBEs

<p>Charities Services (this is not an exhaustive list of all resources available)</p> <p>Written materials</p> <ul style="list-style-type: none"> Annual Reporting to Charities Services <i>A guide for Tier 3 charities</i> Annual Reporting to Charities Services <i>A guide for Tier 4 charities</i> Tier 4 guide, <i>How to complete your performance report and annual return</i> As well as the above guides there is also written content on the Charities website in relation to minimum categories, member and non-member receipts/revenue, related party transactions, control etc.
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⁴ There is a slight overlap between some of the categories. For example, a council controlled entity which meets the definition of a public entity, and hence included in the public sector number, could also be a registered charity. The figures should be treated as approximate.

Table 4: Examples of resources and entities providing services to Tier 3 and 4 PBEs

<p>Blogs</p> <ul style="list-style-type: none"> • The difference between outputs and outcomes • Conflicts of interest and related party transactions • Automated Cash Book – Helping you report your cash transactions • When can Tier 3 entities apply Tier 2 standards for certain transactions? • Categories in the performance report – What about Grants? <p>Webinars</p> <ul style="list-style-type: none"> • Tier 4 charities: <i>A tour of the performance report</i> This webinar is an in-depth, step-by-step guide to the performance report. It takes you through the different stages and explains each section in more detail. • Tier 3 charities: <i>A tour of the performance report</i> • Minimum categories in the performance report (Tier 3 and Tier 4) • Webinar on statement of service performance <p>Videos</p> <ul style="list-style-type: none"> • Tier 4 Get Started videos (three videos designed to help registered charities understand how to apply the reporting standards) • How to use the Tier 4 Microsoft Excel template (available as a series of short videos or as a written document) <p>FAQs</p>
<p>Audit NZ</p> <ul style="list-style-type: none"> • Tier 3 template for a council-controlled organisation • Tier 4 template for Reserve Boards and Administering Bodies • Tier 4 template for cemeteries
<p>The Methodist Church of New Zealand</p> <ul style="list-style-type: none"> • Tier 3 and Tier 4 templates (available in Excel, Word and Xero)
<p>Presbyterian Church of Aotearoa New Zealand</p> <ul style="list-style-type: none"> • Tier 3 and Tier 4 templates and sample reports • Parish Annual Accounts Preparation on Xero • MYOB Essentials Presbyterian Church
<p>Sport New Zealand</p> <ul style="list-style-type: none"> • Not-for-profit Guidance <i>Revenues and Consolidation</i> Tier 3 • Illustrative Performance Report Tier 3 • Illustrative Performance Report Tier 4
<p>CA ANZ, Guidance for Not-for-Profit Financial Reporting in New Zealand</p> <p>Developed to help practitioners understand and effectively implement the new accounting standards framework for not-for-profit entities.</p>
<p>CATAS</p> <p>CATAS was established by the Baptist Union. Its purpose is to serve the Christian community of New Zealand by providing affordable accounting and payroll assistance for churches and trusts anywhere throughout the country. It assists over 160 church-related charities.</p>
<p>Community Trusts</p> <p>A number of community trusts (such as the Wellington Community Trust) have links to the resources on the Charities Services website and the CA ANZ NFP guidance.</p>

Table 4: Examples of resources and entities providing services to Tier 3 and 4 PBEs

Integrity Audit The website states that clients include 150 churches, 50 kindergartens, 50 trusts and 50 clubs.
UHY Haines Norton The website states that the firm specialises in not-for-profit audits and not for profit reviews.
Trust Management The website states 'Empowering charities to serve and prosper'. Provides governance and accounting services to charities, including churches.

27. As well as the preparers, their advisors and auditors, we will also have to seek feedback from users of the performance reports produced in accordance with the Tier 3 and Tier 4 standards in both the NFP and public sectors. We will have to seek feedback from funders, donors, members, those charged with governance, service recipients and other users.

Stable platform – amendments to date

28. When the standards were first issued the NZASB had a clear view that they should be amended as infrequently as possible. The NZASB wanted to allow time for entities, particularly charities, to become familiar with the requirements and was aware that changes to the standards could impose undue costs on smaller entities.
29. Despite the desire to have a stable platform, some changes have been made (see Table 5). The detail isn't important – what is important is that a number of issues were deferred for consideration in the context of this PIR.

Table 5: Amendments since Tier 3 and Tier 4 standards issued

Date	Amendments
September 2014	<i>Interests in Other Entities</i> When the Tier 3 standards were first issued they were silent as to the treatment of interests in other entities. The Board consulted separately on this issue. These amendments added paragraphs requiring a Tier 3 entity to account for interests in other entities by applying the requirements in the Tier 1 and 2 PBE Standards.
December 2015	<i>Amendments to Simple Format Reporting Accounting Requirements as a Consequence of XRB A1</i> These amendments reflected the revised title of XRB A1 and the way accounting standards and requirements are now referred to in XRB A1.
January 2017	New Tier 1 and 2 PBE Standards (being PBE IPSASs 34–38), which deal with interests in other entities, were issued. The Tier 3 standards were amended to refer to these new Tier 1 and 2 PBE Standards.
July 2018	<i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> These amendments: <ul style="list-style-type: none"> aligned terminology and concepts with terminology and concepts in the Public Benefit Entities' <i>Conceptual Framework</i> (Tier 3 standards only); made limited changes to clarify existing requirements; <ul style="list-style-type: none"> reversal of impairment charges– specifying how and when to reverse prior period impairments;

Table 5: Amendments since Tier 3 and Tier 4 standards issued

Date	Amendments
	<ul style="list-style-type: none"> ○ opting up to apply PBE Standards –clarifying what is meant by ‘a specific type of transaction’; • added a requirement to sign and date the performance report; • reflected amendments arising from the <i>2017 Amendments to XRB A1</i> – about eligibility to report in accordance with Tier 4 (Tier 4 standards only); • made minor editorial amendments; and • corrected the glossaries (Tier 3 standards only).

30. Table 6 (see Appendix 2) gives more information about the issues considered in the 2018 project. Even though the scope of that project was limited (to alignments, clarifications and editorials), the project still took quite a bit of staff resource and Board time. This was because of the need to amend multiple versions of standards plus the associated guidance and templates. As noted in the 2018 ITC, a number of issues (see the Group 3 issues in Table 6) were deferred for consideration until this PIR.

What is a PIR?

31. The XRB, supported by the NZASB, is in the process of carrying out a targeted review of the New Zealand Accounting Standards Framework, but this review of the Tier 3 and Tier 4 standards will be the first standards-level PIR conducted by the NZASB.
32. The XRB and NZASB do not have any documents outlining the role of a PIR (or the process to be followed) so we have referred to the IFRS Foundation’s *Due Process Handbook* in identifying the steps in a PIR. An extract from the IFRS Foundation’s *Due Process Handbook*, together with some amendments proposed in April 2019, is included in Appendix 3 of this memo.⁵ We have also included an article by Gary Kubareck, an IASB member, on the role of a PIR (see agenda item 5.2)
33. Each IASB PIR has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a request for information. In the second phase, the IASB considers the comments it has received from the request for information along with the information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.
34. The steps in the IASB’s PIR process are as follows.
- (a) Initial assessment of issues. This involves identifying issues that were important or contentious during the development of the publication, as well as issues that have come to the attention of the Board since the document was published.
 - (b) Outreach with consultative network.

⁵ The IASB has a policy of carrying out a PIR of each new IFRS Standard or major amendment. To date the IASB has carried out three PIRs – on IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments* and IFRS 13 *Fair Value Measurement*. The PIR of IFRSs 10–12 has recently been added to the IASB workplan.

- (c) Request for Information (RFI). This formal consultation document is issued if important issues are identified.
- (d) Analysis of comments.
- (e) Determine next steps. Possible next steps are (i) no action – some potential improvements may not pass the cost-benefit test; (ii) education; and (iii) research/standard setting.
- (f) Feedback statement.

Proposed scope and approach

Scope

35. We think that the NZASB has already outlined the key matters that will be considered as part of the PIR. The following extract from the ITC that accompanied ED NZASB 2018-2 (the 2018 ITC) indicated that the review would look at issues that had arisen and give constituents the opportunity to comment on any concerns with the standards.

Extract from the 2018 ITC

- 8. Any other possible changes to the standards will be considered later. In particular, although there was extensive consultation during the development of these standards, the NZASB has become aware of a few implementation issues faced by Tier 3 and Tier 4 PBEs and will consider these as part of the post-implementation review of the Tier 3 and Tier 4 standards.
 - 9. The NZASB is committed to undertaking a post-implementation review once the Tier 3 and Tier 4 standards have been in use for some time. This will involve the NZASB looking at a number of things, including whether the objective of the standards has been achieved, whether the requirements are appropriate, and whether any issues which need to be addressed have emerged since the standards were issued.
 - 10. The post-implementation review, which is planned for 2019–2020, will give entities the opportunity to provide feedback on any issues or concerns with the Tier 3 and Tier 4 standards.
36. The scope of the review is a standards-level review, including the guidance and templates. The objective of the PIR is to assess whether the standards, guidance and templates are working as intended and achieving their objectives.
37. We are seeking feedback from the Board as to whether they wish to limit the scope of the PIR in any way. This could mean limiting the type of issues that respondents are invited to provide feedback on (for example, by not seeking feedback on issues that were raised by constituents and debated during the development of the standards). Examples of issues raised during the development of the standards are: (i) the requirement by Tier 3 entities to prepare a statement of cash flows; (ii) requests for more flexibility to be provided in relation to set categories of revenue and expenses and (iii) the information required by Tier 4 entities in the statement of resources and commitments.
38. We think the PIR should be broad scope and should allow constituents to comment on any aspect of the standards (including issues that were debated during the development of the standards). However, step 3 below highlights that we think the messaging in our public

consultations will be important. We need to send messages that create realistic expectations about what is possible and probable. We need to keep the objectives behind the development of these standards at the forefront of any discussions. These objectives were to:

- (a) provide information useful for accountability and decision making;
- (b) provide simplified reporting requirements for smaller NFP and public sector entities – to reflect the small size and reduced level of expertise within entities in these tiers;
- (c) use non-technical language for non-accountants; and
- (d) improve the quality and consistency of the information disclosed in performance reports, and to facilitate comparability between entities, and between years for the reporting entity.

Questions for the Board

- Q1. Do Board members agree staff should begin work on the PIR of the Tier 3 and Tier 4 standards?
- Q2. Does the Board want to limit the scope of the PIR in any way?

Approach

39. Our proposed approach is to take the general steps used by the IASB and tailor the steps for this project, with a focus on getting the feedback needed to make informed decisions about the next steps.

Step 1: Initial assessment of issues

40. We already have quite a bit of information about the issues which might need to be addressed.
- (a) A number of issues were raised, but not addressed, in the context of the 2018 amendments. Information about these issues is found in the following Board papers: May 2017, December 2017 and June 2018.
 - (b) Staff have maintained a record of queries about the Tier 3 and Tier 4 standards. We plan to analyse this list to identify issues which might need to be addressed.
 - (c) We have received feedback from Audit NZ on some issues in relation to the public sector standards.
41. Because the Board already knows about some issues that might require standard-setting activity, the Request for Information could be used to find out how many entities are affected by various issues. The question for the Board to consider is how comprehensive and detailed the discussion of issues should be. Detailed discussion of some issues could generate specific feedback that could, in turn, lead to more efficient and better-informed standard setting. However, the RFI would also need to give constituents the opportunity to comment on any issues. Too much detail in the RFI could send the wrong signals about this.
42. Given that we already know about some issues that have been encountered, we considered whether it would be possible to develop an exposure draft of amendments now. However, we

do not think this would be appropriate for a number of reasons. The XRB and NZASB have publicly committed to the PIR. So far we have received feedback about some specific issues from individual entities and general concerns from Charities Services that some preparers are struggling to comply with the Tier 3 and Tier 4 standards. We have not received feedback from funders and other users. Nor have we received feedback from the vast majority of entities applying the standards.

Step 2: Outreach with consultative network

43. We think it is important to liaise with key stakeholders before issuing a Request for Information, but we note that we are already in close contact with key stakeholders and are aware of most of their concerns. Given this, we think that it could be appropriate to draft the Request for Information and outreach plan for the formal consultation and use those drafts as the basis for discussions with key stakeholders. This would allow people to give us feedback on an exceptions basis.

Step 3: Request for Information and outreach plan

44. This memo seeks feedback from the Board about the key messages that should be conveyed in the RFI. Some general comments to prompt Board discussion follow.
45. The messaging around this project will be important. We need to send messages that create realistic expectations about what is possible and probable. We would need to reiterate the desire for simple standards and the risk that changes that make the standards longer or more complex could have a detrimental impact on the usability of the standards by other entities. We would also need to acknowledge the broad range of costs that would be considered by the Board – including the difficulties of introducing changes to reporting requirements in a sector where there is a high reliance on volunteers and the costs of change for preparers and users generally.
46. There will be a large number of users to communicate with. Any assessment of costs and benefits will also need to factor in the difficulty of communicating changes to standards to a wide number of users.
47. In the same way that the IFRIC Interpretations Committee has criteria for taking projects onto its agenda, and criteria for deciding whether to undertake standard-setting activity, the PIR could signal the criteria that would have to be satisfied before the Board would undertake standard-setting activity. Both sets of IFRIC Interpretations Committee criteria are shown below.
48. The Committee has criteria to be met for issues to be raised by stakeholders and considered by the Committee. The criteria considered by the Committee in considering whether to address the issue raised by stakeholders include an evaluation of whether:⁶
 - (a) the issue is widespread and has, or is expected to have, a material effect on those affected;

⁶ How the IFRS Interpretations Committee helps implementation [of IFRS Standards] <https://www.ifrs.org/supporting-implementation/how-the-ifrs-interpretations-committee-helps-implementation/>

- (b) financial reporting would be improved through the elimination, or reduction, of diverse reporting methods;
 - (c) the issue can be resolved efficiently within the confines of IFRS Standards and the *Conceptual Framework for Financial Reporting*;
 - (d) the issue is sufficiently narrow in scope that the Committee can address the issue in an efficient manner, but not so narrow that it is not cost-effective for the Committee to undertake the due process that would be required when making changes to IFRS Standards; and
 - (e) the solution developed by the Committee will be effective for a reasonable time period. (The Committee will not add an item to its agenda if the issue is being addressed in a forthcoming IFRS Standard and/or if a short-term improvement is not justified.
49. Where an issue is widespread/expected to have a material effect, is sufficiently narrow in scope, can be resolved efficiently and requires a change to an IFRS Standard, the Committee refers the issue to the IASB and recommends either a narrow scope amendment or an interpretation to resolve the matter. Where these criteria are not met, the Committee reports an agenda decision which may include explanatory material.
50. The Board may want to consider whether any of these criteria (amended as appropriate) or other criteria would be helpful. Some other suggestions include:
- (a) the feasibility of making a change;
 - (b) the number of entities that would benefit from the change weighed up against the impact of the change on the size and complexity of the standards;
 - (c) whether the costs of the changes outweigh the benefits, bearing in mind there are costs to preparers, users, regulators and the standard-setter; and
 - (d) whether education or guidance could help with the issue.
51. The RFI will need to acknowledge other projects/reviews that might change which entities are required to report in accordance with XRB standards and whether they might affect this PIR. At this stage it does not look like any of the developments noted earlier in this memo (proposed incorporated societies legislation, review of the Charities Act) will be completed before this PIR.
52. Given that much of the Board's time for the next few months will be focused on other high-priority projects, staff could use feedback from this meeting to begin drafting the RFI, with a view to seeking feedback from the Board at its May 2020 meeting. The Board could ask a couple of members to monitor this work.

53. Possible sections for the RFI are set out below.

Introduction

- (a) Background to the PIR (include information about the development of the standards, including objective etc)
- (b) Issues that we are already aware of and options to resolve issues
(*seeking Board feedback*)
- (c) Criteria for considering amendments to the Tier 3 and Tier 4 standards and guidance
(*seeking Board feedback*)

Request for information

- (d) Respondents' background and experience
- (e) Request overall views on whether the standards are working as intended and meeting their objectives
- (f) Request information about issues encountered: for each issue request information about the issue, the consequences for the entity concerned, the prevalence of the issue and any suggestions for addressing the issue
(*seeking Board feedback*)
- (g) Request information about any unexpected/unintended consequences

How to respond to the RFI

- (h) Submit formal comments/informal comments
- (i) Attend outreach events – give details
- (j) Feed comments in via representative groups (e.g. Charities Services)

54. We will use feedback from this meeting to develop a project plan, which indicates proposed timings and proposed outreach. Any proposed outreach will have to be tailored for our Tier 3 and Tier 4 constituents.

Step 4: Analysis of comments

55. Responses to the RFI and responses gathered through other outreach activities will be analysed.

Step 5: Determine next steps

56. Possible next steps at the conclusion of the PIR are:
- (a) no action – some potential improvements may not pass the cost-benefit test;
 - (b) education;
 - (c) research; and
 - (d) standard setting.

57. We are anticipating that there will be standard-setting activity as a result of the issues we are already aware of. This will involve the usual due process of issuing an ITC and ED setting out any proposed amendments to the standards for comment.

Step 6: Feedback statement

58. We believe we should issue a feedback statement on the issues received and the decisions reached by the Board in relation to the issues.

Questions for the Board

- Q3. Do Board members agree with the proposed approach to the PIR?
- Q4. Do Board members have feedback on the possible criteria? Should criteria be included in the RFI?
- Q5. Do Board members have feedback on the possible sections in the RFI?
- (a) Should known issues be included in the RFI?
- (b) Should possible approaches to dealing with known issues be included in the RFI?

Next steps

59. If the Board agrees that we should commence work on the PIR of the Tier 3 and Tier 4 standards we propose the following next steps.

For feedback

- (a) project plan, including outreach suggestions (NZASB, February 2020);
- (b) first draft of the RFI to be subsequently used as a basis for outreach with consultative network (NZASB, May 2020); and

For noting

- (c) analysis of queries received in relation to the Tier 3 and 4 standards to identify potential issues to include in the RFI (NZASB, May 2020).

Question for the Board

- Q6. Do Board members have any feedback on these next steps?

Attachments

- Agenda item 5.2: Gary Kubareck article – A holistic look at IFRS Standards: the role of Post-implementation Reviews

Appendix 1 Extract from Bases for Conclusions – Tier 3 and Tier 4 standards

This Appendix contains extracts from the Bases for Conclusions that accompany the Tier 3 and Tier 4 standards. The extracts explain the approach taken in developing the standards. The public sector and NFP BC paragraphs are almost identical (shading indicates where they differ).

Extract from PBE SFR-A (PS)

- BC5. In preparing the Standard, the NZASB was cognisant of the fact that some Tier 3 public sector preparers, as well as users of their performance report, may have limited access to professional accounting expertise. The NZASB was of the view that the Standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-A (PS).
- BC6. The NZASB decided that PBE SFR-A (PS) should be a single, short, and relatively simple standard written in less technical language than is normally found in accounting standards. As a result, the Standard:
- (a) Addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-A (PS);
 - (b) Contains simplified measurement of transactions where, taking the public sector as a whole, the costs of applying the requirements of Tier 1 and Tier 2 standards are likely to outweigh the benefits;
 - (c) Excludes the options contained in Tier 1 and Tier 2 standards such as the option to measure property, plant and equipment using the revaluation model; and
 - (d) Contains simplified presentation and disclosure requirements.

Extract from PBE SFR-C (PS)

- BC5. In preparing PBE SFR-C (PS), the NZASB was cognisant of the fact that some Tier 4 public sector preparers, as well as users of their financial statements, may have limited access to professional accounting expertise. The NZASB was of the view that the standard should be able to be applied by persons who are managing the finances of an entity that is eligible to apply PBE SFR-C (PS).
- BC6. The NZASB decided that PBE SFR-C (PS) should be a single, short and simple standard written in less technical language than is normally found in accounting standards. As a result, PBE SFR-C (PS) addresses only those transactions that are commonly undertaken by entities eligible to apply PBE SFR-C (PS). The NZASB relied heavily on information in public sector financial statements prepared under previous requirements to assist it in identifying which transactions needed to be addressed in the Standard.⁷
- BC7. PBE SFR-C (PS) has been prepared on a stand-alone cash basis. It is fundamentally different from the standards based on the accrual basis of accounting. Therefore, there is no ability for an entity to elect to use some of the accounting treatments that are applied by entities in the other Tiers.

⁷ The NFP version says "The NZASB relied heavily on research funded by the then Charities Commission to assist it in identifying which transactions need to be addressed in the Standard. The research identified that Tier 4 not-for-profit entities generally undertook relatively simple transactions."

Appendix 2 2018 Amendments

This Appendix describes the steps in the 2018 amendments project. It identifies the issues that were considered at various phases and the amendments that were made.

Table 6: Project Summary – 2018 amendments

Date	Comment
May 2017	<p>The Board discussed implementation issues with the Tier 3 PBE Accounting Requirements. These issues came from a variety of sources including accountants and auditors of not-for-profit PBEs, not-for-profit entities themselves, Charities Services and the Technical Reference Group (TRG).</p> <p>The memo grouped issues into four categories:</p> <ul style="list-style-type: none"> Group 1: Explanatory Guide changes Group 2: Minor changes to the standards Group 3: PIR issues – these were issues that we felt would require a change to an underlying principle of the Tier 3 standards Group 4: Issues on which Board feedback is sought <p>Group 3 issues included:</p> <ul style="list-style-type: none"> • investments – which the Tier 3 standards require to be accounted for at cost, less any impairment • investment property – which is not dealt with separately in the Tier 3 standards • multi-year grants/donation revenue – which the Tier 3 standards require to be accounted for when received or receivable unless there is a “use or return” condition. These requirements are a simplified version of the requirements in PBE IPSAS 23 <i>Revenue from Non-exchange Transactions</i> • minimum revenue categories, particularly the classification of grant revenue and exchange versus non-exchange revenue • residual value – the Tier 3 standards intentionally omitted the concept of residual value. Depreciation is calculated by spreading the cost of an asset over the useful life of the asset <p>Group 4 issues included:</p> <ul style="list-style-type: none"> • opting up – various clarifications were sought • impairment of investments • multi-year grants/donation expense • lifetime membership fees • transitional requirements • summary financial statements • commencement date/registration date <p>The Board agreed to make some minor amendments to the Tier 3 not-for-profit standards and to remove inconsistencies between the requirements in the standard and the guidance.</p>
Sep 2017	<p>The Board discussed the possible need for amendments to the Tier 4 standards. The discussion of eligibility to report in accordance with Tier 4 needed to be updated following <i>2017 Amendments to XRB A1</i>.</p>
Nov 2017	<p>The TRG gave feedback on issues to be considered by the Board.</p>
Dec 2017	<p>The Board approved the amendments but did not consider the ITC and ED.</p>

Table 6: Project Summary – 2018 amendments

Date	Comment
Feb 2018	<p>The Board approved the ITC and ED.</p> <p>The Board noted it is committed to undertaking a PIR once the Tier 3 and Tier 4 standards have been in use for some time.</p>
Feb 2018	<p>ITC and ED NZASB 2018-2 <i>2018 Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements</i> issued Comments due: 30 May 2018 Proposed effective date: 1 January 2019 Issues that were addressed in the ED were:</p> <ul style="list-style-type: none"> • PBE Conceptual Framework – terminology and concepts were aligned • Accounting for reversal of impairment losses • Clarification of opting up requirements <p>Disclosure of date of approval and authorisation of performance report</p>
Feb–May 2018	<p>Seeking feedback on ED</p> <p>To make it easier for charities to provide feedback on the ED, the NZASB created a survey on Survey Monkey. The survey included the questions from the ITC, allowing answers of yes, no or don't know. Respondents were also able to include other comments.</p> <p>Charities Services included an article in its April 2018 newsletter on the proposed amendments and also a link to the survey.</p> <p>The NZASB received three formal submissions.</p> <p>The online survey was completed by 22 respondents.</p>
June 2018	<p>Approval of 2018 amendments</p> <p>The Board considered respondents' comments and approved the amendments for issue.</p> <p>Agenda item 10.1 of the June 2018 meeting identified some issues raised by respondents that staff recommended be considered as part of the PIR. For example, whether the Tier 4 standard should require the disclosure of controlled/controlling entity relationships. We will bring these issues to a future meeting.</p>

Appendix 3 IFRS Foundation Due Process Handbook

This Appendix describes when and how the IASB undertakes post-implementation reviews. The description comes from the *IFRS Foundation Due Process Handbook*, along with some amendments issued for comment in April 2019. Shading indicates key comments.

Extract from IFRS Foundation Exposure Draft

Proposed amendments to the IFRS Foundation Due Process Handbook, April 2019

Post-implementation review

- 6.52 The Board is required to conduct a PIR of each new IFRS Standard or major amendment. A PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30 – 36 months after the effective date.
- 6.53 In addition to PIRs that respond to a new IFRS Standard or major amendment to a Standard, the Board may decide to conduct a PIR in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of a Standard that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.
- 6.54 Each review has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the Board in the form of a request for information. In the second phase, the Board considers the comments it has received from the request for information along with the information it has gathered through other consultative activities. On the basis of that information, the Board presents its findings and sets out the steps it plans to take, if any, as a result of the review.

Initial assessment and public consultation

- 6.55 The goal of improving financial reporting underlies any new IFRS Standard. A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors following the issuance and application of a Standard. The review ~~must consider~~ considers the issues that were important or contentious during the development of the publication (which should be identifiable from the basis for conclusions, project summary, feedback statement and effect analysis of the relevant Standard), as well as issues that have come to the attention of the Board after the document was published. The Board and the technical staff also consult ~~the wider IFRS community~~ stakeholders to help the Board identify areas where possible unexpected costs or implementation problems were encountered.
- 6.56 This initial ~~review~~ assessment should draw on the broad network of IFRS Standards-related bodies and interested parties, such as the Interpretations Committee, the Board's consultative groups, ~~including the Advisory Council~~, securities regulators, national accounting standard-setting bodies, regional bodies involved with accounting standard-setting, preparers, auditors and investors. The purpose of these consultations is to inform the Board so that it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the Standard being reviewed and on what the Board already knows about the implementation of that Standard. The Board needs to be satisfied that it has sufficient information to establish the scope of the review.
- 6.57 The Board publishes a request for information, setting out the matters for which it is seeking feedback by means of a formal public consultation. In the request for information, the Board should explain why it is seeking feedback on the matters specified and should include any initial assessment by the Board of the IFRS Standard or major amendment that is being reviewed. The request for information will also set out the process that the Board followed in establishing the scope of the review.

- 6.58 The Board normally allows a minimum of 120 days for comment on a post-implementation request for information. The Board will only set a period of less than 120 days after consulting and obtaining approval from the DPOC.
- 6.59 The Board may decide, on the basis of its initial assessment, that it would be premature to undertake a ~~review~~ PIR at that time. The Board must inform the DPOC of its intention to defer a PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

Consideration of evidence and presentation of findings

- 6.60 The Board considers whether it is necessary to supplement the responses to the request for information with other information or evidence, such as by undertaking:
- (a) an analysis of financial statements or of other financial information;
 - (b) a review of academic and other research related to the implementation of the IFRS Standard being reviewed; and
 - (c) surveys, interviews and other consultations with relevant parties.
- 6.61 The extent to which further information is gathered will depend on the IFRS Standard being reviewed and the feedback in the request for information.
- 6.62 The Board considers the comments that it has received from the request for information along with the evidence and information that it has obtained from any additional analysis. When the Board has completed its deliberations, it presents its findings in a public report. The Board may consider making minor amendments to the IFRS Standard or preparing an agenda proposal for a broader revision of the Standard. There is no presumption that a PIR will lead to any changes to a Standard. The Board may also continue informal consultations throughout the implementation of the Standard or the amendment to the Standard. The Board may recommend to the DPOC that the Board should make changes to its procedures, such as how effects of the Standard are assessed or additional steps that should be taken during the development of the Standard.
- 6.63 The Board ~~must report~~ reports regularly to the DPOC during the period of a PIR and ~~must inform~~ informs the DPOC when it has completed its review and provide the DPOC with a draft of the report. When the DPOC is satisfied that the Board has completed the review satisfactorily, the report can be finalised.

04 September 2017



A holistic look at IFRS Standards: the role of Post-implementation Reviews



By Gary Kabureck, Member, International Accounting Standards Board

At the International Accounting Standards Board (Board), developing new IFRS® Standards to improve financial accounting and reporting is our stock in trade. However, no matter how comprehensive the development process is, for a variety of reasons there may be a need to make subsequent amendments.

Mostly these amendments have been either narrow in scope or transaction-specific in nature and come to us from a variety of sources such as recommendations from our IFRS Interpretations Committee. But we also stand back and take a holistic look at an entire Standard after it has been in use for some time. We call this activity a Post-implementation Review (PIR).

These are a relatively new process for us. To date, we have completed PIRs on IFRS 3 *Business Combinations* and on IFRS 8 *Operating Segments*. Currently, we are asking stakeholders to provide information to our third PIR, which is on IFRS 13 *Fair Value Measurement*, with comments and other input due on 22 September.

The PIR process in a nutshell

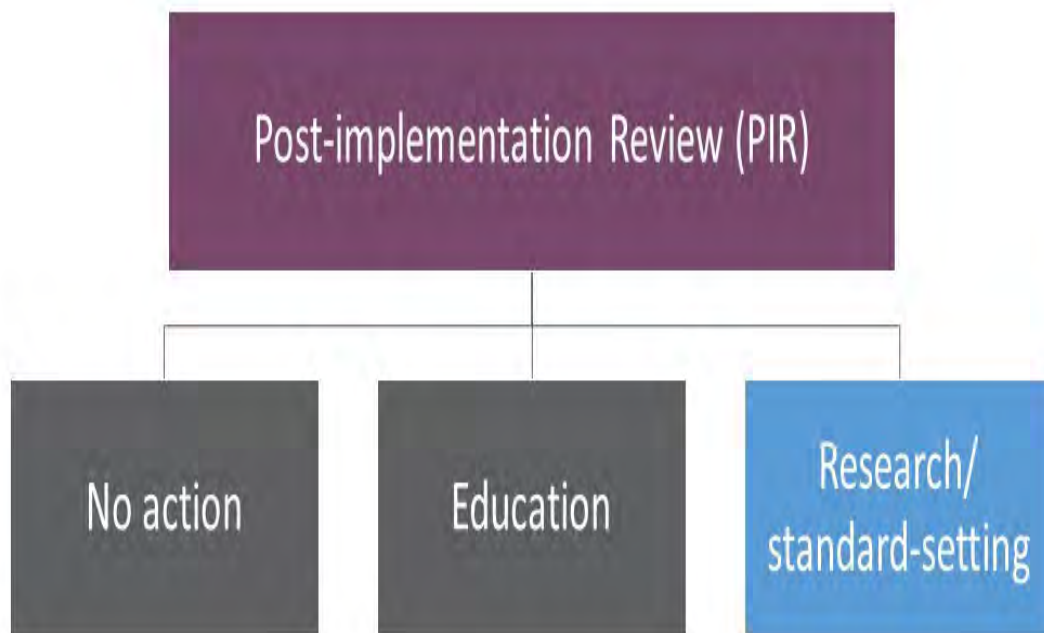
The Board's Due Process Handbook outlines why, when and how we conduct PIRs. First, let's be clear: a PIR is not intended to be a cover-to-cover reconsideration of the entire underlying Standard. It starts with an initial assessment of how well the new Standard is performing in practice and includes outreach to the Board's consultative network.

Whilst not reopening the Standard, we look at a number of things, including: have the Standard's objectives been achieved? Are the Board's requirements on the most difficult or conscientious issues performing as intended? Have new issues emerged since the Standard was issued? Are the compliance costs consistent with expectations?

After the initial assessment, the Board may determine no additional research is necessary. However, if important issues are identified, we then publish a formal Request for Information (RFI), seeking input on specific topics from any interested constituent. After the RFI responses are analysed, the Board then determines the next steps, which could range from standard-setting to a conclusion that no additional work is necessary.

For example, our PIR on IFRS 3 *Business Combinations* identified important challenges with its definition of a business and in evaluating goodwill for potential impairment. On the first issue, we are near finalisation of a revised definition of a business, and on the second, we are deep into a research project on the subsequent accounting for acquired goodwill, including potential improvements to our impairment testing requirements.

The possible outcomes of the process are summarised as follows:



As noted, a possible outcome—even if potential improvements have been identified—is that we make no changes to the Standard. This is because our constituents also want a stable financial reporting platform and minor changes may not pass the cost-benefit test; processing even minor changes still consumes a significant amount of both constituents' time and the Board's time.

If we choose not to amend the Standard, we will nonetheless have to ask ourselves the question: should we take some other action instead? Although issuing educational materials is not a substitute for standard-setting, maybe it is the most useful outcome of a PIR in some cases—for example, if we conclude that the Standard is clear but perhaps isn't well understood.

In the big picture, why are PIRs so important?

Maintaining the continuing relevance of IFRS Standards is critical and we are committed to keeping existing Standards as current and operational as possible. Historically, standard-setting always had processes to address situational questions but didn't include sunset reviews or an overall look back at how well an entire Standard is operating. Thus, introducing our PIR process was a much-needed development.

The Standards we issue typically involve very complex issues of material importance to sizeable constituencies. When an issue is complex, there are usually a number of reasonably plausible solutions from which the Board needs to choose: for example,

deciding between principle versus rule-based guidance; determining which transaction structures are in or out of scope; assessing theoretical purity versus practical application; considering cost versus benefits, etc. A final Standard may contain dozens of individual decisions.

To make the best decisions, we rely on extensive outreach, including input from perhaps hundreds of organisations and individuals through comment letters and meetings, education sessions, fatal-flaw reviews of near-final Standards and more.

One may ask, isn't this sufficient? Mostly it is, but field-testing during development is not a substitute for real-life-application experience. Rarely do more than a few hundred people and companies actively participate in our standard-setting projects. In contrast, it will be tens of thousands of companies, in more than 125 jurisdictions, which actually apply new IFRS Standards and this is where any unforeseen issues with a Standard usually become apparent.

'Unforeseen issues' could include, for example: the Standard isn't achieving its stated objectives; it is proving more difficult or costly to implement than expected; it isn't providing sufficient or unambiguous guidance on certain matters; new transaction types have emerged since the Standard was finalised, etc.

Therefore, the goal of a PIR, conducted relatively early in a new Standard's operational life, is to take stock of what is, and what is not, working effectively.

A PIR concludes with a Feedback Statement. With the PIR's findings in hand, the Board will then decide how it wishes to address any issues the PIR has identified: perform additional research, proceed to standard-setting or develop educational material. Of course, if any of the identified issues are not considered sufficiently important, the Board could decide that no further action is necessary.

We know from experience that established practices and procedures become progressively more difficult to change over time and thus the financial statements in which they are reported become less relevant and provide a less faithful representation if our Standards are not working as we had intended.

This is why PIRs are so critical to the long-term effectiveness of IFRS Standards.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 November 2019
To: NZASB Members
From: Joanne Scott
Subject: Service Performance Reporting Guidance

Recommendations

1. We recommend that the Board:
 - (a) PROVIDES FEEDBACK on the proposed guidance for Tier 2 not-for-profit entities; and
 - (b) APPROVES EG A10 *Service Performance Reporting* for issue.

Background

2. PBE FRS 48 *Service Performance Reporting* was issued in November 2017 with an effective date of 1 January 2021. The Board decided to develop guidance to assist smaller Tier 2 not-for-profit entities to apply the standard. The Board has previously agreed that the examples in the guidance should be generic and illustrate aspects of the standard (rather than being a comprehensive example for an entity).
3. We have previously sought feedback from the Board on earlier drafts in June and December 2018 and May 2019. In February/March 2019 we sought feedback from 19 constituents (including preparers, auditors, NZAuASB members, CA ANZ and Charities Services). We received feedback from over half those people, including some feedback from NZAuASB members. The Board considered this feedback and the changes made to the draft guidance in May 2019.
4. The NZASB's main comment in May was to focus on turning the document into an easier and engaging read. Since May we have:
 - (a) reformatted the document, using tables to break up text and highlight the requirements in the Standard, and inserting links between sections;
 - (b) added some discussion on applying the qualitative characteristics; and
 - (c) reduced the number of examples and presented them in a consistent format.
5. Although the document has been substantially rewritten, it still has the key ideas from the previous draft. The format used differs from that of the other explanatory guides issued by the NZASB. It is similar to that used for a couple of guides issued by the NZAuASB.

6. This has been a difficult document to draft as it is intended for a broader audience than we normally engage with and we have tried to use straightforward language to explain how an entity could comply with the requirements in the Standard (whilst being careful to stay true to what is required by the Standard).

Approval sought

7. Given the effective date of PBE FRS 48 and the requirement for comparatives, we would like to issue the guidance before the end of this year. We are therefore seeking approval to issue the guidance.

Question for the Board

- Q1. Does the Board approve EG A10 *Service Performance Reporting* for issue?

Attachments

Agenda item 6.2: Draft EG A10 *Service Performance Reporting*



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Explanatory Guide A10

Service Performance Reporting

A Guide for Tier 2 not-for-profit entities applying PBE FRS 48 *Service Performance Reporting* (issued in 2017).

This is an explanatory document and has no legal status.

IN THIS GUIDE

-
- Overview of service performance reporting requirements 
 - Getting started 
 - Preparation of service performance information 
 - Audit and final approval 
 - Improving and making changes over time 
-

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Introduction

Who should read this Guide?

1. You should read this Guide if you:
 - (a) report in accordance with PBE Standards (which set out the Tier 1 and Tier 2 PBE Accounting Requirements);
 - (b) are a not-for-profit PBE, such as a registered charity;
 - (c) are a smaller Tier 2 PBE (with expenses closer to \$2 million than \$30 million);¹ and
 - (d) will be reporting service performance information in your annual report for the first time.
2. This Guide is intended to help you understand the requirements of [PBE FRS 48 Service Performance Reporting \(PBE FRS 48\)](#) and think about how you will meet those requirements.
3. This Guide does not discuss the Tier 3 and Tier 4 Simple Format Reporting Standards. Those standards have less detailed service performance reporting requirements and are accompanied by their own guidance.

What is new?

4. PBE FRS 48 is a new PBE Standard that establishes service performance reporting requirements for Tier 1 and Tier 2 PBEs. It takes effect from 1 January 2021.
5. The Standard describes service performance information as information about what an entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
6. PBE FRS 48 reflects the view that service performance information is an essential part of an annual report and should be reported alongside an entity's financial statements.
7. Not-for-profit entities do things for a reason – generally they want to help others or make some sort of difference to individuals, society or the environment. Not-for-profit entities often talk about “telling their story”. Service performance information is a critical part of that story. Annual reports should tell the story of the entity's performance – both in terms of its financial performance and its service performance and explain the links between the two.
8. A new audit standard, New Zealand Auditing Standard 1 *The Audit of Service Performance Information*, also takes effect from 1 January 2021.



How is this Guide organised?

9. You are welcome to read this Guide from cover to cover, but you can also use the following links to go straight to a section.
 - [Overview of service performance reporting requirements](#)
 - [Getting started](#)

¹ XRB A1 *Application of the Accounting Standards Framework* sets out the tiers for reporting, with size being one of the tier criteria. Although Tier 2 PBEs may have total expenses between \$2 million and \$30 million, the majority of Tier 2 not-for-profit PBEs are at the lower end of that range.

- [Preparation of service performance information](#)
 - [Information about the entity, what it does, and why](#)
 - [Reporting on what the entity has done](#)
 - [Presentation of service performance information](#)
 - [Linking the service performance information with the financial statements](#)
 - [Disclosure of judgements](#)
 - [Comparative information and consistency of reporting](#)
- [Preparing for audit and final approval](#)
- [Improving and making changes over time](#)
- [Appendix A: Reporting on shared performance](#)

10. The section headed *Preparation of service performance information* includes a number of subsections. These subsections are set out as follows.

Reporting requirements An explanation of what the Standard requires.	
Examples Some examples illustrating those requirements.	
	Note Highlights a matter of importance to keep in mind when reporting service performance information.
	Planning prompts Questions that will be useful when preparing service performance information for the first time.

Although this Guide focuses on meeting the reporting requirements in PBE FRS 48, many entities find that reporting service performance information has wider benefits. For example, it can prompt discussions about the entity's key objectives, how to improve the delivery of goods or services and the information that is needed for effective management. Reporting service performance information can also make it easier to communicate with funders and the wider community about what the entity does and what it has achieved.

Overview of service performance reporting requirements

Principles and high-level requirements

11. PBE FRS 48 establishes principles and high-level requirements for the reporting of service performance information. This approach was deliberate because the Standard will be applied by a wide range of PBEs – PBEs differ in size, organisational form and in what they do. Entities also use a variety of terms and approaches to explain what they do, why they do it and what they have achieved.
12. The Standard needs to work for the smallest of the Tier 2 entities and the largest of the Tier 1 entities. It needs to work for public sector entities (subject to various legislative reporting requirements) and not-for-profit entities. It also needs to work for entities that have some certainty about their budgets and plans for the year and entities with uncertain funding. When it comes to reporting on service performance, one size does not fit all and there is no standard format for presenting service performance information in accordance with PBE FRS 48.
13. The approach taken in developing PBE FRS 48 acknowledges that entities need flexibility to decide how best to “tell their story” in an appropriate and meaningful way and that service performance reporting is likely to continue to evolve. PBE FRS 48 therefore establishes high-level requirements that give entities considerable flexibility in reporting on service performance information. Despite this flexibility, the Standard establishes requirements to ensure that an entity gives a complete and balanced picture of its service performance.



Note

PBE FRS 48 stresses the importance of considering the information needed by users for accountability and decision making, the desired qualities of information (such as relevance and reliability) and the need to apply the concept of materiality. It uses the phrase ‘appropriate and meaningful’ as a reminder to think about all of these things when applying the Standard.

Key requirements

Reporting entity and reporting period

14. Service performance information must be for the same reporting entity and the same period as the financial statements. This alignment with the financial statements gives users a more complete set of information about an entity.

Contextual information and what the entity has done

15. The key requirements for service performance information are set out in paragraph 15 of PBE FRS 48 (refer to next page).

Extract from PBE FRS 48

15. **An entity's service performance information shall:**
- (a) **Provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and**
 - (b) **Provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in (a) above.**
16. Paragraph 15(a) requires contextual information. This is information that puts the service performance information in context – it is information about the entity, what it does, and why. Users need contextual information in order to understand the information required by paragraph 15(b).
17. Paragraph 15(b) requires information about what the entity has done during the reporting period. Although this requirement is worded very generally, the Standard sets out factors that must be considered in the section [Deciding what to report](#). It explains that in some cases an entity's service performance information is likely to focus on the delivery of specified goods or services and in other cases an entity may focus more on whether particular improvements in the health, education, welfare and/or social or economic well-being of individuals or a segment of society have occurred.
18. Each entity decides whether the service performance information should focus more on:
- (a) the goods and services it has delivered during the period, or
 - (b) the effects of its work (whether described as outcomes or impacts).
19. Entities decide which focus and mix of information is most appropriate. Smaller not-for-profit Tier 2 entities (the target audience for this Guide) are likely to focus their reporting, at least initially, on the goods and services they have delivered during the period.



Further guidance (including examples) is provided in the following sections:

- Paragraph 15(a) — [Information about the entity, what it does, and why](#) (Contextual information)
- Paragraph 15 (b) — [Reporting on what the entity has done](#)



Note

For entities subject to audit, one factor to consider in deciding the mix of service performance information to report is whether information can be verified.

Other factors which require consideration when deciding what to report are discussed in the section [Reporting on what the entity has done](#).

Performance measures and/or descriptions

20. PBE FRS 48 requires that, in reporting on what it has done during the reporting period, an entity presents “an appropriate and meaningful mix of performance measures and/or descriptions.” These do not have to be numerical – there are examples of non-numerical measures and descriptions in the Standard (paragraph 20). Typical measures for goods and services include quantity, quality and cost. Reporting on cost is the main way of linking service performance information with the financial statements.



Further guidance (including examples) is provided in the following section —
[Performance measures and/or descriptions](#)

Other requirements

21. PBE FRS 48 also establishes a number of other key requirements.

Requirement	Key paragraph(s) of Standard	Link to section of guidance
Service performance information must be presented in the same report as the financial statements	Paragraph 6	Presentation of service performance information
Some cross-referencing to other reports is permitted.	Paragraphs 33–35	
Comparative service performance information for the previous period is required (including the first year of adoption). ²	Paragraph 37	Comparative information and consistency of reporting
If an entity changes what it reports or how it reports its service performance information, it is required to explain the nature and effect of those changes. ³	Paragraph 40	
An entity must disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of its service performance information that are relevant to an understanding of the entity's service performance information.	Paragraph 44	Disclosure of judgements

² Comparisons against forecasts or targets are required *if the entity has previously published forecasts or targets* in a general purpose financial report. However, many not-for-profit entities do not publish forecasts or targets in their annual reports.

³ Changes to comparative information is permitted, but not required.



Note

An entity has the flexibility to choose where and how it reports its service performance information within its annual report.

However, it is important that the complete set of service performance information presented in accordance with PBE FRS 48 can be easily identified. This becomes particularly important when the service performance information is subject to audit.

Refer to [Presentation of service performance information](#)

PBE FRS 48 Service Performance Reporting Requirements

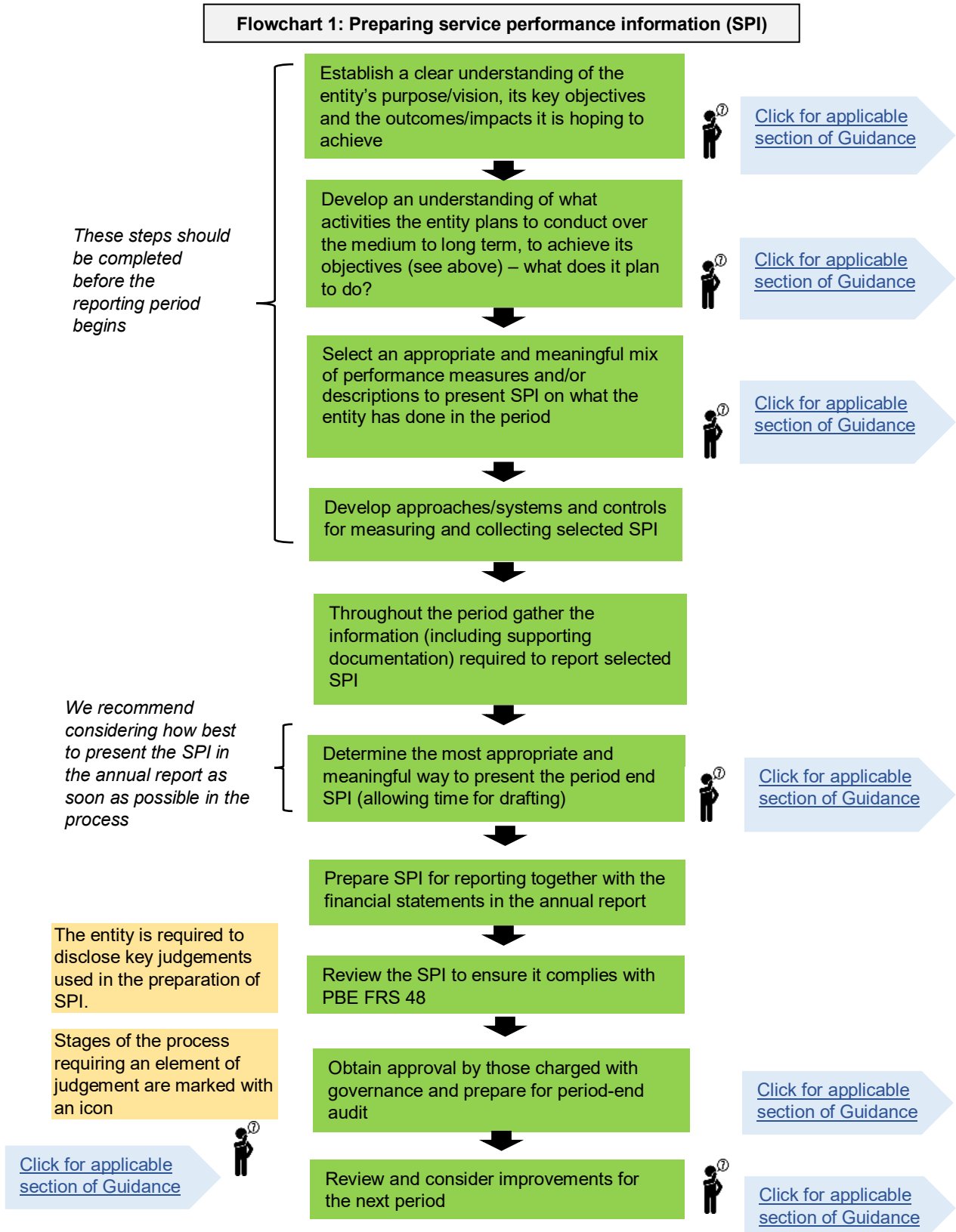


After the next section on *Getting started*, the subsequent sections discuss the requirements of PBE FRS 48 in more detail and provide examples of how entities might meet these requirements.

Getting started

Applying the Standard

22. The diagram below sets out the steps that an entity could take as it works through the requirements of PBE FRS 48 for the first time.



23. As an entity works through these steps it will be pulling together information from various sources and making decisions. It is a good idea to document where information comes from and the decisions made. This will assist discussions with the entity's auditor and be a useful record for the next year. A record of key decisions will also be a good starting point when considering whether the entity needs to disclose any of its judgements.
24. Although service performance information is reported at the end of a reporting period, a number of decisions need to be made before the period begins. These include:
 - (a) confirming the vision or mission, outcomes sought and agreeing what the entity plans to do;
 - (b) selecting performance measures and/or descriptions;
 - (c) deciding whether to include targets as well as actual performance in the annual report. (reporting against targets isn't mandatory, but an entity might have good reasons to do so);
 - (d) deciding how the entity will collect evidence to support the information it reports and what processes it needs to do that; and
 - (e) whether the entity plans to focus mostly on this year's performance or also indicate progress towards long-term goals.
25. Some entities will already have much of the information they need to report on service performance, although it might not be in an appropriate format for reporting to external parties. It may be a question of pulling it together, connecting the dots, highlighting the important elements, and making it appealing and accessible to readers. Other entities will be starting from scratch and will need to think about both their internal and external reporting.

Preparation of service performance information

Information about the entity, what it does, and why

Reporting requirements

26. Paragraph 15(a) of PBE FRS 48 requires that an entity include contextual information in its service performance information. This is information that puts the service performance information in context – it is information about the entity, what it does, and why. Context is important to readers of service performance information — it helps them understand the information about what the entity has done this year – discussed in the [next section](#).
27. Entities can decide how best to organise their service performance information in the annual report. Some entities organise information using headings such as the following. Contextual information would fit under the first two of these questions.

Contextual information	Who are we?
	Why do we exist?
What we did this year	What did we do?
	How did we perform?

28. A summary of what PBE FRS 48 requires in relation to contextual information, together with some things to think about, is set out below.

What PBE FRS 48 requires ⁴	Things to think about
<p>Paragraph 15(a)</p> <p>An entity's service performance information shall provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this.</p>	<p>The Standard is asking an entity to explain what it does and why, the changes it wants to bring about, and how it plans to achieve its desired objectives.</p> <p>The change that an entity wants to bring about can range from the achievable to the aspirational.</p>

⁴ Some requirements have been paraphrased – please read the full Standard.

What PBE FRS 48 requires ⁴	Things to think about
<p>Paragraph 17</p> <p>Contextual information should be drawn from relevant documents (such as the constitution, trust deed, mission statement (vision, purpose) and recent plans and strategies).</p>	<p>The contextual information should be consistent with these documents, but the best explanation of what the entity does might be obtained from other sources, such as the entity's website, a recent grant application, governance report or newsletter.</p>
<p>Paragraph 17</p> <p>If an entity uses a performance framework, theory of change or intervention logic at its highest level of management or in the governance of the entity, the contextual information should also draw upon that performance framework, theory of change or intervention logic.</p>	<p>Not all entities have a formal framework or intervention logic that sets out their understanding of how they and other entities help bring about the changes that they are seeking. Some do – others don't.</p> <p>The Standard requires that an entity that is managed or governed using such a performance framework etc reflect this in its service performance information. This is because it is likely to influence the service performance information that an entity collects and reports, both internally and externally.</p>
<p>Paragraph 18</p> <p>The entity shall explain the main ways in which it carries out its service performance activities.</p>	<p>Does the entity:</p> <ul style="list-style-type: none"> • deliver goods and services directly to individuals, entities or groups (including members)? • work together with other entities (refer to Appendix A: Reporting on shared performance)? • deliver goods and services through other entities? • make grants?

29. If an entity provides a limited number of services, all of which are clearly linked to its mission, the contextual information might be quite short. In other cases, more explanation might be helpful. For example.

- (a) Has the entity decided to focus on certain services when it could equally well have done other things?
- (b) Has the entity decided to do things in a certain way when it could equally well have done them in other ways?
- (c) Is the entity trying out new services or new ways of doing things?
- (d) Is the entity cutting back on certain services?

Examples

30. Examples illustrating the type of information that might be reported in accordance with paragraph 15(a) are shown below.⁵ Most of the examples focus on the entity's mission and give a brief explanation of what the entity does. In some cases there are two versions – a shorter version and a more detailed version.

Example 1: Youth Charity (Provides services for community and social benefit)
<p><i>Who are we?</i></p> <p>The entity is an independent charity with 12 volunteer staff operating mainly from our central office.</p> <p><i>Why do we exist?</i></p> <p>The mission of the entity is to reduce suicide rates among young people.</p> <p><i>What we aim to do</i></p> <p>The entity works to fulfil this mission through three strategies:</p> <ul style="list-style-type: none"> • Offering supportive counselling to young people to reduce the risk that they become suicidal. • Providing crisis counselling to young people thinking of suicide. • Educating those who interact with young people at risk of suicide on prevention, risk detection and response.

Example 2: Youth Charity (more detailed) (Provides services for community and social benefit)
<p><i>Who are we?</i></p> <p>The entity is an independent charity with 55 staff operating from our central office and five regional outreach facilities.</p> <p><i>Why do we exist, what do we hope to achieve, and how we plan to achieve this?</i></p> <p>The entity's mission is to improve the health and wellbeing of youth in the region, particularly those that face social, psychological or economic pressures. It does this by providing youth health care services in a safe, confidential and youth-focused environment and adopting a one-stop shop approach.</p> <p>The aim of our work is to reduce rates of teenage suicide and measures of teenage risk-taking (including smoking, drug and alcohol use). The long-term consequences of such activities to young people are particularly significant in terms of health, earning capacity and social integration. These consequences are reflected in significant emotional costs to families and individuals and in major costs for many components of government including social welfare, justice, education, police and corrections.</p> <p>The one stop shop approach makes it easier for young people to access all the services they need in one location and in a coordinated way.</p>

⁵ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Youth Charity provides a range of services to young people including counselling, crisis support and social and recreational activities. The types of issues that we assist with include mental health, low self-confidence, low self-esteem, low resilience, low aspirations, family problems, sexual health, sexual identity, eating disorders, education and employment, drug and alcohol use and self-harm. We provide some medical services on site and refer youth to other services as required.

We work alongside groups of young people that meet regularly, like Youth Advisory Groups and Youth Health Councils. We have established formal and informal links with many other organisations including PHOs, DHBs, Maori health providers, child and adolescent mental health services, sexual health clinics, family health centres, dental health services, various Ministries and groups.

The entity's ultimate aims are to achieve a sustainable transformative change in the life of a young person through (for example) improved mental and physical health, improved self-confidence and self-esteem, and improved social and personal skills. However, some of the entity's services aim to reduce the immediate risk of harm or occurrence of risk and problematic behaviour.

We are funded by central government agencies, the Lottery Grants Board and receive donations from other private NFPs. The nature and level of services provided is expected to remain stable over the next few years.

Example 3: Native Bird Trust (Provides grants to other organisations to achieve its charitable objectives)

Who are we?

The Native Bird Trust (the Trust) is established for the sole purpose of providing grants to other organisations to achieve the charitable objectives of the Trust.

The Trust is funded by a large bequest that is invested solely for the purpose of the distribution of future grants.

Why do we exist?

The mission/objective of the Trust is to support the increase in populations of native birds in their natural habitat throughout New Zealand.

What we aim to do

The Trust provides funding through grant applications to entities that:

- care for and rehabilitate injured birds;
- breed endangered species;
- rid natural habitats of predators that are a danger to native birds; and
- educate people about the risk to native birds of dogs, cats and other predators kept as pets.

Example 4: Foodbank
(Delivery of goods for community and social benefit)

Who are we?

The Foodbank is a not-for-profit registered charity, that operates a self-sustaining shop that makes it easy for anyone to donate groceries to Kiwis in need and for those in need to easily get the food goods required for their family's wellbeing.

Why do we exist?

Our mission is to provide nourishment and hope to those members in our community in need of support.

What we aim to do

We collect money and food from the local community, including local businesses, and distribute food to local families in need. We work with other agencies to ensure that the food hampers get to those who need them most. We donate surplus food to other community groups in the region who provide drop-in services and shelter services.

Example 5: Housing Trust
(Provides low-cost social housing)

Housing Trust provides housing for senior citizens to give them secure housing and a sense of community, at below market rents.

The Trust has built a number of one and two-bedroomed houses close to the shops and public transport in the local region. The houses are grouped together to create small communities.

The Trust employs a property manager who inspects properties regularly and keeps them in good condition.

Studies show the value of communal space to residents' lives and the importance of social interaction on the quality of life of residents (cite studies, if available and relevant). Residents are encouraged to take pride in their community and, along with volunteers, help maintain the gardens. The Trust helps residents engage with the local community and each other by arranging monthly outings.

To evaluate whether the Trust is meeting its objectives, the Trust seeks written feedback from residents annually. If an issue arises between these evaluations, the matter is addressed immediately by one or more of the Trustees.



Note

Each reporting entity will be required to determine the level of detail that is the most appropriate and meaningful to explain what the entity does and why, based on the users of its annual report. Entities may choose to provide more detail when their external funding is strongly reliant on securing grant revenue.

There are various ways to present contextual information. Some entities present this information in an infographic style, while others include short videos in the annual report.

Planning prompts

31. The following questions will be useful when preparing service performance Information about the entity, what it does, and why (contextual information).



- Why does the entity exist – what's its mission, key objectives?
- What outcomes or impact is the entity seeking to achieve?
- What goods or services is the entity planning to deliver (to achieve its key objectives) over the medium to long term?
- How does the entity intend to conduct its planned activities, and will this involve working collaboratively with other organisations?

Reporting on what the entity has done

Reporting requirements

32. Paragraph 15(b) of PBE FRS 48 requires that an entity report on what it has done during the reporting period in working towards its broader aims and objectives — this requirement goes to the very heart of the Standard.
33. Although an entity has to make decisions about what service performance information to report, it does not do so in isolation. As indicated in [Flowchart 1](#), the first steps are to be clear about why the entity exists, what it is trying to achieve and how it will go about doing this ([refer to the previous section](#)). If an entity has clear strategies and reports regularly to the governing body on progress in relation to those strategies, its end of year service performance information will largely be an aggregation of that information.
34. The service performance information reflects what the entity has done in a particular period. It may change in future periods if the entity changes its strategies, objectives and/or activities – refer to the section [Improving and making changes over time](#).
35. A summary of what PBE FRS 48 requires in relation to reporting on what the entity has done during the reporting period, together with some things to think about, is set out below.

What PBE FRS 48 requires ⁶	Things to think about
<p>Paragraph 15(b)</p> <p>An entity's service performance information shall provide users with information about what the entity has done during the reporting period in working towards its broader aims and objectives, as described in 15(a).</p>	<p>What are the key activities the entity plans to conduct in the period in order to achieve its planned objectives and desired impacts on the community?</p>

⁶ Some requirements have been paraphrased – please read the full Standard.

What PBE FRS 48 requires ⁶	Things to think about
<p>Paragraph 19</p> <p>The nature of this information provided to meet the requirements of 15(b) will depend on the circumstance of the entity. An entity is required to consider the following factors in deciding what to report.</p> <p>(a) What is it accountable/responsible for.</p> <p>(b) What it intended to achieve during the reporting period.</p> <p>(c) How it went about achieving its service performance objectives.</p> <p>(d) Other factors relevant to an understanding of an entity's service performance during the period.</p> <p>These factors guide an entity's decisions about what service performance information to include in its annual report. They build on the principles in paragraphs 6 to 10 of PBE FRS 48.</p>	<ul style="list-style-type: none"> • What are the entity's strategies for delivering against its key objectives? • How does the entity monitor progress against its key strategies? • What is best practice for reporting service performance for entities conducting similar activities? • What information do funders and other key users regard as important? • What information do service recipients regard as important? • Refer to Table 1 below.
<p>Paragraph 20</p> <p>In reporting on what an entity has done during the reporting period an entity shall provide users with an appropriate and meaningful mix of performance measures and/or descriptions.</p> <p>See also paragraphs 21–28 of PBE FRS 48 for further guidance on determining the type and extent of information to report.</p>	<ul style="list-style-type: none"> • When deciding what service performance information to report, the entity should also consider what performance measures and/or descriptions will be used to communicate what has been done. • Refer to the discussion below on Performance measures and/or descriptions.

36. For some entities selecting information and deciding what to report will be straightforward. This is likely to be the case where an entity delivers a small number of easily identifiable and measurable goods or services. For others it will be more difficult. The governing body is ultimately responsible for decisions about the selection of measures and/or descriptions and what is reported, and needs to be involved early in the process.



Note

For entities subject to audit, documentation will be required on how both the service performance information and performance measures and/or descriptions were selected.

37. Further discussion on the requirements summarised above are set out below as follows:



- [Deciding what to report](#)
- [Performance measures and/or descriptions](#)
- [Balancing the amount of service performance information reported](#)
- [Examples](#)

Deciding what to report

38. An entity deciding what service performance information to report on is likely to consider current practice, best practice, funders' requirements and feedback from others, including service recipients. An entity needs to think about how to give a complete and balanced picture of what it has done without overwhelming readers with too much information. One way of avoiding too much detail (and keeping service performance information understandable) is to group similar services. The process is likely to involve conversations about how to convey key messages about service performance to stakeholders.
39. One approach to deciding what to report is to look at the information reported internally and consider how useful it would be to external users. Some questions that could guide this process are as follows.
- (a) Is the information about service performance from an external users' perspective or more about internal activities and processes?
 - (b) Is there good coverage of what is important to external users?
 - (c) If the entity reports multiple measures, which are the most useful to external readers?
 - (d) Is information sufficiently reliable for external reporting – can it be verified? If not, is it sufficiently useful for the reader's understanding of the entity and its work to be reported externally?
40. Another approach is to look at information provided to funders (which might be a subset of information reported internally) and consider how useful it would be to external users. The reporting requirements in the funding agreement or contract could form a useful basis for selecting measures and targets. However, it is likely to be more detailed than is appropriate for an annual report.
41. The process of deciding what to report is likely to take some time as people come up with ideas, test them or seek feedback on them and then refine them.

Application of the principles and overarching requirements of PBE FRS 48

42. When deciding what service performance information to report and the level of detail to provide, PBE FRS 48 requires that an entity consider the principles and overarching requirements in the Standard. The Standard describes these as the *desired qualities of service performance information*, as summarised in [Table 1](#) below.

Table 1: Desired qualities of service performance information ⁷
<p>Overarching principles (paragraphs 6 and 7)</p> <p>Service performance information should be prepared with the end users in mind. Users include service recipients and funders.</p> <ul style="list-style-type: none"> • Is information useful for accountability and decision making? • Is information appropriate and meaningful?
<p>Qualitative characteristics (paragraphs 8 and 9)</p> <p>Qualitative characteristics are the attributes that make financial and non-financial information useful to users.</p> <ul style="list-style-type: none"> • Relevance • Faithful representation (reliability)⁸ • Understandability • Timeliness • Comparability • Verifiability <p>Paragraph 9 of PBE FRS 48 explains how these characteristics relate to service performance information.</p> <p>Relevance and faithful representation are particularly important. For service performance information to be faithfully representative it must be complete, neutral and free from material error.</p>
<p>Constraints on information (paragraphs 8 and 10)</p> <p>All of the qualitative characteristics must be considered when selecting and presenting service performance information.</p> <p>In practice, some items or sets of service performance information may have more of one characteristic than another. It may be necessary to consider the overall balance of characteristics and make trade-offs between attributes.</p> <p>The concept of materiality can help in making these and other judgments. An item is material if excluding it or misstating it would affect the decisions and assessments that stakeholders make concerning the service performance of an entity.</p> <p>There are also costs and benefits associated with reporting information. The Basis for Conclusions that accompanies PBE FRS 48 acknowledges that the introduction of PBE FRS 48 could lead to increased costs for NFPs and explains that high-level approach taken in developing the Standard was intended, in part, to avoid imposing unnecessary costs.</p> <p>Refer to the discussion below on Balancing the amount of service performance information reported.</p>

⁷ Some requirements have been paraphrased – please read the full Standard.

⁸ The Conceptual Framework that underpins PBE Standards uses the term “faithful representation” to describe what is substantially the same concept as reliability.

43. All the desired qualities of service performance information in [Table 1](#) need to be considered, but materiality deserves a special mention as it plays an important role in deciding what service performance information should be included in the service performance report.
44. The term 'material' is defined in paragraph 7 of PBE IPSAS 1 *Presentation of Financial Reports* as follows.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements or service performance information. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

45. Materiality can influence how much information and the level of detail that is provided about particular aspects of service performance as well as being used as a prompt to make sure that important information has been included. For example, if an entity reports against targets, the fact that an entity has not met targets could be material.



Note

Remember to document decisions about the selection of performance measures and/or descriptions and what to report. This will assist discussions with the entity's auditor and be a useful record for the next year.

Performance measures and/or descriptions

46. In reporting on what an entity has done during the reporting period, PBE FRS 48 requires an entity to report an appropriate and meaningful mix of performance measures and/or descriptions.

Selecting performance measures and/or descriptions to report

47. Selecting an appropriate and meaningful mix of performance measures and/or descriptions first requires an entity to determine what aspects of service performance to report on (discussed in the previous section — [Deciding what to report](#)). Some entities will focus more on reporting what they have done (i.e. the goods and/or services they delivered) whereas others will focus more on reporting the difference that they have made (i.e. the outcome/impact of their activities).
48. The selection of measures and/or descriptions to report will depend on what aspect of service performance an entity wants to report. Entities might report on what has happened during the period or on changes in behaviour that will affect what happens in future periods. These can be referred to as lagging and leading indicators. For example, an entity could report on the number of accidents in the current period or the percentage of people using safety equipment (which could influence the number of future accidents).
49. The nature of an entity's services may also affect what it measures and reports. If services are geared to address current and observable problems the entity may be able to measure the difference it has made to people's lives or an environment. However, such assessments are more challenging if services are preventative, one-off or anonymous. The decision on what aspects of service performance to report on and how to measure or describe it should be considered together, rather than in isolation.
50. An entity may report against performance measures and/or descriptions that it has developed itself or with other entities. It could also report some measures and/or descriptions required by funders. An entity will need to think about which measures and/or descriptions are of most relevance to users of its annual report.

51. Entities that are not already collecting performance-related information will be starting from scratch and will need to think about both their internal and external reporting. Ideas for possible performance measures and/or descriptions can come from the reports of entities with similar objectives and services, talking to people involved with similar entities and reading relevant publications. Discussions with like-minded individuals and entities can help identify commonly used measures and/or descriptions.

Measuring and describing performance measures and/or descriptions

52. When selecting performance measures and/or descriptions entities also need to determine how to measure or describe the chosen aspects of service performance. An entity that delivers courses for example could report on what it has done during the year using the following numerical measures:
- (a) the number of courses delivered;
 - (b) the number of people who attended the courses;
 - (c) the number of people who successfully completed the courses; and
 - (d) the percentage of people satisfied with the courses.
53. An entity wanting to assess the impact of its services on the recipients of those services could develop performance measures based on the results of recipient feedback forms, the entity could ask direct questions about the difference/impact the service had to them. For example, if an entity has been offering courses/programmes to help individual quit smoking, the performance measure could be the percentage of participants that had stopped smoking by the end of the course (or within a specified timeframe).
54. In selecting an appropriate and meaningful mix of performance measures and/or descriptions, it is important to consider the qualitative characteristics that make information useful to users (see [Table 1](#)). For example, in deciding whether to report on the number of people who attended courses an entity could consider the extent to which the measure is:
- (a) relevant to stakeholders – running courses is a key activity for the entity and the number of attendees gives an overview of how many people the entity is reaching and its level of activity;
 - (b) faithfully representative of the entity's service performance –the entity has reliable records of attendee numbers for all courses; and
 - (c) understandable (provided that the description is clear), timely (as the information relates to the current year), comparable (because the entity can also report the number of course attendees in the prior year), and verifiable (because there are records of people who register and attend courses).

Balancing the amount of service performance information reported

55. Entities also need to consider the balance between the qualitative characteristics, materiality, and the costs and benefits of providing information (see [Table 1](#)). While some things are readily quantifiable and therefore easier to measure, an entity should consider first the information that would be of most relevance to the reader. For example, it might be more relevant to report on the impact of a course on attendees (such as changes in knowledge or behaviours) than to report on attendee numbers. However, an entity could decide that both are relevant.
56. Materiality requires careful consideration when selecting performance measures and/or descriptions – especially if the entity undertakes a wide range of activities.

57. Materiality is considered when deciding how much detail to report. For example, if an entity's main activity is to provide counselling services, but it also offers exercise and mindfulness courses, the entity might decide to focus its service performance information on the counselling services and combine information about the mindfulness and exercise courses. An entity's internal performance measures and/or descriptions will often be more detailed and comprehensive than is appropriate for the annual report. For external reporting it may be necessary to aggregate measures (for example, reporting measures for the entity as a whole rather than by location) or to select a more limited set of measures and/or descriptions to report.



Note

The service performance information included in the annual report is not expected to include detailed information on every aspect of every service performance activity undertaken by the entity. This could lead to readers being overwhelmed with too much information and struggling to find the information that is most important to them. It is important that material information is not obscured by immaterial information.

The entity is required to select the service performance information that is useful for accountability and decision-making purposes, by applying the qualitative characteristics of information and the pervasive constraints on information (refer to [Table 1](#)).

58. There may be a trade-off between the costs and benefits of reporting certain information. Some aspects of service performance may be easy to measure at low cost but other aspects (such as those involving ongoing follow-up of individuals or groups) may be more costly but might be more relevant and therefore be of more benefit to users — judgement is required.
59. This section has focused on the need to think about the matters listed in [Table 1](#) when selecting performance measures and/or descriptions. Although this consideration will occur at a point in time and be influenced by current data and data collection methods, an entity could also use the application of PBE FRS 48 as an opportunity to review its data and data collection methods. For example, if there are concerns about the completeness or accuracy of data, the entity could develop new ways of capturing data to improve completeness and accuracy — these improvements will help improve the overall performance of the entity.

Examples

60. Some examples illustrating the application of paragraph 15(b) — information about what the entity has done in the period — are shown below.⁹

⁹ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Example 1: Charity providing youth support services

The mission of the Charity is to reduce suicide rates among young people.

The entity works to fulfil this mission through three strategies:

- Offering resources and supportive counselling to young people to reduce the risk that they become suicidal.
- Providing crisis counselling to young people thinking of suicide or self-harm.
- Educating those who interact with young people at risk of suicide about prevention, risk detection and response.

Performance measures and/or descriptions could include:

- Number of service users (this could be in total, for various types of services or by age bracket)
- Percentage of service users reporting satisfaction with services
- Percentage of service users reporting a change in behaviour (e.g. decrease in drug or alcohol use)
- Number of drug and alcohol awareness sessions delivered to the community
- Number of training sessions/seminars held for youth counsellors

Ways of collecting information:¹⁰

- In-house records of number and type of services provided
- Questionnaires that give feedback on services or indicate changes in young people's circumstances or lifestyle. These can include self-evaluations of progress between the start and completion of a course. Such tools may be developed by the entity itself, be used by a number of entities or be nationally validated measures of clients' feelings in areas such as well-being, problems, functioning and risk¹¹
- Data on what happens to young people immediately after they finish a programme, such as whether they re-enter education, find a job, or enrol in another programme
- Longer term tracking of a selected group of young people that have used the entity's services.

¹⁰ Some information may be useful in reporting on the current year's performance and some may be relevant for longer term assessments.

¹¹ Some entities offering youth services use a New Zealand-developed tool called TOMM – The Outcomes Measurement Model.

Example 2: Housing Trust (provides low-cost social housing)

Housing Trust provides housing for senior citizens to give them secure housing and a sense of community, at below market rents.

Performance measures and/or descriptions could include:

- Number of houses made available for low-cost rental, including number added or demolished and replaced in period
- Occupancy/vacancy rates
- Number of residents, including movements in period
- Number of complaints received and resolved in period
- Percentage of residents who report feeling part of a community
- Common concerns raised by residents and how addressed.

Ways of collecting information include:

- Register of social housing portfolio
- Record of tenancy agreements
- Register of complaints and how they were resolved
- Maintain record of tenancy evaluation forms completed each year

Example 3: Museum

The appropriateness of measures will depend on a number of factors including the nature of its collections and exhibitions, the museum's objectives and what the museum wants to assess.

From the perspective of the museum itself, the objectives could include:

- Assessing visitor satisfaction and experience
- Contributing to make a specific art/science/culture form accessible
- Demonstrating the positive impact the institution is having across the community (social, educational, economic).

Quantitative performance measures for a museum (mainly focusing on visitor satisfaction) could include:

- Number of visits (overall visits, exhibitions, online visits, repeat visits, school visits...)
- Number of workshops held
- Exhibitions (number held, invitations to hold exhibitions, requests to circulate exhibitions)
- Visitor satisfaction measures.

However, if a museum wanted to report on how it was affecting visitors and volunteers (in terms of knowledge, attitudes or behaviours) it could use the following ways of collecting information:

- Interviews with participants and stakeholders about the impact of the museum on their lives
- Structured observations of participants and their reactions
- Testimonials (including the use of apps for participants to upload videos)
- Wellbeing measures (for example, for volunteers to provide feedback about their experience).

Example 4: Family Support Service

Family Support Service assists families in need by providing free food and clothing. The food and clothing are collected in several ways including donations of unused goods and donations of used clothing. The donated food and clothing are difficult to value so the entity uses physical quantities and weights to record the volume of items collected and distributed.

Possible performance measures and/or descriptions could include:

- Number of boxes of food distributed (there could be different types of boxes, such as basic ingredients, fruit and veg). Larger entities might report quantities as shiploads, truckloads or carloads.
- Number of boxes of clothing distributed
- Weight (in kilos or tonnes) of food redistributed
- Number of people assisted (total, daily average)
- Unusable donations by volume (e.g. skip load, trailer load).

Because the items are difficult to count, photographs of items collected and distributed are used as a digital record.

Example 5: Native Bird Trust

The Native Bird Trust is an independent conservation organisation with a mission to increase the native bird population in New Zealand.

Performance measures and/or descriptions could include:

- Number of bait stations and traps managed
- Number of predators caught
- Number of trees and shrubs planted
- Number of seedlings distributed to other conservation groups
- Number of plant pots made.
- Number of school visits (could be in relation to education or planting days)
- Volume of seeds collected and redistributed
- Area cleared of gorse and weeds (or time spent clearing areas)
- Area being managed
- Changes in bird populations (by region)
- Changes in predator populations (by region)
- Changes in habitat (by region)
- Development of land corridors – narrative explanation of work done to safeguard existing areas, connect areas or create new areas
- Submissions made on land development proposals (narrative explanation of action taken by entity and any response).

Planning prompts

61. The following questions will be useful when preparing service performance Information about what the entity has done in the period.



- What are the entity's key objectives, what is it accountable/responsible for?
- What did the entity intend to achieve during the reporting period?
- What activities or outcomes will best illustrate what the entity has done during the period in working towards its broader aims and objectives:
 - the goods or services delivered in period for community or social benefit,
 - the outcomes/impacts achieved as a result of the entity's activities in the period; or
 - a mixture of both?
- What internal records are already retained on the achievement of the entity's key objectives/goals for governance purposes (and/or grant purposes)?
- What performance measures and/or descriptions will be used to report on the delivery of service objectives for the period – where will the information come from?
- For new information, what additional systems and controls are required to capture the required information?
- How will we validate the information about what the entity has done in the period for external auditor purposes?

Presentation of service performance information

Reporting requirements

62. Once an entity has decided what service performance information to report, it then needs to think about how to present that information. PBE FRS 48 does not prescribe the format for presenting service performance information. Because service performance information is likely to be a combination of narrative and numerical information, a variety of formats can be used.
63. A summary of what PBE FRS 48 requires in relation to the presentation of service performance information, together with some things to think about, is set out below.

What PBE FRS 48 requires ¹²	Things to think about
Paragraph 29 <ul style="list-style-type: none"> Clearly identify the service performance information presented in accordance with the Standard. 	<ul style="list-style-type: none"> What to call the section of the annual report where service performance information is presented – statement of service performance is one option. Where to locate the service performance information in the annual report. Is the service performance information clearly identified? This is important for readers and audit purposes. What information should be reported as service performance information, what should be reported in the financial statements and what belongs in other sections of the annual report?
Paragraph 31 <ul style="list-style-type: none"> There is no prescribed format. Entities develop a format that best meets the information needs of their users. Possible formats include graphs, tables, narrative, infographics and explanatory comments in ‘pop-up’ boxes. 	<ul style="list-style-type: none"> What is the most appropriate and meaningful way to present key service performance information and make the information visually appealing? Infographics and icons can be useful for snapshots of information and linking information. Find out what tools other entities use to create infographics. Case studies can be useful for personal insights or more in-depth information about an activity or service. Feedback from users about services often helps to heighten readers’ interest in the report. Colour and charts can help break up large blocks of text and highlight key information.

¹² Some requirements have been paraphrased – please read the full Standard.

What PBE FRS 48 requires ¹²	Things to think about
	<ul style="list-style-type: none"> Think about how the annual report will be accessed. If the report will be accessed mainly through the website then consider how information looks on the screen, and how it works with mobile devices. Would an online interactive report (with features such as page turning, embedded videos, hyperlinks, etc.) be useful and feasible/appropriate?
Paragraph 28 <ul style="list-style-type: none"> Service performance information needs to be linked to the financial statements to convey a coherent picture about the performance of an entity. 	<ul style="list-style-type: none"> Refer to the next section in the guidance — Linking the service performance information with the financial statements
Paragraph 32 <ul style="list-style-type: none"> An entity may cross-reference the service information and the financial statements to help users obtain an overall impression of the entity's performance. 	<ul style="list-style-type: none"> Consider where cross-referencing between the service performance information and the financial statements would help users better understand the entity's performance.
Paragraphs 33–35 <ul style="list-style-type: none"> Some cross-referencing to other information is permitted, but this is subject to a number of requirements. For example, the cross-referenced information must remain unchanged and available over time at the cross-referenced location (important when cross-referencing to information on a website). 	<ul style="list-style-type: none"> Would cross-referencing to other information enhance the understandability of the service information? Think about providing links in the service performance information to case studies or videos available on your website. Can you meet the cross-referencing requirements in paragraphs 33–35? Would the complete set of required service performance information still be clearly identified?










Note

- Reports that look good and are easy to read are more likely to be read. Time spent considering how to best present service performance information is time well spent.
- Service performance information should be consistent with the financial statements, the notes to the financial statements, and other public reports. See also [Linking the service performance information with the financial statements](#).

Examples


64. Some examples of possible ways of presenting service performance information are shown below.¹³ Although some of the examples illustrate multiple PBE FRS 48 requirements, they do not attempt to illustrate all the requirements such as comparative information and other required disclosures.

Example 1: Usefood						
Service performance information about the entity, what it does, how it operates, and what it achieved in the period.						
How USEFOOD works					Fighting hunger, reducing waste	
						
5 suppliers	2 tonnes donated food	20 volunteers	20% composted	80% reused	2,000 meals	500 people helped
Donate surplus food	We collect surplus food	Sort the food	We compost unusable food	We distribute usable food to 10 community groups	..who cook mealsfor people in need

Example 2: Youth Counselling
Service performance information about key services delivered in the period.

<p>COUNSELLING</p>  <p>266 Counsellors provided 266 hours of counselling to 115 individuals</p> <p>2,500 counselling sessions during the year</p>	<p>HELPLINE</p>  <p>400 calls from 320 people</p>	 <p>20 awareness sessions delivered to the community</p>
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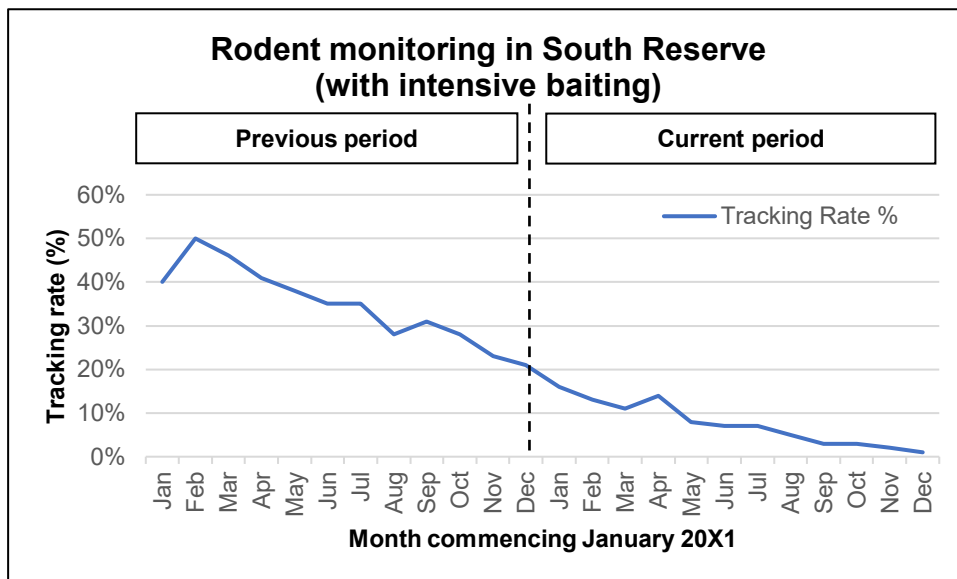
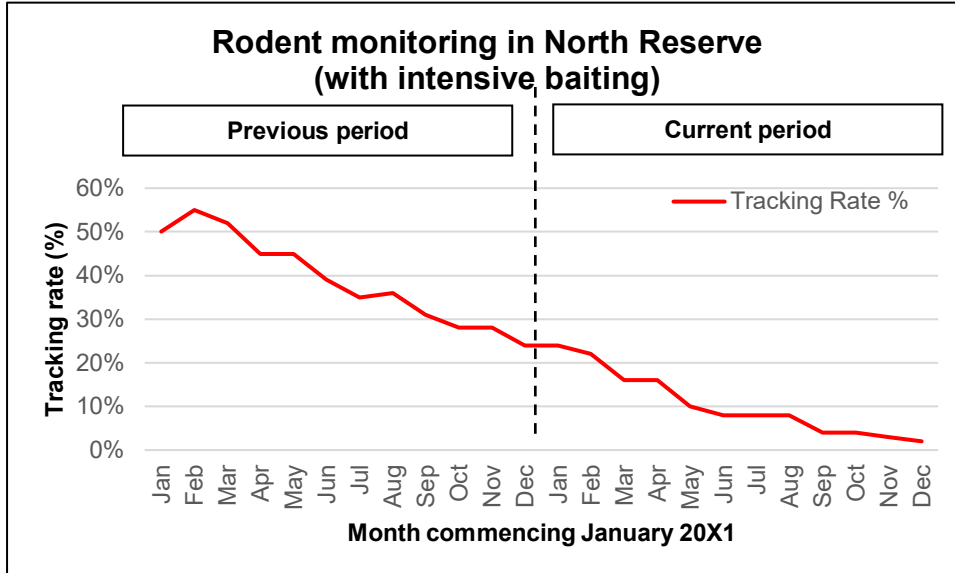
¹³ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Example 3: Youth Counselling (detailed)		
<p>What we do</p> <p>Youth Counselling is one of region's largest/most long-standing provider of counselling support for young people. Young people aged between 14 and 20 can access free, confidential counselling for a wide range of issues. They are offered 10 weekly sessions and can re-refer if they need further support.</p> <p>We work closely with GPs, mental health service providers and other professionals.</p> <p>Young people who use our services experience significant measured improvement in their emotional wellbeing and give positive feedback about how our support has helped them.</p>	<p>Looking ahead</p> <p>We will continue to deliver our mental health workshops in schools.</p> <p>With the help of new staff and funding from other private NFPs we will also be running workshops to provide information and peer support to parents and offering a new drop-in centre.</p>	<p>Our locations</p> <p>Suburb 1 Suburb 2 Suburb 3 School 1 School 2</p>
<p>Highlights this year</p> <p>We saw 105 referrals to the service – up from 98 last year.</p> <p>Twenty counsellors offered counselling sessions in the year.</p> <p>We helped the Northern Regional Authority meet its targets to ensure that young people have access to mental health services.</p> <p>With the support of the Regional Council we have delivered mental health, wellbeing and early intervention sessions in schools and youth centres.</p> <p>We have had a successful first year of working with ABC Trust delivering counselling to young people in the Northern Region.</p>	<div> <p><i>Youth Counselling helped me find a way forward</i></p> <p>Male 16</p> </div> <div> <p><i>My counsellor listens to me and that makes all the difference.</i></p> <p>Female 17</p> </div>	<p>Personal story to illustrate the impact of the services provided.</p>
<p>200 young people received free counselling</p>		

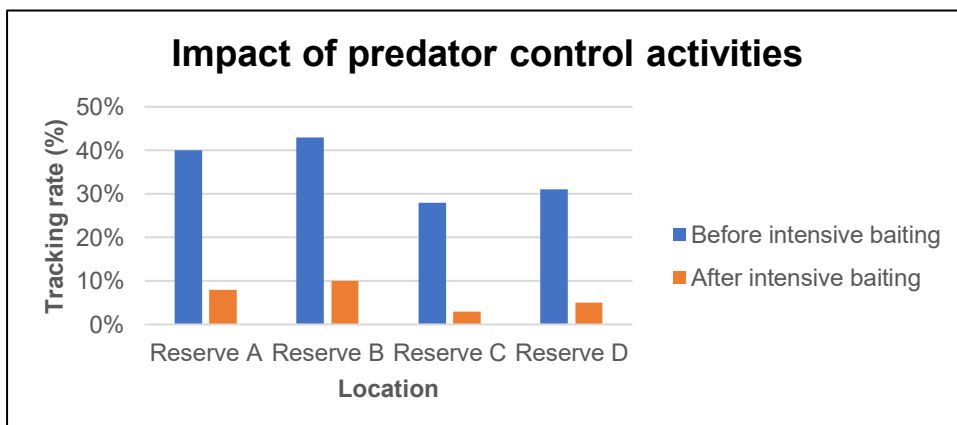
Example 4: Native Bird Trust

Service performance information about the impact on the environment as a result of the Trust's predator control activities.

(a) Rodent tracking index trend lines – by location and time.



(b) Impact of predator control activities (i.e. laying traps and bait)



Planning prompts

45. The following questions will be useful when thinking about the most appropriate and meaningful way to present service performance information in the annual report.



- What presentation format will be of most use to the readers of the annual report?
- What current design and formatting expertise do we have within the organisation?
- How do other organisations with similar objectives present their service performance information?

Linking the service performance information with the financial statements

Reporting requirements

65. Service performance information and financial statements are both important components of an annual report. Annual reports should tell the story of the entity's performance – both in terms of its financial performance and its service performance and explain the links between the two.
66. A summary of what PBE FRS 48 requires in relation to linking the service performance information and the financial statements, together with some things to think about, is set out below.

What PBE FRS 48 requires ¹⁴	Things to think about
<p>Paragraph 9(b)</p> <ul style="list-style-type: none"> One aspect of faithful representation is completeness. Completeness implies that the service performance information presents an overall impression of the entity's service performance with appropriate links to the financial statements. <p>Paragraph 28</p> <ul style="list-style-type: none"> Service performance information needs to be linked to the financial statements to convey a coherent picture about the performance of an entity. The link is generally made, where practicable and appropriate, by reporting on the cost of goods and services. Entities that report on the cost of goods and services in the service performance information need to reconcile the total cost of goods and services reported with the expenses in the financial statements. <p>Paragraph 32</p> <ul style="list-style-type: none"> An entity may cross-reference the service performance information and the financial statements. 	<p>There are lots of way service performance information can be linked with the financial statements.</p> <ul style="list-style-type: none"> Pie charts can show how the entity's expenditure relates to its main service performance activities. Graphics about revenue and expenses can be used along with narrative to explain how increases or decreases in categories of revenue and expenses have affected what the entity has done during the year. Narrative can be used to explain how volunteers' contributions have contributed to an entity's service performance. Some expenses might relate directly to volunteers – for example, volunteer training. <p>If an entity does not report on the cost of goods and services in the service performance information it needs to think about other ways of helping readers understand the links to the financial statements.</p> <ul style="list-style-type: none"> If an entity has significantly changed its services and has not yet developed costing systems it could describe the staff resource and assets required to support various services.

¹⁴ Some requirements have been paraphrased – please read the full Standard.

What PBE FRS 48 requires ¹⁴	Things to think about
	<ul style="list-style-type: none"> If an entity has revenue-generating activities it could discuss how profits from those activities have supported service delivery.
<p>Paragraph 28</p> <ul style="list-style-type: none"> Acknowledge the use of donated goods and services (which have not already been recognised in the financial statements). 	<ul style="list-style-type: none"> Which, if any, donated goods and services have already been included in the financial statements? Which haven't? Information about how volunteers have influenced service performance could be presented as narrative, narrative and numbers (for example, number of volunteers, number of volunteer hours), a personal story or infographics.

67. Narrative explanations of the link between the financial statements and service performance information might cover the following matters.
- If revenue has gone down, what impact has this had on what the entity can do?
 - Are some services being funded by a new revenue stream?
 - If services have been discontinued but revenue was stable, where are these extra resources being used?
 - Do any significant changes in assets or liabilities relate to particular services? For example, are some services now being delivered from a different location.
68. Volunteers' contributions are often not fully reflected in the financial statements (although other standards require disclosures about types of donated goods and services). Registered charities are required to report on the number of volunteers and the hours they worked in their Annual Return to Charities Services. Charities Services has tips for collecting information about volunteers.¹⁵



Note

Information about volunteer contributions helps readers to understand the entity's reliance on volunteers in relation to its service performance.

When reporting on costs of goods and services, where appropriate, acknowledge donated resources (including volunteers' contributions).

¹⁵ Available at <https://www.charities.govt.nz/im-a-registered-charity/running-your-charity/volunteers/>

Examples

69. Some examples of possible ways of presenting cost information or linking financial statements and service performance information are shown below.¹⁶

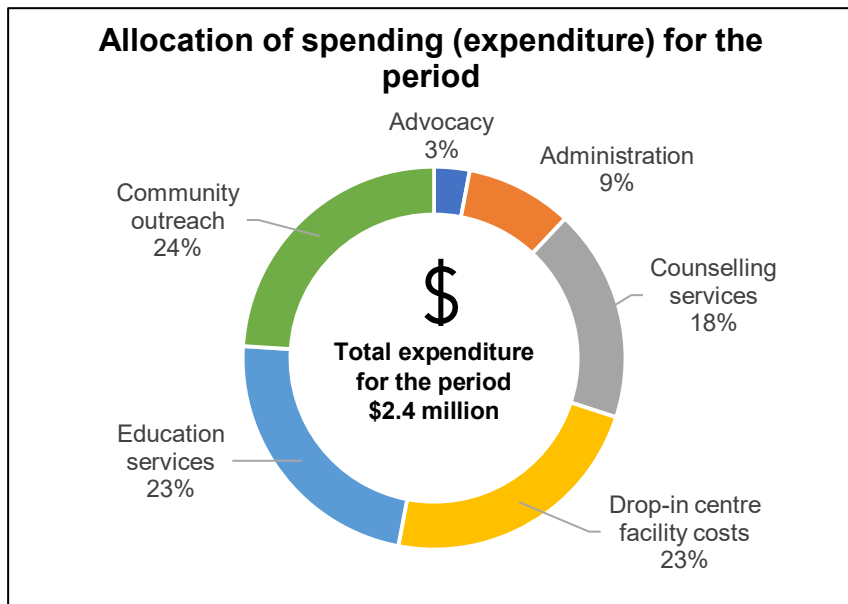
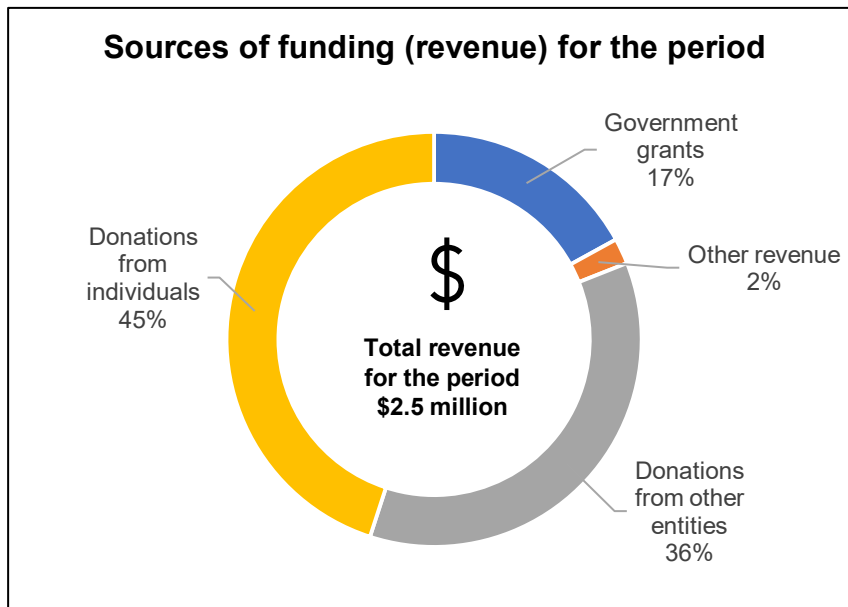
Example 1: Cost of outputs		
<p>The cost of outputs is determined using the cost allocation system outlined below. Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be attributed to a specific output in an economically feasible manner. Direct costs are charged directly to outputs. Indirect costs are allocated to outputs based on cost drivers and related activity or usage information. Depreciation is allocated on the basis of asset utilisation. Personnel costs are allocated on the basis of actual time incurred. Property and other premises costs, such as maintenance, are allocated on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output. There have been no changes in cost accounting policies, since the date of the last audited financial statements.¹⁷</p>		
	Current period	Prior period
Output 1		
Output 2		
Output 3		
Total output expenses		
Other expenses		
Total expenses (as per statement of financial performance)		
Volunteer hours		

Example 2: Information about volunteers	
<p>The goods and services delivered in the period (as reported in the Service Performance Statement) could not have been achieved with the support of our volunteers.</p>	
Key performance activities	Volunteers help us by
Helping people	Driving clients to and from appointments/classes Advocating for clients
Education and networking events	Advertising events Catering and running events
Connecting people	Setting up a database
Administration	Record keeping Fundraising

¹⁶ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

¹⁷ Based on example policy in Ministry of Public Accountability, Audit NZ

Example 3: Funding and spending pie charts



The entity made a surplus \$100,000 in the period which will be used to fund increased performance activities next year.

Example 4: Link the financial information with volunteer contributions		
<p><i>The entity's main activity is to bring people together to share information and create networks. Volunteers organise the annual conference and other meetings – the costs shown in the financial statements do not include any payments to volunteers for their services.</i></p> <p><i>The following example shows the financial and volunteer resources used in running the conference.</i></p>		
Conference financials		
	Current year	Last year
Total conference revenue	\$250,000	\$180,370
Total conference expenses	\$240,800	\$200,000
Surplus/ deficit	\$9,200	(\$19,630)
<i>Annual conference volunteers</i>		
Number of steering committee volunteers	12	6
Number of general volunteers	24	19

Planning prompts

70. The following questions will be useful when thinking about the linkage between the service performance information and the financial statements



- How will we provide an appropriate and meaningful link between the service performance information presented and the financial statements?
- To what extent does the delivery of our planned service performance objectives rely on donated goods and services (including volunteer time)?
- Have we complied with the requirements to present comparative information and explain major variances?

Disclosure of judgements

Reporting requirements

71. PBE FRS 48 requires the disclosure of the judgements used in preparing service performance information in accordance with the Standard. Users need to know why, in reporting on its service performance, an entity has chosen to do something one way rather than another. These judgements are presented as part of the service performance information.
72. A summary of the requirements to disclose judgments used when applying the Standard is provided below, together with some things to think about.

What PBE FRS 48 requires ¹⁸	Things to think about
<p>Paragraph 44</p> <p>An entity shall disclose those judgements that have <i>the most significant effect</i> on the:</p> <ul style="list-style-type: none"> • selection; • measurement; • aggregation; and • presentation; <p>of service performance information reported <i>that are relevant to an understanding</i> of the entity's service performance information.</p>	<p>Not all judgements have to be disclosed.</p> <p>There are two parts to this requirement.</p> <ul style="list-style-type: none"> • Identify the judgements that have the most significant effect on the service performance information reported. • Decide which judgements are relevant to a user's understanding.

Extent of disclosure on judgements required

73. Some entities may have few, if any, judgements that need to be disclosed. For example, a small entity whose objective is to provide a safe and affordable transport service to the local community (to enable the community to access education, health and recreation services) might have a single service – transport, and report on the number of people transported. In this case there is a clear link between what the entity does and its objective – the entity has reported on all aspects of its service performance and the reported measure is clearly understandable.
74. In some cases, there may be very little judgement involved in deciding what measures should be reported. For example, an entity that receives funding to provide a specified number of hours of counselling, could report on hours of counselling provided; an entity that gives books to schools could report on the number of books donated. In cases where there are established performance standards or benchmarks, the entity should report using those standards or benchmarks.
75. On the other hand, a larger entity which delivers a range of services is more likely to have to make judgements about the selection of information, the selection of performance measures, and how best to report the service performance information.
76. Increased disclosure about judgements are more likely to be needed in the following circumstances.
 - (a) Where an entity undertakes a variety of activities, some of which are incidental or complementary to the main activities undertaken to achieve the entity's objectives, an entity applies judgement in deciding which activities to report. For example, an entity that has

¹⁸ Some requirements have been paraphrased – please read the full Standard.

objectives relating to litter-free coastlines and educating people about the effects of litter might decide that education is the most important aspect of what it does and focus its service performance reporting on that aspect.

- (b) Where an entity has made a choice to use a particular performance measure when there are a number of well-established measurement options. For example, an entity offering counselling services to the elderly might choose to use the shorter version of a geriatric depression scale before and after counselling because the longer version is too time consuming and the shorter version has similar validity.
 - (c) Where an entity has developed its own performance measures and uses those measures rather than an industry or sector norm that was previously applied. For example, a church might have developed its own overall measure of engagement or participation.
 - (d) Where an entity is undertaking a new activity and is still in the process of developing measures or deciding which measures should be reported. For example, an entity might report one measure with the intention of adding more measures once it has more experience and the chance to better evaluate alternatives.
 - (e) Where a national entity undertakes a variety of activities throughout the country. Judgement is exercised in deciding whether to report service performance information by activity, or by region, or whether to report by both activity and region.
77. Most entities will need to make judgements about the selection of information to report and the selection of performance measures and/or descriptions. As explained in the sections on [Information about the entity, what it does, and why](#) and [Reporting on what the entity has done](#) the entity considers the requirements in paragraphs 19 and 20, along with the principles and overarching requirements in paragraphs 6 to 10 of PBE FRS 48, in making these judgements. When deciding what to report and the evaluation of alternative measures, what is easy to report is not always the most appropriate to report.



Note

PBE FRS 48 does not require that all judgements be disclosed. An entity needs to decide which judgements have the most significant effect on the service performance information reported and are relevant to a user's understanding.

Examples

78. Some examples of the disclosure of judgements used in the preparation of service performance information in accordance with paragraph 44 are shown below.¹⁹ Some of the examples shown here include contextual information for understandability – in practice this contextual information will already be available in the service performance information.

¹⁹ All examples are hypothetical and are for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Example 1: Youth Counselling

Judgements made in the reporting of service performance information

In preparing the service performance information for the period the entity has made a number of significant judgements about what information to present, based on an assessment of what information would be most appropriate and meaningful to the users of our annual report when assessing performance against the entity's NFP objectives. This was a challenge due to the diverse nature of the entity's activities and its multiple funding streams, which include grants from government agencies, and donations from individuals and other NFP organisations.

The decisions about what service performance information to present was made in consultation with the entity's Board, key management personnel and service managers.

The judgements that had the most significant effect on the non-financial information presented in the annual report, was the selection of information about what the entity has done in the period – the "key activities" as reported (and the selection of performance measures for each key activity identified).

The selection of what key activities to report was initially based on management's assessment of where the entity expected to invest the most time and resources in the period (based on budget information). This was further refined through discussions with staff and the Board – as a result 5 key activities were identified that would best illustrate what the entity has done in pursuit of its NFP objectives.

The entity decided to base its service performance measures around the quantity of services delivered in the year, because this information is already retained for internal management purposes. The entity decided not to report against performance measures that assessed the outcome/impact of the entity's activities, because at this time performance measures of this nature are not easily available, reliable or independently verifiable.

Example 2: Read Aid

Read Aid's mission is to encourage reading as a means of improving self-confidence. We work mainly with young children and immigrants. Our volunteers take their dogs into schools, libraries and community centres. They read to people and people can also read stories to the dogs. At the request of schools or parents we also work on a one-to-one basis with children.

The governing body has decided to report on the following key activities because they best reflect our mission:

- Number of schools visited and number of children who attended
- Number of libraries visited and number of people who attended
- Number of community centres visited and number of people who attended
- Number of volunteers making visits to schools, libraries and community centres
- Feedback received from participants in the reading programmes.

Judgements

The service performance information does not report on Read Aid's one-to-one work with children because that is not its primary focus.

Example 3: Nature Loving

Nature Loving Charitable Trust promotes, supports and undertakes programmes, actions and initiatives to beautify City A. Being involved in our projects gives people a sense of pride in their communities (see comments on our website). We report on the following key activities in our service performance information.

- (a) A free annual education event which has a different environmental focus each year. The focus of the event this year was the establishment and maintenance of native flora and fauna. This event is run over a period of three days, with the first two days being for schools and the third day being open to the public as a family-oriented event. We partner with the Council of City A, the local office of the Department of Conservation and volunteers in running this annual event. Attendees at the public event are asked to complete a brief satisfaction survey, which also seeks suggestions for future events.
- (b) Community work, such as painting murals, picking up rubbish from town centres and local waterways, and providing educational sessions on environmental issues in schools. The local community and schools are encouraged to participate in the painting of murals and picking up rubbish. This year, we organised the painting of murals in suburbs M and N, and the picking up of rubbish in suburbs W, X Y and Z and Freshwater Stream.
- (c) The removal of tagging on behalf of the Council of City A. Members of the public are encouraged to report tagging and we undertake to remove the tagging within 24 hours of it being reported to us.

For more information on our activities, including stories from participants, visit our webpage.

Judgement

The service performance information focuses on the annual education event, community work and removal of tagging. It does not report on other incidental activities.

Example 4: Healthy Foundation

Judgement

The service performance information does not report on our research and work to develop a new course about healthy living for people living with diabetes. We expect to start offering the course towards the end of next year.

The service performance information focuses on how our courses improve the lives of people living with diabetes, as that is our primary focus. Although some of the information we collect gives us feedback on how our participants' lifestyle changes also benefit their families, this is not our primary focus and we do not collect such feedback in a systematic manner.

79. Another decision that an entity needs to make when reporting service performance information is whether to aggregate some of the information. If an entity operates in several locations which are demographically different, service performance information for each location may be important to users.

Example 5: Foodbank location

We have reported separately on each foodbank in City M because each foodbank operates independently and the food is supplied by local businesses in each suburb.

80. Similarly, a national organisation might choose to report on the activities that it undertakes in each region because the activities might reflect the differing demographic profile of each region.

Planning prompts

81. The following questions will be a useful starting point when thinking about the disclosure of judgements.



- What judgements had the most significant effect on the service performance information reported and which of these judgements are relevant to a reader's understanding of the service performance information?
Consider:
 - Selection
 - Measurement
 - Aggregation
 - Presentation
- To what extent is the service performance information reported consistent with the entity's overall purpose and objectives? If the link to the entity's overall purpose and objectives is not immediately clear, users may need more information to understand why the information reported has been presented.
- How much discretion does the entity have over the service performance information reported? The more discretion the entity has over what it reports, the more likely users are to be interested in the entity's judgements.
- To what extent were key users consulted about the entity's selection of performance measures and/or descriptions and the focus of its service performance information?
- Have the key judgements been documented?
- Has the entity advised the external auditors which judgements it plans to disclose?

Comparative information and consistency of reporting

Reporting requirements

82. PBE FRS 48 establishes requirements for reporting comparisons and reporting consistently so that users can compare an entity's service performance over time. However, it acknowledges that what an entity does and how it measures its performance may change over time (refer to the section on [Improving and making changes over time](#)). An entity should provide an explanation of such changes in the annual report.
83. A summary of what PBE FRS 48 requires in relation comparative information and consistency of reporting, together with some things to think about, is set out below.

What PBE FRS 48 requires ²⁰	Things to think about
<p>Paragraphs 36 to 39</p> <ul style="list-style-type: none"> In general, comparative information for the preceding period is required. Comparative information for all performance measures and/or descriptions for which an amount is reported in the current period is required. Comparative information for narrative and descriptive information reported in the current period is required when it is relevant to an understanding of the current period's service performance information. 	<ul style="list-style-type: none"> The requirement for comparatives means two year's information must be reported for any amount included in the service performance information. Judgement is required in deciding whether prior period narrative and descriptive information is required.
<ul style="list-style-type: none"> Some entities are required to, or choose to, report against previously published prospective information. 	<ul style="list-style-type: none"> Public sector entities typically have requirements to report actual performance against planned performance. Other entities are not generally required to publicly report against plans or targets, although they may do so if they wish.

²⁰ Some requirements have been paraphrased – please read the full Standard.

What PBE FRS 48 requires ²⁰	Things to think about
<p>Paragraphs 40 to 41</p> <ul style="list-style-type: none"> • An entity shall report service performance information consistently (unless an entity chooses in the current period to change what it reports or how it reports, its service performance information). • If an entity changes what it reports or how it reports, its service performance information (in contrast to the previous period) it shall explain the nature of those changes and their effect on the current period's service performance information. • Changes to comparative information are permitted, but not required. 	<ul style="list-style-type: none"> • Careful selection of the information to be reported at the outset will help avoid unnecessary change. • If an entity has made changes to the information reported, consider explaining why. For example, its primary objectives have changed, or a new performance measure is now used because it is more relevant or reliable than the previous measure?



Note

Comparatives are required in the first year of reporting in accordance with PBE FRS 48.

Therefore, decisions about what information to report, how service performance will be measured and presented, and if any new processes are required should be considered as early as possible.

Examples

84. Some examples illustrating the presentation of comparative information and the impact of changes are shown below.²¹

Example 1: Prior year comparatives				
Support Dogs (the entity) grants funding to NFP entities that train assistance dogs to support individuals with various disabilities and disaster rescue. The number of dogs trained is measured based on the number of dogs that meet international guidelines for the specialist service for which they are trained. As part of the grant conditions, recipient entities are required to provide evidence on the number of dogs successfully trained in the period.				
Type of assistance	Grants distributed			
	20X2		20X1	
	No of entities	Total \$	No of entities	Total \$
Diabetes	10	1,500,000	8	1,300,000
Epilepsy	4	500,000	5	500,000
Help for physically disabled people	8	78,000	8	75,000
Disaster rescue dogs (e.g. earthquakes)	4	300,000	4	300,000
Other grants	1	2,500	-	-
Total grant expenditure for period	2,380,500		2,175,000	

Example 2: Reporting against targets				
Assistance Dogs (the entity) trains assistance dogs to support individuals with various physical disabilities.				
In its previous annual reports, the entity published training targets for the current and preceding period. Number of dogs trained means the number of dogs that meet international guidelines for specialist assistance dogs.				
	Number of dogs trained			
	20X2		20X1	
	Target	Actual	Target	Actual
Number of dogs trained	20	14	20	18
This year we planned to train 30 dogs, but we had fewer staff than expected and a number of dogs were not suitable. We are in the process of recruiting more staff and are reassessing our method of identifying dogs suitable for this type of training.				

²¹ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.



Note

An entity may be required by legislation, or elect, to include prospective service performance information (e.g. future targets) in its published annual report. In these circumstances an entity is required to report a comparison between the actual amounts in the current year and the previously reported prospective service performance information.

An entity reporting against previously published prospective service performance information shall consider whether original levels of planned activity or revised plans provide the most relevant and useful information. Information about revisions to plans during the period may help explain variances between original plans and actual results.

Example 3: Discontinued measure

In the past we have used average waiting time for a request to be satisfied as a measure of the unmet demand for our services. A few years ago, the average waiting time was nine months. Now that the average waiting time is less than two months, we have decided not to report this measure.

Example 4: New measure

A new measure known as the Client Evaluation Tool has been developed to measure the effectiveness of our assistance dogs in improving quality of life for physically disabled people. The tool is administered before receipt of the dog and two months afterwards.














Example 5: New activity

Help for Hikers (the entity) helps people to enjoy their outdoors recreation safely. The entity receives funding from a variety of sources, including from other NFP entities. It also has an online shop which sells outdoor safety resources (with all profits used for the entity’s charitable purpose), a website, and social media page.

The entity works collaboratively with other entities with the aim of reducing injuries, the number of search and rescue call-outs and fatalities in the outdoors.

At the end of last year, the governing body agreed to train its own search and rescue dogs and developed a strategy for sourcing and training the dogs. This activity was also included in the budget.

Volunteers with appropriate qualifications (regarding dog psychology and training) assess dogs that are available for adoption for their suitability to undertake search and rescue activities. Dogs with the appropriate temperament and ability to learn are adopted by a volunteer and trained to search for people lost and/or injured in the outdoors.

Activity	20X4		20X3	
Training courses for volunteers				
Number of courses presented		9		7
Number of attendees	240		178	
 Webpage – Be prepared in the outdoors	 Hits 18,654		 Hits 15,267	
 Social media page	 Hits 34,789	 Likes 30,546	 Hits 10,436	 Likes 4,198
Search and rescue operations conducted – no serious injuries	23		17	
Search and rescue operations conducted – moderate to serious injuries	4		5	
Search and rescue dogs trained – new activity		2	-	

Planning prompts

85. The following questions will be a useful starting point when thinking about the disclosure of comparatives and disclosure of changes to what you report or how you report in contrast to the previous report.



- Has there been any changes in the nature of the entity's activities from the prior period or from what was planned?
- When considering the extent of changes to the service performance information in comparison to the previous period, it is useful to consider why the changes are being proposed. Do the changes ultimately result in the user receiving better information on the performance of the entity?

Preparing for audit and final approval

86. This section looks at what you'll need to do for the first audit of your service performance information. A new audit standard, NZ AS 1 *The Audit of Service Performance Information*, sets out the requirements for auditors. In most cases service performance information prepared in accordance with PBE FRS 48 and reported in the annual report will need to be audited. If you're not sure, check the relevant legislation or your founding documents. Charities Services has information about statutory audit and review requirements for registered charities.
87. Because the governing body (for example, the Board of Trustees) is responsible for final approval of the service performance information, the planning reminders in this section also refer to the governing body.

Initial planning
<ul style="list-style-type: none">• Check that you have an engagement letter. Amongst other things, it will cover:<ul style="list-style-type: none">○ The services to be performed○ What you/your staff are responsible for○ The fees○ The start date and completion date.• Talk to your auditors about what information you are planning to report, why you believe this will meet the requirements of the Standard and what evidence you will have to support that information. Identify the key decisions that you've made to date.• Find out what the auditors will want to review, what they need from you and the key dates in the audit plan.• Set dates for the internal review and sign-off of the service performance information and schedule the meetings.
Roles and responsibilities
<ul style="list-style-type: none">• Identify the first point of contact for the auditors.• Identify any new roles and responsibilities for collecting, checking and reporting information.
Getting documentation ready
<ul style="list-style-type: none">• Assemble as much information as possible in advance. Write a file note explaining how to find important documents and keep as many as possible together.• Identify what will need to be documented throughout the year.• Do periodic checks to make sure that information is being collected.

Improving and making changes over time

Requirements

88. There are a number of reasons why an entity might change what it reports or how it reports its service performance information over time. Possible reasons include changes in:
- (a) the nature or focus of the entity's activities compared to the previous period or from what from planned;
 - (b) the descriptions of goods and services or the way in which the information is aggregated to improve the quality of information presented;
 - (c) the performance measures and/or descriptions used as improved performance information becomes available and reliable; and
 - (d) industry best practice or information requested from funders.
89. PBE FRS 48 has requirements to make sure that readers can understand changes in service performance information over time (see [Comparative information and consistency of reporting](#)).

Improving service performance information

90. What an entity does and how it reports are likely to evolve over time. Entities often want to know whether what they do works and what they could do better. PBE FRS 48 does not require that an entity report on what it does in terms of monitoring, seeking feedback and evaluation but such information can provide context.
91. A brief description of monitoring, feedback and evaluation follow.
- (a) Ongoing monitoring (checking progress or quality over time) might involve collecting information about who is being served and with what level of frequency and intensity. An entity might regularly review that information to assess progress in meeting targets, quality of services and whether its service performance is in line with its objectives.
 - (b) Seeking feedback might involve systematically soliciting, listening to, and responding to the experiences of users or other participants and about their perceptions of the entity's services or products. An entity might then use information about users' experiences, preferences, and ideas to improve the quality and effectiveness of its services.
 - (c) Evaluations tend to be more formal, conducted periodically and might be carried out by, or in conjunction with, an external party.
 - (d) Research can inform any aspect of an entity's service performance. For example, it might lead to a better understanding of clients' needs or better information about the effectiveness of alternatives.

Examples

92. Examples of how an entity might refer to monitoring, feedback and evaluation in its service performance information follow.²²

Example 1: Youth Charity

Studies support the effectiveness of integrated services for young people [*cite studies*]. Young people who may not otherwise have sought help are accessing the services they need through one stop shops.

Young people report being highly satisfied with these services. Pre- and post-counselling intervention assessments show that young people report developing healthier coping strategies and increased self-belief. Evaluations have demonstrated an increased understanding of stress and management techniques. This approach seems to work well for many young people, although those with more serious health issues may benefit from more direct specialist care.

Example 2: Foodbank

Some recent research [*cite study*] looked at how food banks are embedded in a broader environment of community organisations, resources and networks. The study found that food banks are important to people because of the way people feel when they are there, as well as because of the help that is offered.

We have therefore created areas for people to socialise at two churches where we have distribution centres.

Example 3: Emergency assistance

As part of our ongoing process of seeking feedback we learned that some clients were having to queue for extended periods. This negatively affected their view of our services and is not the way we want to treat clients. We have therefore changed our process to greet all clients on arrival and assess whether we can help them immediately or need to set up an appointment. We have allocated more volunteers to service x/location x to help greet people and make these assessments.

²² All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Example 4: Independent evaluation

Breakfast Club sets up breakfast clubs in schools and helps run the clubs for the first year.

Last year we participated in an independent evaluation of breakfast clubs across the region. One of the objectives of the study was to explore schools' perceptions of whether breakfast club provision has achieved the intended outcomes for children. The researchers carried out phone interviews, and face to face interviews with school staff (those involved in running the breakfast club, teachers, support staff, the head teacher or other members of the senior leadership team), partners (governors, school caterers or other partners), and pupils who attended the breakfast clubs. Parents were also invited to take part in a survey.

The study concluded that *[add findings]*.

The study has given us better data to encourage schools to set up clubs, to recruit volunteers and to obtain funding.

Example 5: Trialling new method of delivering services

In the past we have operated offices in the main centres. Over the last year, we have also used a bus to offer education and support services in rural communities. The bus operates in public places such as shopping centres and libraries and we set up information stands in nearby public buildings. The team is made up of health professionals, counsellors, financial advisors and volunteers. The team is available to talk to people, offer advice and distribute information pamphlets.

We will decide whether to continue the mobile service at the end of this year. In the interim we are collecting data on how many people use the mobile service that would not otherwise access our services.

93. Ideas for improved reporting of service performance information can come from:
- (a) polling stakeholders about what they consider to be the most important aspects of an entity's service performance;
 - (b) seeking advice from independent experts;
 - (c) liaising with other entities with similar objectives; and
 - (d) entering annual reporting contests.

Appendix A: Reporting on shared performance

Reporting requirements

NFP entities often work with other entities to achieve their objectives/goals over the medium to long term. Because there are many ways of working together with other organisations, PBE FRS 48 does not establish detailed requirements about reporting on such relationships. Instead, it:

- (a) prompts an entity to discuss its relationships with other entities, both in giving information about the entity, what it does, and why (contextual information), and when discussing what it has done during the reporting period (see paragraph 15 of PBE FRS 48);
- (b) requires an entity to explain the main ways in which it carries out its service performance activities, which may include working together with other entities that share common objectives (see paragraph 18 of PBE FRS 48); and
- (c) identifies a number of factors that an entity must consider including “how it went about achieving its service performance objectives (see paragraph 19 of PBE FRS 48).

If an entity delivers goods and services in conjunction with another entity or collaborates with another entity in seeking to achieve its service performance objectives and goals, it needs to consider the most appropriate and meaningful way of reporting on service performance.

Examples

Some examples of how an entity might report on collaborative activity are shown below.²³ However, there are many different scenarios and an entity will need to use judgement in deciding what and how to report. The entity will also need to consider the existence of evidence to support the entity's involvement.

Example 1: Wildlife Trust			
In the period the Wildlife Trust has worked together with the Nature Trust to achieve certain service performance objectives, namely in the form of providing training and support to planning staff in local authorities to demonstrate how wildlife sites and networks can be incorporated into planning policy.			
	Local Authority 1	Local Authority 2	Local Authority 3
Training	Wildlife Trust delivered 2 training sessions	Wildlife Trust delivered 2 training sessions	Wildlife Trust and Nature Trust jointly delivered 3 training sessions
Support	Wildlife Trust staff met monthly with local authority staff	Wildlife Trust staff met monthly with local authority staff	Nature Trust met monthly with local authority staff
Wildlife Trust participates in projects led by other entities which are aligned with our service performance objectives. This year we participated in the following projects.			

²³ All examples are hypothetical and are used for illustrative purposes only. An entity is required to report service performance information based on its specific circumstances.

Example 1: Wildlife Trust	
BEE Trust has a project to improve the roadside habitat for bees. Briefly describe the project....	Wildlife Trust took the lead on improving the habitat on 10 road verges in the region. Wildlife Trust has made a commitment to manage these 10 road verges for the next three years.
Bird sanctuary project is led by Department X and Incorporated Society Y. Briefly describe the project....	<p>During the year volunteers planted 30,000 native trees and regularly checked predator traps. Wildlife Trust supported this project by informing its members about the activities and arranging transport. Wildlife Trust volunteers helped plant trees (100 people in March and 120 people in August) and made up 20% of the trap checking volunteers.</p> <p>Wildlife Trust donated \$5,000 towards the cost of traps and Wildlife Trust volunteers donated 2,000 plants.</p>
Annual beach clean is led by Nature Trust. Briefly describe the project....	<p>Wildlife Trust supported this project by informing its members about the event and arranging transport.</p> <p>Wildlife Trust volunteers made up 150 of the 1,000 that attended. X amount of rubbish was collected at the event.</p>

Example 2: Nature Reserve Foundation
<p>Nature Foundation has partnered with Entity X to support a project to eradicate predators (rats, weasels and stoats) in City X. The two organisations have jointly funded a project director for two years and start-up costs.</p> <p>The Foundation encourages residents to trap pests in their backyards. It distributes traps to community groups who make them available to households and monitor their use. Individual households report back to the community groups about what they have caught. This year the Foundation has focused its efforts on Suburb S. In order to find out more about the number and location of predators in Suburb S, the Foundation and Entity X investigated the waste water system (zero rats found) and used camera traps.</p> <p>The Foundation has distributed 1,000 traps to community groups.</p> <p>500 households now have traps and have caught xx rats this year.</p> <p>Entity X is focusing its efforts on parks and reserves and works with a range of community groups. Entity X has provided xxx traps to community groups. One of those groups, Group G has used 300 traps to catch xx rats at Reserve R. Group G has used chew cards to monitor population levels in the Reserve. The cards are used in accordance with the guidelines issued by XX. Rat numbers have reduced by 30% in Reserve R over the last two years.</p>

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NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 November 2019

To: NZASB Members

From: Joanne Scott

Subject: **PBE Policy Approach – IPSASB *Collective and Individual Services***

Recommendation¹

1. We recommend that the Board DEFERS making a decision about incorporating the IPSASB's recently approved *Collective and Individual Services* (Amendments to IPSAS 19) in PBE Standards until the IPSASB has completed its project dealing with transfer expenses.²

Background

2. The Board regularly considers whether new or amending IPSAS should be incorporated into PBE Standards. These decisions are guided by the [Policy Approach to Developing the Suite of PBE Standards \(Policy\)](#).
3. There is a rebuttable presumption in paragraph 22 of the Policy that the NZASB will adopt a new or amended IPSAS. This presumption is based on the expectation that such changes will lead to higher quality financial reporting in New Zealand and that the factors in the development principle have been met.
4. The IPSASB approved *Collective and Individual Services* (Amendments to IPSAS 19) at its September 2019 meeting and plans to issue the amendments in January 2020. The amendments will be effective from 1 January 2022.
5. We recommend that the Board defers making a decision about incorporating these amendments to IPSAS 19 in PBE Standards until the IPSASB has completed its project on transfer expenses. This would be consistent with the Board's decision (in February 2019) to defer its decision to develop a PBE Standard based on IPSAS 42 *Social Benefits*.

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).

² The project dealing with transfer expenses has also been referred to the Non-exchange Expenses Project or the Grants and Transfers: Expenses Project. The title of the forthcoming ED is expected to be Transfer Expenses.

Structure of this memo

6. The remaining sections in this memo are:
 - (a) IPSASB project on collective and individual services. This section contains information about the project, including issues raised by constituents regarding the IPSASB's proposals;
 - (b) Application of the Policy. This section repeats comments from our February 2019 memo explaining why we think it would be sensible to wait until the IPSASB completes its projects on social benefits, collective and individual services and transfer expenses before applying the Policy to those standards/amending standards. The section has been updated to reflect events since February; and
 - (c) Timing of other projects.

IPSASB project on collective and individual services

7. The IPSASB issued ED 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED) in January 2019, with comments due by 31 May 2019.
8. The ED proposed to amend IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. The ED proposed:
 - (a) to define collective and individual services (the definitions in the ED are shown below). Examples of collective services are street lighting and defence. Examples of individual services are public sector healthcare services and education;

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.
 - (b) to specify that no provision should be recognised for collective services or individual services on the grounds that they are ongoing activities of governments. The IPSASB linked its proposals to paragraph 26 of IPSAS 19 which states "no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future"; and
 - (c) to differentiate between ongoing and other emergency services. It proposed that ongoing emergency services would not give rise to a provision. It also proposed that emergency services delivered in response to specific emergencies could, in certain circumstances, give rise to present obligations and therefore provisions or contingent liabilities.
9. The ED proposed that all of the additional paragraphs (apart from the new definitions) be inserted as Application Guidance.

10. The NZASB commented on the ED. The NZASB's main points were as follows.
 - (a) There is a need to ensure consistency across all of the IPSASB's expense projects.
 - (b) Is the distinction between individual and collective services necessary, given that the proposed accounting is the same?
 - (c) What does the term *society as a whole* mean?
 - (d) The IPSASB should establish the requirements in the body of IPSAS 19 and then apply IPSAS 19 to the transactions addressed in the ED.
 - (e) The IPSASB needs to strengthen the rationale for the proposals – link to IPSAS 42 conclusions and IPSAS 19 principles.
 - (f) Could analogue to executory contracts to help decide when applying IPSAS 19 is appropriate.
 - (g) Reword/clarify the scope exclusion in IPSAS 19.
11. The IPSASB received 35 submissions. Many respondents were broadly supportive of the proposals in relation to collective and individual services but there was widespread concern/confusion about the emergency relief proposals and how to distinguish between different types of emergency relief. The IPSASB subsequently decided not to proceed with its proposals on emergency relief.
12. Although many respondents were broadly supportive of the proposals in the ED, some of the NZASB's comments and concerns were raised by other respondents. Other respondents also commented on the importance of consistency across this and other projects, the need to clarify the scope split across various standards, the need to focus on principles (whether there is or is not a present obligation), and queries about what society as a whole means.
13. The IPSASB considered respondents' comments in September 2019 and, after agreeing some changes, approved the amendments for issue.³ One IPSASB member abstained from voting on these amendments and one member dissented. A summary of the amendments follows.
14. The amendments, as approved in December 2019:
 - (a) define collective services and individual services (no change to definitions in the ED);
 - (b) add application guidance paragraphs explaining collective services and individual services and how they differ from social benefits (see Table 1 below);
 - (c) add application guidance paragraphs specifying that no provision is to be recognised for collective services or individual services before the services are delivered. The rationale is the same as that put forward in the ED – these are ongoing activities of a government and no provision is recognised for ongoing activities;
 - (d) do not address emergency relief – this was a change to the proposals in the ED. Respondents raised a number of issues in relation to the proposed guidance on

³ The IPSASB's decisions at its September 2019 meeting are available on its website.
https://www.ifac.org/system/files/meetings/files/Decisions-and-Instructions_Final.pdf (slides 4–6)
https://www.ifac.org/system/files/meetings/files/IPSASB-Podcast-September-2019-Meeting_1.mp3 (starting at 10.45)

emergency relief, including the difficulty of distinguishing between emergency relief that is an ongoing activity of government and emergency relief provided in response to specific emergencies. The IPSASB agreed to consider doing more work on this topic when it develops its future work plans.

15. Table 1 explains how collective services and individual services differ from social benefits.

Table 1

	Social Benefits	Individual Services	Collective Services
Involves a cash transfer to eligible beneficiaries?	✓	x	x
Provided to individuals and/or households rather than to a community?	✓	✓	x
Intended to address the needs of society as a whole?	✓	✓	✓

Application of the Policy

This section repeats comments from a February 2019 memo on IPSAS 42 Social Benefits. Blue shading indicates where we have expanded the discussion for *Collective and Individual Services* (Amendments to IPSAS 19).

16. Generally when we apply the Policy we focus on Section 4 which discusses the application of the factors in the development principle. Section 4.1 deals with the case of a new or amended IPSAS. Paragraph 24(a) outlines why and how the NZASB might amend an IPSAS. Paragraph 24(b) gives examples of concerns that might lead the NZASB to decide not to adopt a new or amended IPSAS but stresses that this is likely to occur only in exceptional circumstances.
17. We think it is too early to make any decisions about adopting IPSAS 42 and the amendments to IPSAS 19 and have not sought to rebut the presumption in the Policy. Instead we have outlined our reservations about the benefits of adopting IPSAS 42 and the amendments to IPSAS 19 now, and the potential for the costs to outweigh the benefits. We expect that the NZASB will be able to make a better assessment of the benefits and costs once the IPSASB has completed its other projects dealing with non-exchange expenses.

Limited benefits at this point

18. Our reservations about the benefits of adopting IPSAS 42 and the amendments to IPSAS 19 at this time are as follows.
- (a) The scope of IPSAS 42 was narrowed as the standard was developed. It is now limited to social benefits in the form of cash transfers to individuals. In New Zealand most such social benefit payments are made by the Ministry of Social Development and Inland Revenue on behalf of the Government, and by the Accident Compensation Corporation. The Government already applies insurance accounting to some major social benefits

and accrues payments due for the remainder. The adoption of IPSAS 42 would not therefore be expected to lead to significant improvements in financial reporting.

- (b) Although there is currently no PBE Standard dealing with social benefits in the form of cash transfers this has not led to wide variations in accounting. Nor are we aware of any concerns with the current reporting of such social benefits.
- (c) Other forms of non-exchange expenses give rise to more difficult accounting issues. These issues are being considered in the project on transfer expenses (which is expected to be completed in 2021).
- (d) The scope of a PBE Standard based on IPSAS 42 would have to work together with the scope of other PBE Standards such as (i) PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, together with the revised IPSAS 19; (ii) PBE IFRS 17 *Insurance Contracts*;⁴ and (iii) a future standard on transfer expenses. We think the collective impact of all of these proposals should be considered together.
- (e) There are some NZ-specific modifications in PBE IPSAS 19: they are a scope modification for certain obligations of the Crown, two additional non-integral examples dealing with grants and the inclusion of some interpretations that formed part of NZ IFRS.⁵ It would be easier to decide what to do about these NZ-specific modifications once the IPSASB has completed all of its relevant projects. For example, if we were to remove the current scope exclusion now we would have to create a new short-term scope exclusion to avoid a short-term change in accounting for some obligations.

Costs

19. IPSAS 42 might result in the Government accruing slightly different amounts for certain benefits than at present. Although we do not have enough information to assess the impact of applying IPSAS 42 to particular benefits, we have included a simple example to illustrate how the amounts accrued under IPSAS 42 for a particular benefit might differ from current practice. The actual impact of applying IPSAS 42 would depend on the detailed aspects of a benefit, including how often payments are made and how close to year end the last payment occurs.

⁴ The scope of PBE IFRS 17 is currently limited to not-for-profit PBEs. The Board has an active project to consider the issues raised by public sector constituents.

⁵ The three interpretations were NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; NZ IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*; and NZ IFRIC 6 *Liabilities arising from Participation in a Specific Market—Waste Electrical and Electronic Equipment*.

Example: Benefit A

Assumptions:

- Benefit A is paid fortnightly in arrears.
- Eligibility is assessed fortnightly.
- All current beneficiaries will remain eligible and there will be no new beneficiaries.
- The last payment in the year is one week before year end.

Possible current accrual:

- If accruals are based on what is “owed” at year end, the Government would accrue one week’s worth of the benefit.

IPSAS 42:

- The Government would accrue the full amount of the next benefit payment – which in this case would be two weeks’ worth.

20. The IPSASB’s amendments to IPSAS 19 might not have much impact on New Zealand’s public sector PBEs as the amendments are fairly consistent with current accounting. Existing public sector guidance in New Zealand has led to a reasonably consistent approach to the recognition of provisions.⁶
21. We think it would be most efficient to seek feedback from PBEs on all proposals for non-exchange expenses at the same time and then finalise all of the relevant requirements together. Entities could then assess the impact of all new requirements at the same time.

Timing of other projects

22. The remaining non-exchange expense project deals with transfer expenses. The IPSASB plans to approve an exposure draft in December this year and a final IPSAS in mid-2021.
23. If we wait for this project to be completed, it is likely to be the second half of 2021 before we apply the Policy to the new and amended standards.

Question for the Board

- Q1 Does the Board agree to DEFER making a decision about incorporating the IPSASB’s recently approved *Collective and Individual Services* (Amendments to IPSAS 19) in PBE Standards until the IPSASB has completed its project on transfer expenses?

Attachment

Agenda item 7.2: *Policy Approach to Developing the Suite of PBE Standards*
(supplementary papers)

⁶ The Treasury *Guidance on Recognising Liabilities and Expenses*
<https://treasury.govt.nz/sites/default/files/2013-11/rle-nov13.pdf>



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 22 November 2019
To: NZASB Members
From: Joanne Scott and Vanessa Sealy-Fisher
Subject: Amendments to EG A2

Recommendations¹

1. We recommend that the Board:
 - (a) **REVIEWS** the revised version of Explanatory Guide A2: *Overview of the Standard-setting Process* (EG A2); and
 - (b) **ADVISES** the XRB Board that the contents are technically correct.

Background

2. EG A2 explains the processes used by the NZASB in developing and issuing standards and authoritative notices. EG A2 was first issued in August 2014 and was updated in December 2017 and June 2018. Following the recent changes to EG A1 *Guide to the Application of the Accounting Standards Framework* we noted that EG A2 still used some outdated terminology and would benefit from being updated. The changes made in this version are outlined below.

Changes made

3. The document has been extensively redrafted (see agenda item x.3 for a marked-up copy) but there are no changes of substance. The main changes made in updating EG A2 are as follows.
 - (a) Simpler language and less repetition.
 - (b) The Introduction now refers to EG A1 – this means that EG A2 can refer to matters addressed by EG A1 without repeating what EG A1 says.
 - (c) The document now refers to each suite of standards using current terminology.
 - (d) The paragraphs about the standard-setting environment have been rewritten so that they identify (i) the reporting tiers; (ii) the standards that apply to those tiers; and (iii) which standard setting-processes are used to develop those standards. Because multiple processes are used to develop some suites of standards we think this is simpler than the previous text which began with the processes.
 - (e) References to the IASB's due process documents have been updated.

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).

4. The figures depicting the various standard-setting processes have not been altered (apart from some minor editorial changes).

Questions for the Board

- Q1. Does the Board have any comments on EG A2?
- Q2. Does the Board agree to advise the XRB Board that the contents of EG A2 are technically correct?

Next steps

5. If the NZASB agrees, the proposed amendments to EG A2, along with any feedback from the NZASB, will be presented to the XRB Board for approval, at its meeting on 11 December.

Attachments

Agenda item 8.2: Draft EG A2

Agenda item 8.3: Draft EG A2 – marked up (in supporting papers)



EXPLANATORY GUIDE A2: OVERVIEW OF THE ACCOUNTING STANDARD-SETTING PROCESS (EG A2)

Issued by the External Reporting Board

August 2014

This Explanatory Guide outlines the due process that is followed by the New Zealand Accounting Standards Board (NZASB), a sub-Board of the External Reporting Board (XRB), in developing and issuing accounting standards and authoritative notices.

This Explanatory Guide is an explanatory document and has no legal status. It was issued in August 2014 and has been periodically updated. The most recent update was in 2019.

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enquiries@xrb.govt.nz

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INTRODUCTION¹

- 1 The External Reporting Board (XRB) is an independent Crown Entity and is subject to the provisions of the Crown Entities Act 2004. As outlined in the Financial Reporting Act 2013, the XRB is responsible for:
 - (a) financial reporting strategy;
 - (b) developing and issuing accounting standards and authoritative notices;
 - (c) developing and issuing auditing and assurance standards; and
 - (d) liaising with similar international or national organisations.
- 2 Explanatory Guide A1 *Guide to the Application of the Accounting Standards Framework* (EG A1) outlines the reporting requirements for entities that have a statutory obligation (or that elect) to prepare general purpose financial reports in accordance with standards issued by the XRB. This Explanatory Guide explains how the XRB develops its accounting standards and authoritative notices and how constituents can contribute to the standard-setting process.
- 3 In this Explanatory Guide references to standards generally include amending standards, interpretations, amending interpretations and authoritative notices, as the same process applies to all of them.

ROLES OF THE XRB BOARD AND THE NZASB

- 4 The XRB Board² has delegated authority to the New Zealand Accounting Standards Board (NZASB), a sub-board of the XRB, for developing and issuing accounting standards and authoritative notices.
- 5 The XRB Board is responsible for ensuring that appropriate due process occurs. Due process is an essential part of an effective standard-setting process, and is also a statutory obligation. The XRB Board has therefore established due process requirements to be followed by the NZASB.

THE NZASB STANDARD-SETTING PROCESS

The standard-setting environment

- 6 The New Zealand Accounting Standards Framework is based on a multi-standards, multi-tier approach. XRB A1 *Application of the Accounting Standards Framework* and EG A1 explain how an entity identifies the applicable accounting requirements. The NZASB operates within the New Zealand Accounting Standards Framework in developing and issuing accounting standards and authoritative notices.
- 7 The standards issued by the NZASB are listed below.

Reporting Tiers	Standard(s)
Tier 1 For-profit Accounting Requirements	NZ IFRS ³
Tier 2 For-profit Accounting Requirements	NZ IFRS RDR
Tier 1 PBE Accounting Requirements	PBE Standards
Tier 2 PBE Accounting Requirements	PBE Standards RDR
Tier 3 PBE Accounting Requirements	PBE Simple Format Reporting – Accrual (Not-For-Profit) PBE Simple Format Reporting – Accrual (Public Sector)
Tier 4 PBE Accounting Requirements	PBE Simple Format Reporting – Cash (Not-For-Profit) PBE Simple Format Reporting – Cash (Public Sector)

¹ This Explanatory Guide 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 SIC® Interpretations).

² In this Explanatory Guide the organisation is referred to as the XRB and the governance group is referred to as the XRB Board.

³ New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and IFRSs are defined in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and include standards and interpretations.

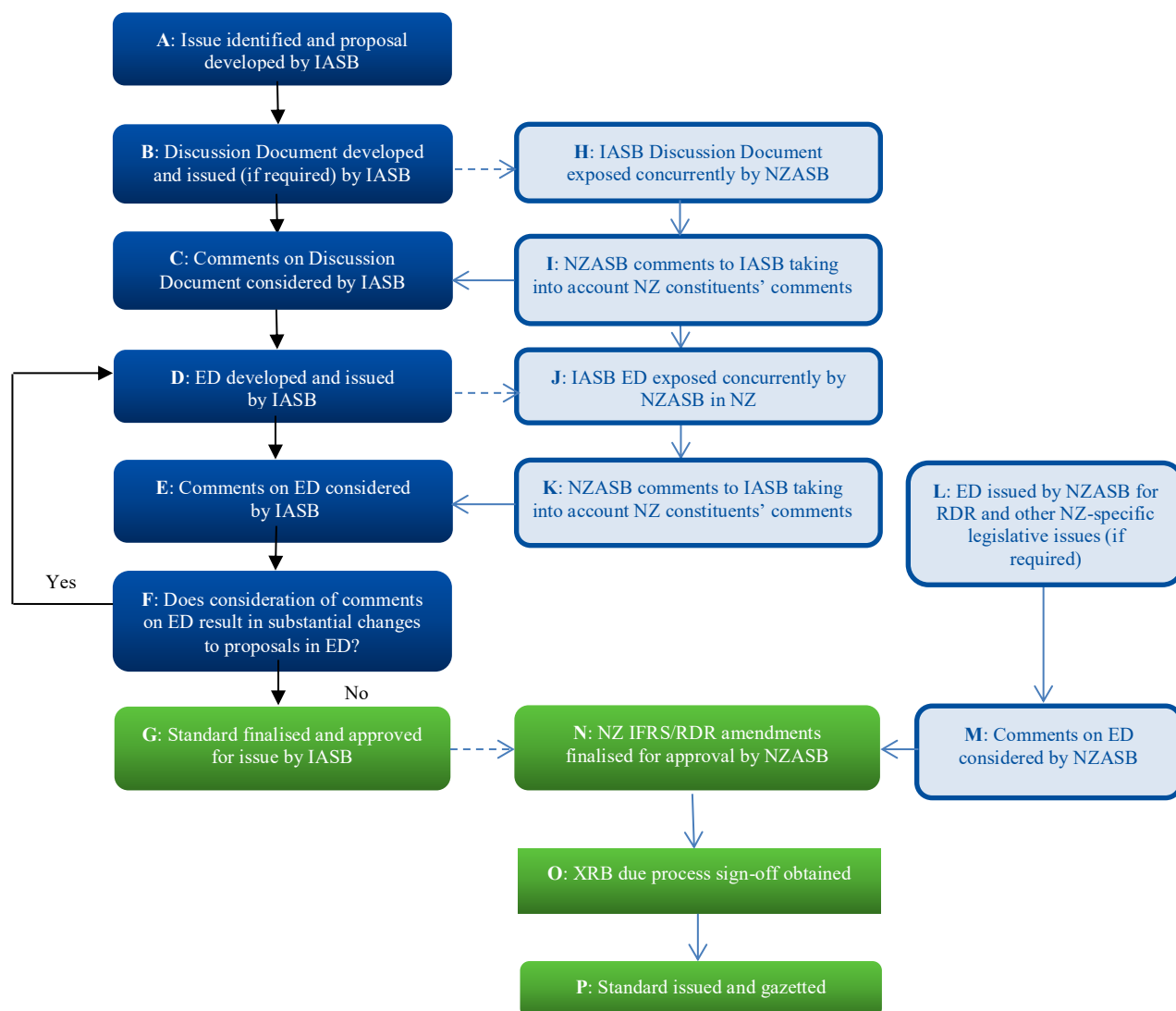
EG A2 Overview of the Accounting Standard-setting Process

- 8 The standards that comprise each set of accounting requirements are listed in appendices to XRB A1. The steps in the standard-setting process depend on the sector and tier, and whether the standard in question is based on an international pronouncement or is a domestic standard.
 - (a) The Tier 1 and Tier 2 For-profit Accounting Requirements comprise a suite of standards. Most of these standards are based on pronouncements issued by the International Accounting Standards Board (IASB). These standards are updated regularly so that Tier 1 for-profit entities can assert compliance with IFRSs (per paragraph 16 of NZ IAS 1 *Presentation of Financial Statements*). The international due process forms an integral part of the NZASB's due process. New Zealand constituents have an opportunity to comment on proposals for new or amended IFRS Standards at the same time as international constituents (see Process 1). There are also some domestic standards in this suite of standards (see Process 4).
 - (b) The Tier 1 and Tier 2 PBE Accounting Requirements comprise a suite of standards. Most of these standards are based on pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB). These standards are also updated regularly. New Zealand constituents have an opportunity to comment on any proposals for new or amended IPSAS and then again when there are any proposals for new or amended PBE Standards (see Process 2). There are also some PBE Standards that are based on IASB pronouncements (see Process 3) and some domestic standards in this suite of standards (see Process 4).
 - (c) The Tier 3 and Tier 4 PBE Accounting Requirements are developed domestically and updated periodically (see Process 4).
- 9 In addition to issuing standards the NZASB also issues conceptual frameworks as authoritative notices. The steps in issuing a conceptual framework depend upon the sector to which it relates (see Process 1 and Process 2).
- 10 The NZASB occasionally issues other documents, such as explanatory guides. These are usually issued without formal public consultation because they contain explanatory material, have no legal status and their application is not mandatory.
- 11 In addition to the due process followed by the NZASB in developing and issuing standards, transparency of the NZASB's standard-setting role is enhanced by:
 - (a) the technical sessions of NZASB meetings being open to the public;
 - (b) NZASB agenda papers being available on the XRB website; and
 - (c) minutes of meetings being made available once they have been approved.

Process 1: For-profit accounting standards based on IASB pronouncements

- 12 The process the NZASB follows for developing and issuing for-profit accounting standards based on IASB pronouncements is set out in Figure 1. This Figure should be read in conjunction with the commentary on Process 1. The steps in the commentary refer to the steps in Figure 1.

Figure 1: Process for for-profit accounting standards based on IASB pronouncements



Steps A–G

- 13 In accordance with the Accounting Standards Framework, the XRB Board is committed to adopting international standards in the for-profit sector and ensuring that Tier 1 for-profit entities in New Zealand can assert compliance with IFRSs. This means that, unless extreme circumstances exist, in developing the Tier 1 For-profit Accounting Requirements, the NZASB:
- (a) will adopt all IFRS Standards;
 - (b) will not amend the recognition and measurement requirements in IFRS Standards; and
 - (c) will not reduce the disclosure requirements in IFRS Standards.

EG A2 Overview of the Accounting Standard-setting Process

- 14 Process 1 incorporates the IASB's due process for issuing IFRS Standards.⁴ The IFRS Foundation's due process is an important component of the overall standard-setting process in New Zealand, and is relied on by the NZASB. Process 1 focuses on the steps the NZASB takes when issuing pronouncements based on IASB pronouncements. The due process principles that apply to the IASB and the IFRS Interpretations Committee are set out in the *IFRS Foundation Due Process Handbook*.⁵
- 15 The XRB Board and the NZASB consider that commenting on IASB documents as well as contributing to the development of those documents, where appropriate, is important to support the work of the IASB and to ensure that standards issued by the IASB (and subsequently adopted in New Zealand) are appropriate for New Zealand. International pronouncements per se are not issued in New Zealand.

Steps H–K

- 16 When the IASB seeks public comment on a document (such as an ED of a new or amending standard or a discussion document), the NZASB notifies constituents that the document has been issued and is open for comment in New Zealand. In the case of proposals for new or amending standards there is generally only one consultation phase during which time both international constituents and New Zealand constituents have the opportunity to comment on the proposals. In the case of proposals in discussion papers there will generally be one or more subsequent phases of consultation. Where appropriate, the IASB or the NZASB arrange forums to enable discussion and exchanges of opinion on the proposals set out in the document.
- 17 The IASB's due process comment period varies depending on the complexity of the topic, but is typically 120 days.⁶ Proposed changes that result in only minor amendments to an IFRS Standard may be progressed more quickly.
- 18 Anyone can comment to the IASB on its documents. As the national standard setter, the NZASB comments to the IASB if it considers it appropriate to do so.⁷ Constituents can comment directly to the IASB or to the NZASB. If constituents' comment directly to the IASB, the NZASB appreciates receiving a copy. All comments addressed to the NZASB are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.
- 19 Once the IASB finalises its proposals and issues a new or amending standard, the NZASB issues an equivalent new or amending standard.
- 20 In the unusual circumstance that the NZASB considers that additional New Zealand-specific disclosures are required it consults separately on those proposals.
- 21 As outlined in the New Zealand Accounting Standards Framework, the XRB Board is committed to harmonised trans-Tasman standards for Tier 1 for-profit entities. Australia has also adopted IFRS Standards and the Australian Accounting Standards Board (AASB) has a parallel policy to New Zealand on adopting IFRS Standards for issue as equivalent domestic standards for Australian Tier 1 for-profit entities.⁸

Steps L–M

- 22 Tier 2 for-profit entities reporting in accordance with NZ IFRS RDR are required to apply the same recognition and measurement requirements as Tier 1 for-profit entities, but may take advantage of any disclosure concessions.
- 23 If the NZASB considers that disclosure concessions are warranted, it consults separately on the proposed concessions. Figure 1 shows steps L and M occurring separately from the process of adopting the IFRS Standard. These steps occur after the NZ IFRS has been issued for Tier 1 for-profit entities, with the

⁴ Other pronouncements issued by the IASB include the IASB's Conceptual Framework and amendments to its standards.

⁵ Available at <https://www.ifrs.org>

⁶ The concurrent comment period in New Zealand is usually marginally shorter to enable the NZASB to receive comments from New Zealand constituents before making its own submission to the IASB.

⁷ The NZASB may also contribute to the Asian-Oceania Standard-Setters Group (AOSSG) when the AOSSG makes comments on behalf of countries in the Asian-Oceania region.

⁸ The XRB is a signatory to a Protocol for Co-operation with the Australian Financial Reporting Council, the AASB and the Australian Auditing and Assurance Standards Board. Under the protocol, the parties agree to use their best endeavours to minimise the differences between accounting standards issued in Australia and New Zealand for for-profit entities, and to keep each other informed of developments regarding public benefit entities.

EG A2 Overview of the Accounting Standard-setting Process

concessions being finalised by way of an amending standard. In considering whether disclosure concessions are warranted the NZASB also consults with Australia.

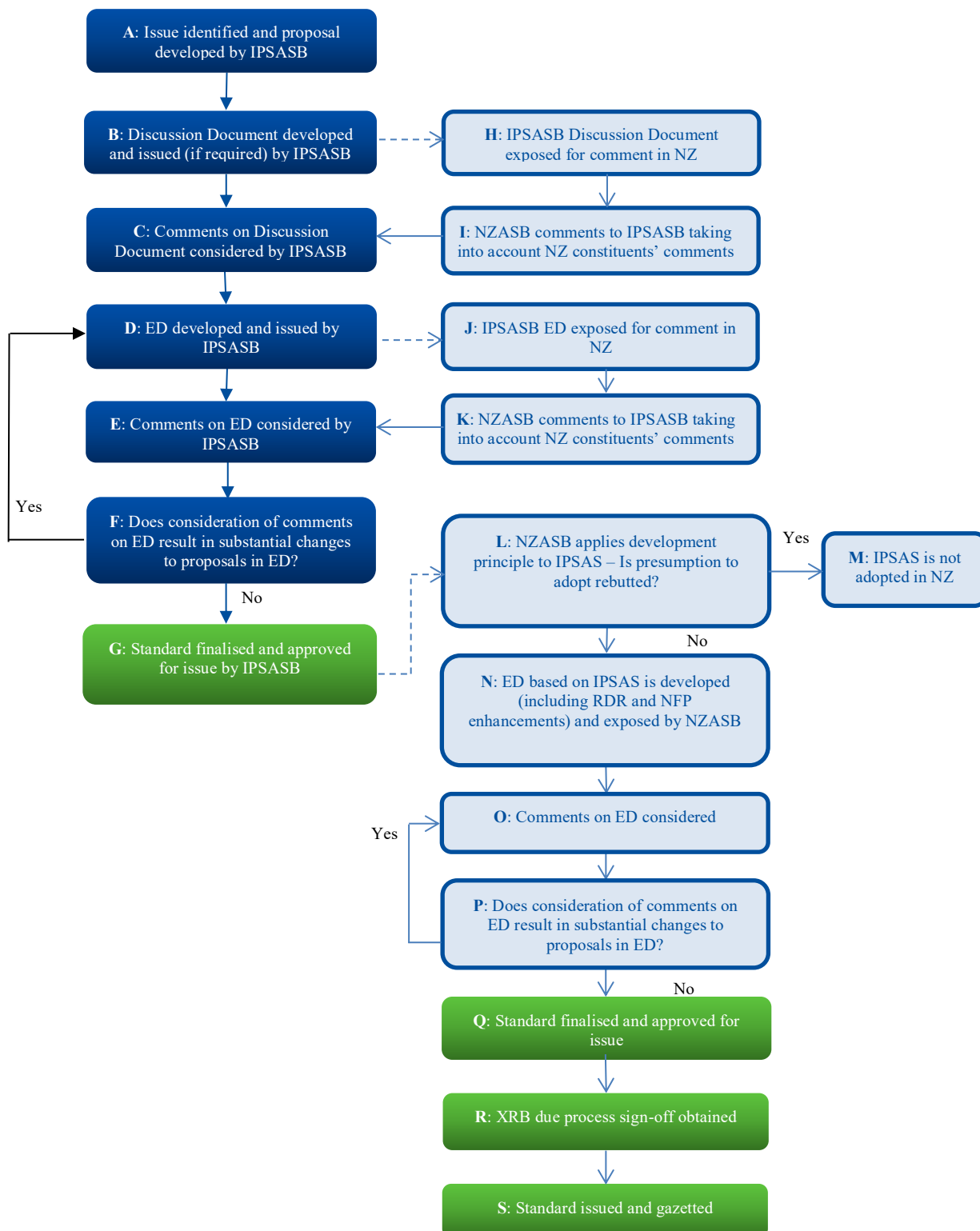
Steps N–P

- 24 Once a standard has been finalised the NZASB approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB approvals and legislative process**).

Process 2: PBE Standards based on IPSASB pronouncements

- 25 The process the NZASB follows for developing and issuing PBE Standards based on IPSAS is set out in Figure 2. This Figure should be read in conjunction with the commentary on Process 2. The steps in the commentary refer to the steps in Figure 2.

Figure 2: Process for PBE Standards based on IPSASB pronouncements



EG A2 Overview of the Accounting Standard-setting Process

Steps A–G

- 26 Process 2 incorporates the IPSASB's due process for issuing IPSAS and other pronouncements.⁹ The IPSASB's due process is set out on its website.¹⁰
- 27 The XRB Board and the NZASB consider that commenting on IPSASB documents as well as contributing to the development of those documents, where appropriate, is important to support the work of the IPSASB and to ensure that standards issued by the IPSASB which may be adopted in New Zealand are appropriate. IPSAS per se are not issued in New Zealand.

Steps H–K

- 28 When the IPSASB seeks public comment on a document (such as an ED of a new or amending standard or a discussion document), the NZASB notifies constituents that the document has been issued and is open for comment in New Zealand. Where appropriate, the IPSASB or the NZASB arrange forums to enable discussion and exchanges of opinion on the proposals set out in the document.
- 29 The IPSASB's due process comment period varies depending on the complexity of the topic, but is typically 120 days.
- 30 Anyone can comment to the IPSASB on its documents. As the national standard setter, the NZASB comments to the IPSASB if it considers it appropriate to do so. Constituents can comment directly to the IPSASB or to the NZASB. If constituents comment directly to the IPSASB, the NZASB appreciates receiving a copy. All comments addressed to the NZASB are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.
- 31 From this point on, Process 2 differs from Process 1. Once the IPSASB finalises its proposals and issues a new or amending standard the NZASB moves onto Steps L–P, in which it considers whether that new or amending standard should be incorporated into PBE Standards.¹¹

Steps L–P

- 32 The NZASB aims to ensure that standards for Tier 1 and Tier 2 PBEs are a coherent and complete set of high-quality standards that meet users' needs. The NZASB (in conjunction with the XRB Board) has developed the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) to assist the NZASB when it considers developing and enhancing standards applied by Tier 1 and Tier 2 public benefit entities (PBEs).¹²
- 33 Prior to developing a PBE Standard based on an IPSAS (or issuing any other IPSASB pronouncement), the NZASB applies the development principle in the PBE Policy Approach to the IPSAS. The rebuttable presumption in the development principle is that the NZASB will adopt a new or amended IPSAS. If the presumption is rebutted, the process ceases and the IPSAS is not adopted in New Zealand. If the presumption is not rebutted, the NZASB develops and issues a domestic ED based on the IPSAS. These changes may include enhancements for not-for-profit entities, modifications to reflect New Zealand legislative requirements and any proposed RDR concessions.
- 34 The ED is accompanied by an Invitation to Comment (ITC) that highlights the reason for the development of the proposed standard.
- 35 The NZASB notifies constituents that the ED has been issued and is open for comment. Where appropriate, the NZASB arranges forums to enable further discussion and exchanges of opinion on the proposals set out in the ED.
- 36 The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods will be used only for urgent or minor matters and will never be less than 30 days.

⁹ Other pronouncements issued by the IPSASB include the IPSASB's conceptual framework and amendments to its pronouncements.

¹⁰ <https://www.ipsasb.org/>

¹¹ References to IPSASB standards include the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

¹² The PBE Policy Approach is available at <https://www.xrb.govt.nz/>

EG A2 Overview of the Accounting Standard-setting Process

- 37 Constituents' comments are generally sought on the proposals set out in the ED. All comments are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

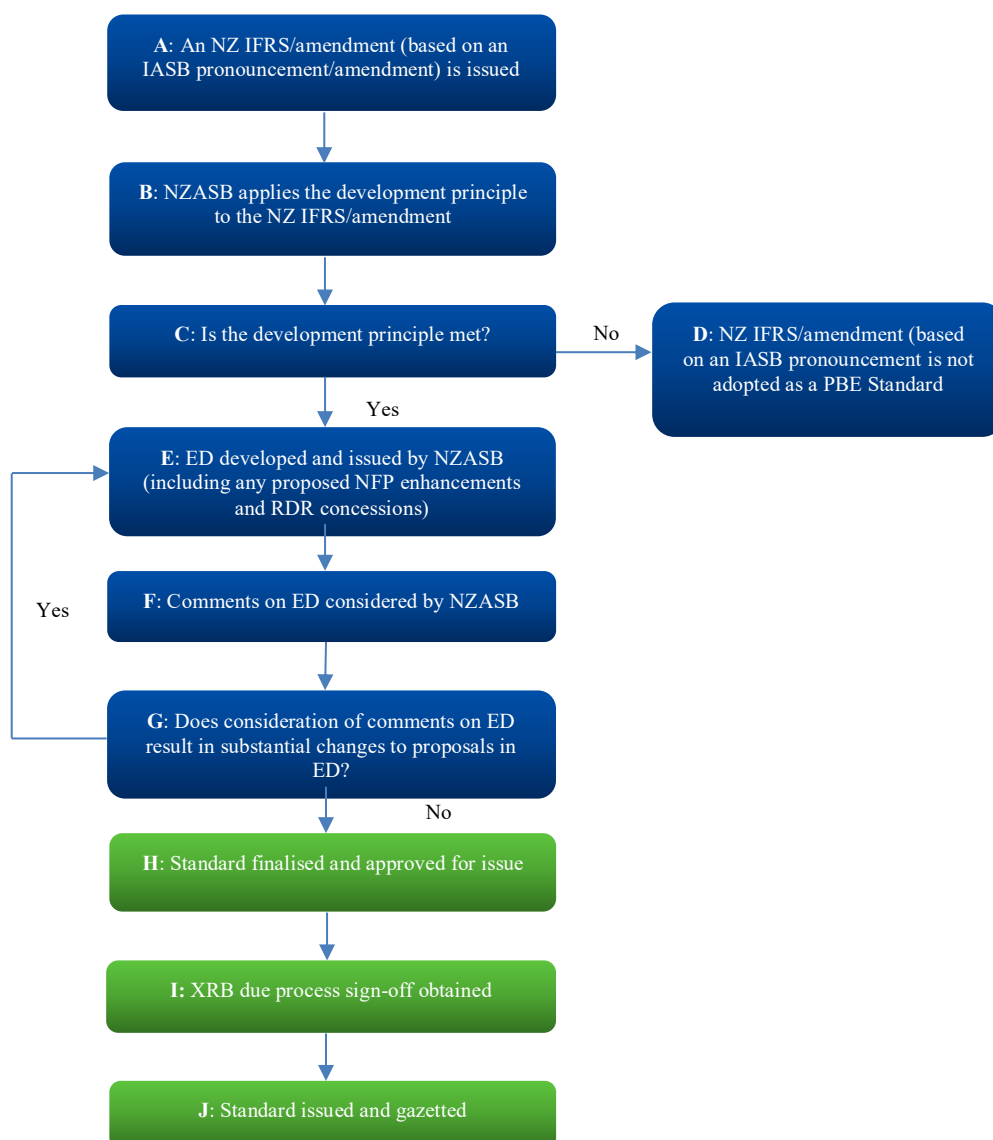
Steps Q–S

- 38 Following the comment period and consideration of the comments received, the NZASB finalises the standard for Tier 1 and Tier 2 PBEs and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB approvals and legislative process**).

Process 3: PBE Standards based on IASB pronouncements

- 39 The process the NZASB follows for developing and issuing PBE Standards based on IASB pronouncements is set out in Figure 3. This Figure should be read in conjunction with the commentary on Process 3. The steps in the commentary refer to the steps in Figure 3.

Figure 3: Process for PBE Standards based on IASB pronouncements



Steps A–G

- 40 The PBE Policy Approach acknowledges that there may be some instances when it is appropriate to develop a PBE Standard based on a standard issued by the IASB or to incorporate amendments issued by the IASB in PBE Standards before the IPSASB considers those amendments. The NZASB therefore considers the application of the PBE Policy Approach to new and amending standards issued by the IASB on a regular basis.
- 41 There are three instances where the NZASB considers whether to propose the incorporation of a new or amending standard in PBE Standards:
- (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

EG A2 Overview of the Accounting Standard-setting Process

- (c) there is a change to an NZ IFRS that has been used as a basis for a PBE Standard.
- 42 The development principle requires the NZASB to consider:
- (a) whether a development will lead to higher quality financial reporting by PBEs (and groups);
 - (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;
 - (ii) relevance to the not-for-profit and public sector sub-sectors;
 - (iii) coherence of the set of PBE Standards;
 - (iv) the impact on mixed groups;¹³ and
 - (c) the IPSASB's likely response to the issue of a new or amended IFRS Standard.
- 43 If, in applying the development principle, the NZASB decides not to include the IFRS Standard in the PBE Standards, the NZASB does not need to take any further action at that time.
- 44 If the NZASB decides to develop a new PBE Standard or propose amendments to PBE Standards, it issues an ED setting out the proposals. The proposals may include enhancements for not-for-profit entities, modifications to reflect New Zealand legislative requirements and RDR concessions.
- 45 The ED is accompanied by an ITC that highlights the reason for the development of the proposed standard.
- 46 The NZASB notifies constituents that the ED has been issued and is open for comment. Where appropriate, the NZASB arranges forums to enable further discussion and exchanges of opinion on the proposals set out in the ED.
- 47 The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.
- 48 Constituents' comments are generally sought on the proposals set out in the ED. All comments are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

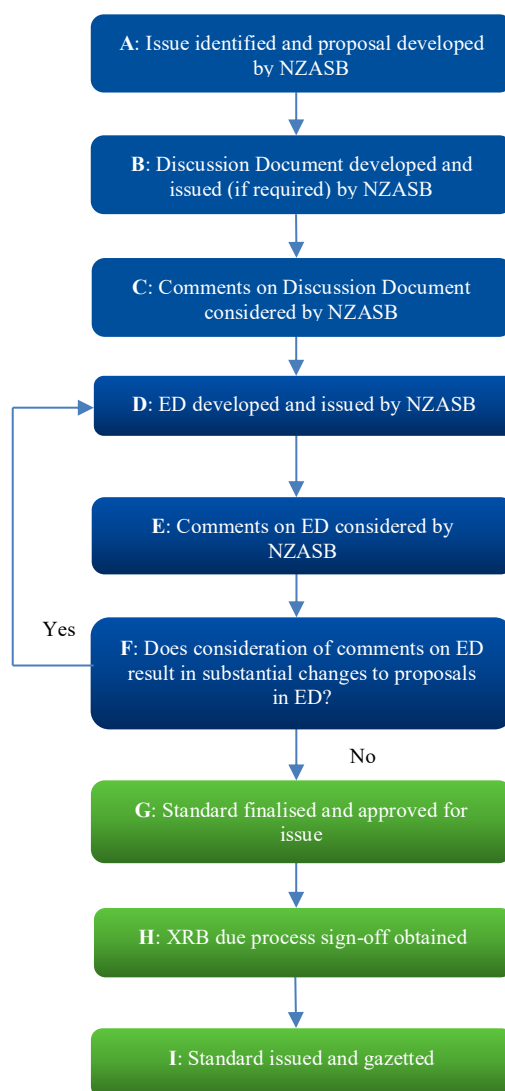
Steps H–J

- 49 Following the comment period and consideration of the comments received, the NZASB finalises the standard for Tier 1 and Tier 2 PBEs and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB approvals and legislative process**).

¹³ For example, a mixed group could be 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.

Process 4: Process for domestic standards

- 50 The process the NZASB follows for developing domestic standards is set out in Figure 4. This Figure should be read in conjunction with the commentary on Process 4. The steps in the commentary refer to the steps in Figure 4.

Figure 4: Process for domestic standards**Steps A–F**

- 51 Domestic standards may be developed for for-profit entities or PBEs.
- 52 Domestic standards are included in for-profit accounting standards only if they do not affect a Tier 1 for-profit entity's ability to assert compliance with IFRSs or the recognition and measurement requirements for a Tier 2 for-profit entity. Therefore, domestic standards either prescribe additional disclosures to those in NZ IFRS or NZ IFRS RDR (for example, FRS-44 *New Zealand Additional Disclosures*), or cover topics that do not affect IFRS-compliant financial statements (for example, FRS-42 *Prospective Financial Statements*).
- 53 There are no similar constraints on domestic standards included in PBE Standards or in the Simple Format Reporting Standards that are issued for Tier 3 and Tier 4 PBEs.

EG A2 Overview of the Accounting Standard-setting Process

- 54 Domestic standards are developed when the NZASB identifies an issue or a gap in the accounting standards for either one or both of the sectors. In developing domestic standards, constituents' views are sought on the need for, and content of, any proposed requirements. For some projects, the NZASB may issue a discussion document identifying matters that the NZASB is considering and options for addressing those matters.
- 55 For all proposed standards, the NZASB prepares an ED and accompanying ITC that highlights the reason for its development.
- 56 Constituents are notified of the issue of all discussion documents and EDs. Where appropriate, forums are arranged or other arrangements made to enable further discussion and exchanges of opinion on the proposals set out in the documents or EDs.
- 57 The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.
- 58 Constituents' comments are sought on the proposals in the ED. All comments are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

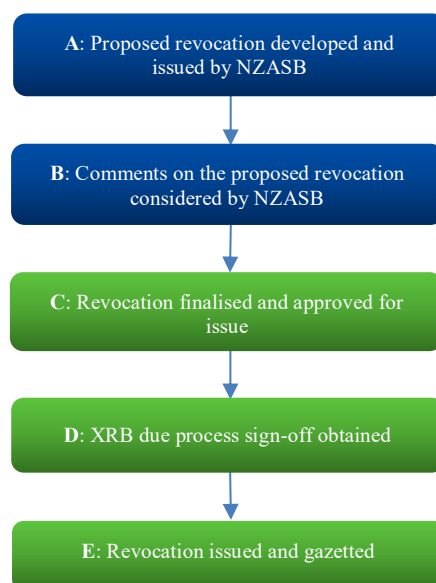
Steps G–I

- 59 Following the comment period and consideration of the comments received, the NZASB finalises the standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB approvals and legislative process**).

Process for revoking standards and authoritative notices

- 60 The process the NZASB follows for revoking standards is set out in Figure 5. This Figure should be read in conjunction with the commentary on Process 5. The steps in the commentary refer to the steps in Figure 5.

Figure 5: Process for revoking standards



Steps A–B

- 61 The Financial Reporting Act 2013 requires that the due process applying to the issue of standards also applies to their revocation. Before the NZASB revokes a standard in either sector, it must ensure that people or organisations likely to be affected have been adequately consulted.¹⁴
- 62 The NZASB develops and issues the proposed revocation, including the reason for the revocation. Constituents are notified of the issue of the proposed revocation. The comment period for the proposed revocation is typically 90 days.
- 63 Constituents' comments are generally sought on the proposed revocation, and those comments are taken into account when finalising the revocation. All comments are included on the XRB website unless constituents request otherwise. However, all comments the NZASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

Steps C–E

- 64 Following the comment period and consideration of the comments received, the NZASB finalises the revocation and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB approvals and legislative process**).

¹⁴ Standards or authoritative notices may be superseded or revoked because of amendments to other standards or authoritative notices or because new standards or authoritative notices are issued. Proposals to supersede or revoke a standard or authoritative notice may therefore be consulted on together with those other proposals.

XRB approvals and legislative process

- 65 Before approving a standard, authoritative notice, amendment or revocation for issue, the NZASB needs to satisfy itself that reasonable steps have been taken to consult with people or organisations likely to be affected.
- 66 The NZASB is required to obtain a certificate signed by a member of the XRB Board (usually the Chair of the XRB Board), authorising the issue of the standard, authoritative notice, amendment or revocation.¹⁵
- 67 Before signing a certificate, the member of the XRB Board checks that the standard, authoritative notice, amendment or revocation is consistent with the XRB Board's financial reporting strategy, that due process has been followed, and that matters raised by constituents have been adequately considered. In the case of a standard or authoritative notice that is based on an international pronouncement, this includes ensuring that the applicable international due process has been followed.
- 68 Following the signing of the certificate, the NZASB formally issues the standard, authoritative notice, amendment or revocation, publishes a notice in the Gazette and advises constituents via its regular newsletters.¹⁶
- 69 In accordance with the provisions of the Financial Reporting Act 2013, all standards, authoritative notices, amendments and revocations issued are subject to the Legislation Act 2012. This means that these pronouncements are treated as disallowable instruments and must be presented to Parliament within 16 sitting days of the standard being gazetted.¹⁷ Sections 42 and 43 of the Legislation Act 2012 set out the manner in which a disallowable instrument (or provisions of a disallowable instrument) may be disallowed.
- 70 A standard, authoritative notice, amendment or revocation takes effect on the 28th day after the Gazette notice is published. However, any of those documents may be treated as taking effect on its notification in the Gazette if the NZASB considers it necessary or desirable to do so and advises so in the Gazette notice.¹⁸
- 71 The requirements of existing standards and authoritative notices that are affected by a new standard, authoritative notice, amendment or revocation remain in force until the mandatory application date of the new pronouncement. Subject to the requirements of the standard or authoritative notice, a new or revised or amended standard or authoritative notice may be applied in advance of its mandatory application date.

¹⁵ As required by section 26 of the Financial Reporting Act 2013.

¹⁶ As required by section 24 of the Financial Reporting Act 2013.

¹⁷ See section 25 of the Financial Reporting Act 2013.

¹⁸ See section 27(2) of the Financial Reporting Act 2013.

EG A2 Overview of the Accounting Standard-setting Process

History of Amendments

EG A2 *Overview of the Accounting Standard-setting Process* was issued in August 2014.

This table lists the date of amendments to EG A2 and provides a brief summary of those amendments.

Month	Summary of amendments
December 2017	<ul style="list-style-type: none"> • Editorial amendments • Redrafted the diagrams outlining the different processes
June 2018	<ul style="list-style-type: none"> • Editorial amendments • Updated the reference to the for-profit conceptual framework • Amended the diagrams outlining the different processes, including RDR for for-profit entities
December 2019	<ul style="list-style-type: none"> • Editorial amendments to refer to the suites of standards as defined in XRB A1 and to use current terminology • General update



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

APPROVAL NZASB 112

Approval to Issue *Interest Rate Benchmark Reform*

In accordance with the protocols established between the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB Board), the NZASB has:

- approved for issue *Interest Rate Benchmark Reform*; and
- provided a signing memo outlining the due process followed before reaching that decision, and other related information.

I have reviewed the signing memo and am satisfied with the information provided. Accordingly, the NZASB is hereby authorised to issue *Interest Rate Benchmark Reform* pursuant to section 12(a) of the Financial Reporting Act 2013.

Dated this  day of October 2019



Michele Embling
Chair
External Reporting Board