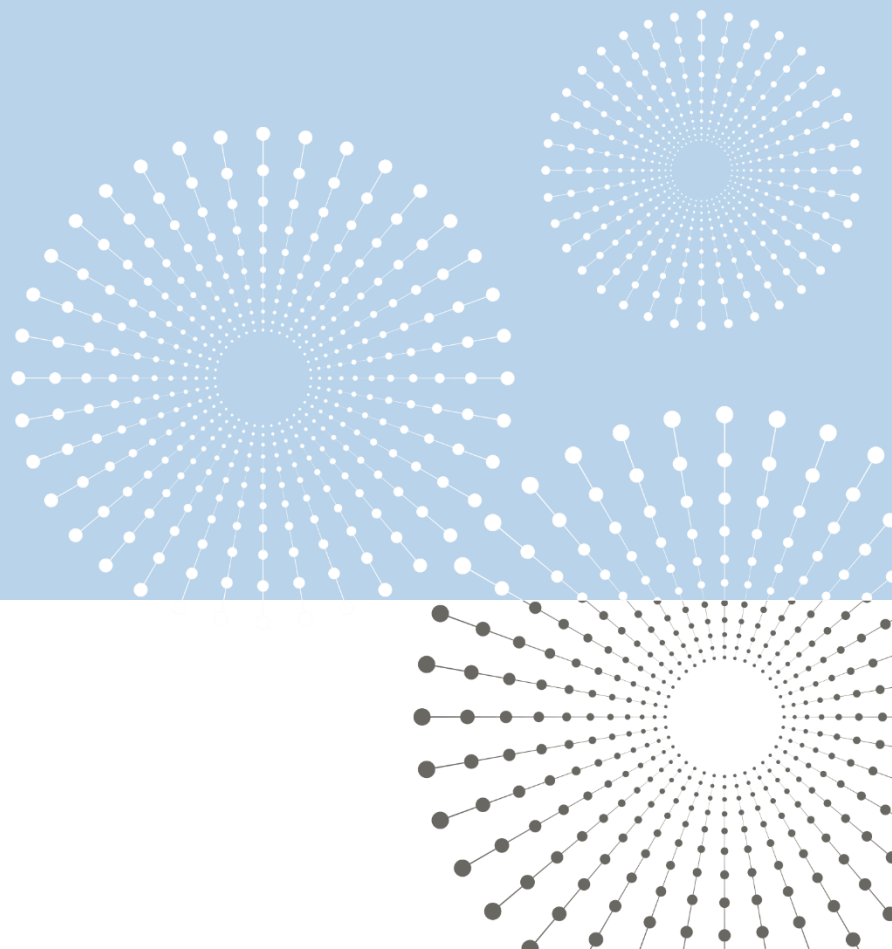


# Definition of public accountability in XRB A1

## Staff Guidance

Applying the definition of public accountability  
in Aotearoa New Zealand

September 2022





To determine an entity's financial reporting tier, a key factor to consider is whether the entity has 'public accountability', as defined in XRB A1 *Application of the Accounting Standards Framework*. This XRB staff guidance provides clarification of the definition of public accountability in New Zealand and how to apply it.

### Background

In New Zealand, some entities are required by legislation (or choose) to prepare general purpose financial reports in accordance with accounting standards issued by the XRB. This includes entities that report in accordance with 'GAAP'. Such entities need to determine their reporting tier by applying XRB A1 *Application of the Accounting Standards Framework*.

There are two reporting tiers for for-profit entities and four reporting tiers for public benefit entities (PBEs). A for-profit entity in Tier 1 must comply with the full requirements of NZ IFRS, and a PBE in Tier 1 must comply with the full requirements of PBE Standards. The lower the tier, the more simplified are the reporting requirements.

The definition of 'public accountability' in XRB A1 is a key element in determining an entity's reporting tier. If a for-profit entity or a PBE has public accountability, that entity is required to apply Tier 1 reporting requirements – regardless of the entity's size or any other considerations.

The definition of public accountability in XRB A1 is also important from an audit and assurance perspective, due to how Public Interest Entities (PIEs) are defined.

### PIEs and auditor independence

If an entity has public accountability as defined in XRB A1 (or, if the entity is a PBE or a public sector for-profit entity that is defined as 'large' in XRB A1), the entity is required to report in accordance with Tier 1 reporting requirements.

An entity that meets the Tier 1 criteria in XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier is treated as a **public interest entity (PIE)** – auditors of PIEs have additional independence requirements.

## Definition of public accountability in XRB A1

The definition of public accountability in XRB A1 has two parts, as summarised below:

1.

**IASB definition** (based on the international standard *IFRS for SMEs*): An entity has public accountability if its shares or debt are traded on the public market – or if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

2.

**New Zealand-specific 'deeming provision'**: An entity has public accountability if it is an 'FMC reporting entity' with 'higher level of public accountability' as defined under the Financial Markets Conduct Act 2013 (FMC Act).

The full definition of public accountability as per XRB A1 is included on the **next page**.



## Definition of public accountability: Extract from XRB A1

7. For the purpose of applying the Tier 1 criteria, an entity has public accountability if:
  - (a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or
  - (b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.
8. In accordance with the IASB definition, an entity has public accountability if:
  - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
  - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
9. An entity is deemed to have public accountability in New Zealand if:
  - (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or
  - (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.
10. Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

## Application

**Paragraph 8(b)** of XRB A1 includes part of the IASB definition of public accountability. It states that an entity has public accountability if “it holds assets in a **fiduciary capacity for a broad group of outsiders** as one of its primary businesses”. **The following considerations are relevant when applying this paragraph in New Zealand.**

### Broker / dealer considerations

Paragraph 8(b) says that “**most** banks, credit unions, insurance companies, **securities brokers/ dealers**, mutual funds and investment banks would meet” the public accountability criterion in this paragraph.

**However, In New Zealand, many entities known as ‘brokers’ or ‘dealers’ do not hold client assets in a fiduciary capacity**, but instead mainly provide investment portfolio advice and/or transactional services. Therefore, **judgement is required** in determining whether these types of entities meet the public accountability criterion under paragraph 8(b) of XRB A1.

### FMC reporting entities considerations

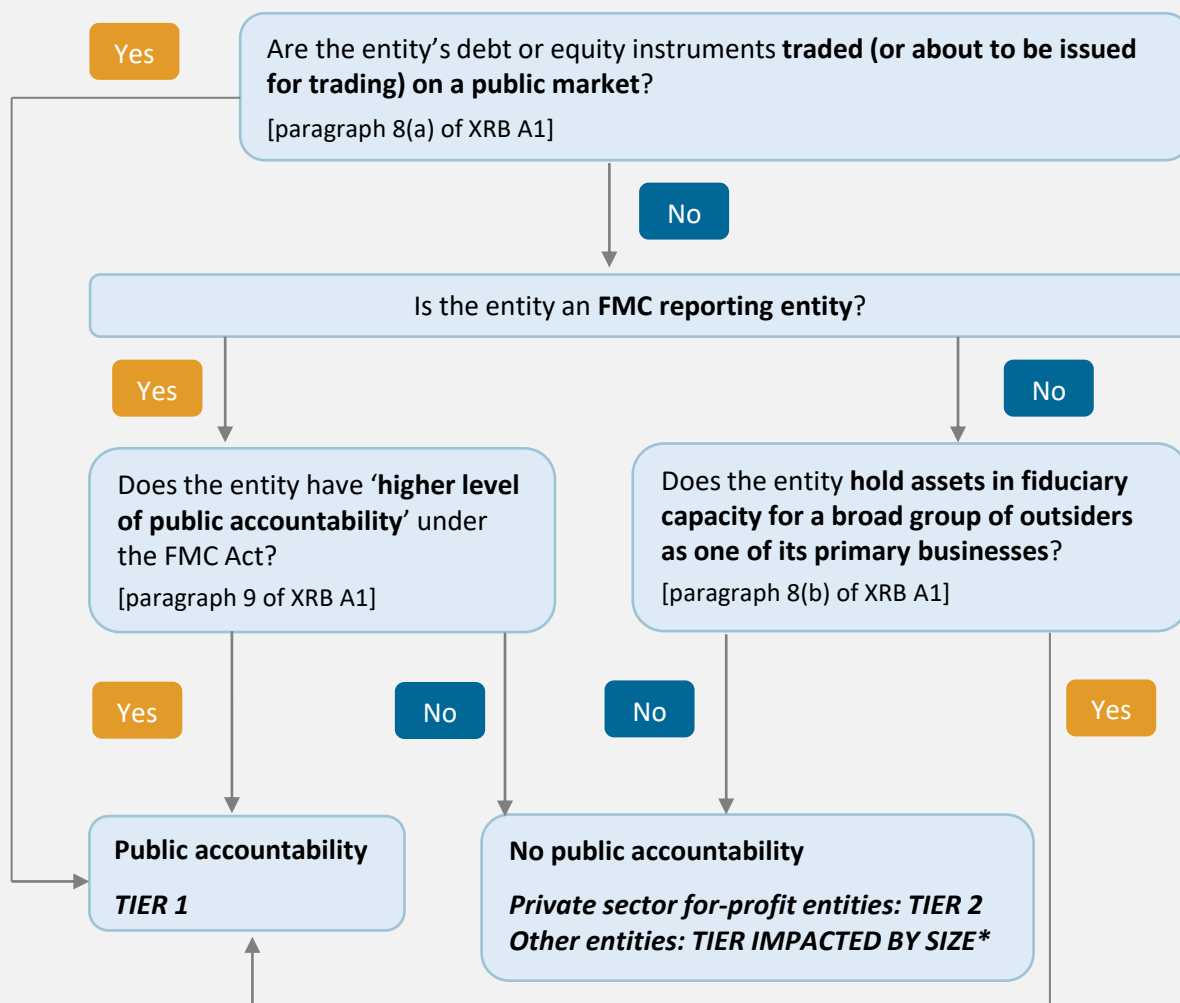
Paragraph 10 means that an **FMC reporting entity** is considered to have **public accountability in accordance with paragraph 8(b) if, and only if**, the FMC reporting entity has a ‘**higher level of public accountability**’ under the **FMC Act\***, as per paragraph 9.

In other words, an **FMC reporting entity** that **does not have a ‘higher level of public accountability’** as set out under the **FMC Act** is **not considered to have public accountability** under **paragraph 8(b)**.

\* The **FMC Act** sets out which **FMC reporting entities** have ‘**higher level of public accountability**’ – this generally includes issuers of equity/debt securities under a regulated offer, managers of registered schemes (but only in respect of financial statements of a scheme or fund), listed issuers, registered banks, licensed insurers, credit unions, building societies, and entities that the FMA designates as having higher level of public accountability by issuing a notice under the FMC Act.



## Flowchart for reporting entities that apply XRB accounting standards



\* Large for-profit public sector entities and large public benefit entities (PBEs) are in Tier 1. All other entities without public accountability are in a lower [tier](#) (unless they elect to be in Tier 1).



### Understanding the 'fiduciary capacity' criterion

People often ask why the 'fiduciary capacity' criterion can result in a different reporting tier for non-FMC reporting entities versus FMC reporting entities.

#### The rationale for this difference is:

- The FMA, under the FMC Act, has the ability to vary the level of public accountability of an FMC reporting entity. FMC reporting entities that do not have 'higher level of public accountability' are still subject to regulatory requirements, including in relation to holding assets for others.
- Non-FMC reporting entities are not subject to such regulatory requirements. Our understanding is that the intent in XRB A1 is to ensure a non-FMC reporting entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses would not be able to apply reduced reporting requirements.