

# Briefing to the Incoming Minister

Minister of Commerce - Hon David Clark

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Ensuring trust and confidence in reporting by business,  
government agencies and Not-for-Profit organisations.



EXTERNAL REPORTING BOARD

*Te Kāwai Ārahi Pūrongo Mōwaho*

# Welcome



Dear Minister Clark,

Congratulations on your appointment as Minister of Commerce and Consumer Affairs.

Since its formation in 2011, the External Reporting Board (XRB) has delivered a great deal, including the establishment of two standards setting boards, development of required standards necessary to give effect to the (then) new Accounting Standards Framework, and the updating of the Auditing and Assurance and ethical Standards to align with international standards and reflect best international practice.

Stakeholder expectations for external reporting continues to evolve, and the XRB has, and will continue to, meet these expectations through the provision of high-quality reporting frameworks, standards and guidance.

Across the globe, investors and the public are increasingly calling for external reporting to include information beyond the financials. We also anticipate there will be increased demand for integrated reporting, and more specifically, for organisations to report on their Environmental, Social, Governance (ESG) strategies, along with greater visibility regarding social license to operate and forward-looking information on long-term sustainability. The work we are doing to develop a strategy for reporting on Climate Related Financial Disclosures (CRFD) is a significant step towards meeting these demands.

Given the current trends for increased disclosure in reporting overall, there may be additional expectations for reporting standards that the XRB will need to address in the future. Meeting these needs will mean working efficiently and effectively, and in ways that are flexible enough to respond to the reporting needs of New Zealand's diverse private sector, public sector and Not-for-Profit stakeholders. To enable this, we are looking for ways to strengthen our efficiency and effectiveness and remain fit for the future. We are also in the process of submitting Vote and Cost Pressure Bids to enable (in part) the future delivery of CRFD Standards and Guidance.

The XRB team is ready to embrace challenges, opportunities and new frontiers ahead of us and are looking forward to working with you.

A handwritten signature in black ink, appearing to read 'April Mackenzie', with a long horizontal flourish extending to the right.

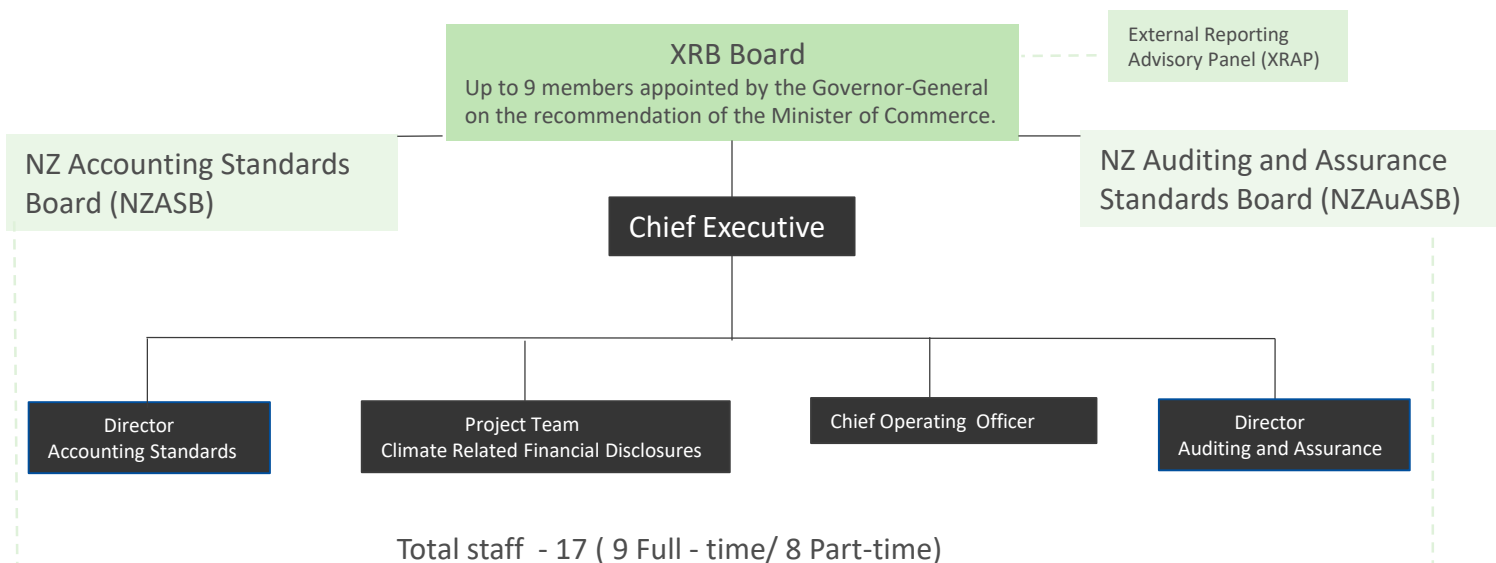
April Mackenzie

Chief Executive

# Overview

The External Reporting Board (XRB) is an Independent Crown Entity, initially established under the Financial Reporting Act 1993, with continued existence under Section 11 of the Financial Reporting Act 2013. As a Crown Entity, the XRB is subject to the Crown Entities Act 2004. The XRB came into existence on 1 July 2011, following the disestablishment of the Accounting Standards Review Board (ASRB) following amendments to the Financial Reporting Act 1993.

## Structure



The NZASB and NZAuASB are committees appointed in accordance with Schedule 5 of the Crown Entities Act 2004 and operate under delegated authority. They are responsible for developing and issuing accounting, auditing and assurance and ethical standards. Each board comprises of up to ten suitably qualified and experienced persons with a diversity of perspectives. Members are appointed by the XRB and are all part-time and remunerated in accordance with rates determined by the Remuneration Authority. The External Reporting Advisory Panel (XRAP) provides a forum where the three XRB Boards can consult with individuals and representatives of organisations affected by their work. The XRAP is a key part of the XRB's strategy to enhance meaningful engagement with sectors. The XRAP operates independently of the XRB Boards. It meets twice a year, usually in March and September, and provides input into XRB projects when appropriate.

## Legal functions

The XRB's functions are prescribed by Section 12 of the Financial Reporting Act 2013 and are as follows:

- Developing and implementing an overall strategy for financial reporting standards (both accounting and auditing & assurance standards), including developing and implementing tiers of financial reporting;
- Preparing and issuing accounting standards, including where applicable "non-GAAP standards" for entities entitled by Law to use cash accounting, and authoritative pronouncements;
- Preparing and issuing auditing & assurance standards, including the professional and ethical standards that will govern the professional conduct of auditors; and
- Liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

# Outcomes & Outputs

High quality financial reporting that incorporates financial and where relevant, non-financial elements to inform decision-making, achieve public accountability and robust governance.

## Strategic outcomes

TRUSTED

High quality reporting and assurance that maintains confidence in New Zealand's reporting and promotes transparency and accountability across all sectors of the economy.

INFORMATIVE

Reporting that generates relevant information to support informed decision making and better outcomes for New Zealand.

INTEGRATED

Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

## Key Outputs

The development and enhancement of **standards frameworks, financial reporting and assurance standards** that are:

- Reliable
- Consistent;
- Based on sound economic principles; and
- Meeting user-needs.



- Financial Reporting Strategy
- Accounting & assurance frameworks,
- Develop and issue accounting, audit and assurance, and ethical standards
- Develop and issue Authoritative notices and guidance
- Develop Climate Related Financial Disclosure Strategy

# Sectors

## For-Profit Entities

- All listed entities, insurers, banks, superannuation schemes, other financial service providers.
- Large overseas companies conducting business in New Zealand
- Large subsidiaries of overseas companies
- Large companies where between 25% and 50% of the voting shares are overseas owned
- Large privately held companies
- Large Partnerships, Retirement Villages and Credit Unions

## Public Sector Entities

- Whole of Government (FSG)
- Government departments and agencies
- State owned enterprises
- Crown Financial Institutions
- Mixed ownership model companies (such as, Air New Zealand)
- The Reserve Bank
- District Health Boards
- Local government
- Schools and tertiary institutions
- Cemeteries

## Not-For-Profit Entities

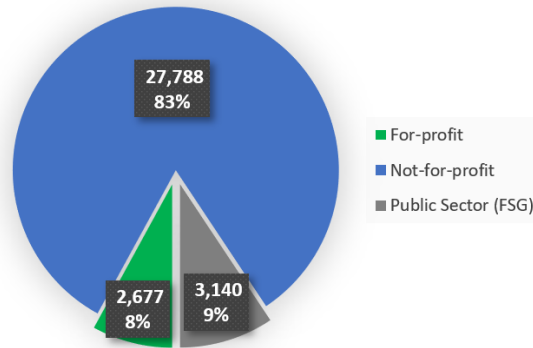
- All registered charities
- Incorporated Societies (subject to reforms)

Financial reporting requirements based on:

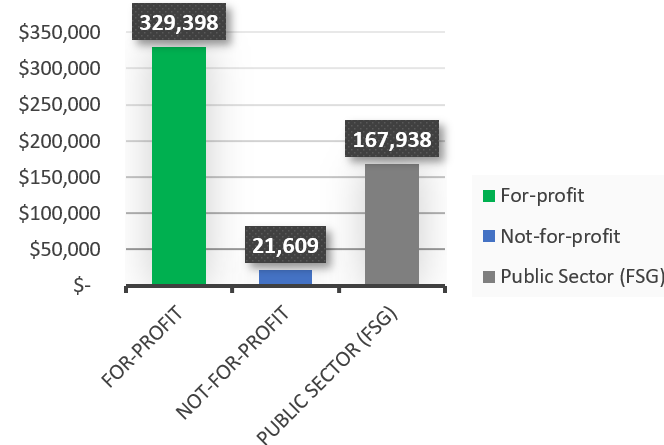
- Public accountability
- Economic significance
- Separation between owners and governing body

## Key data

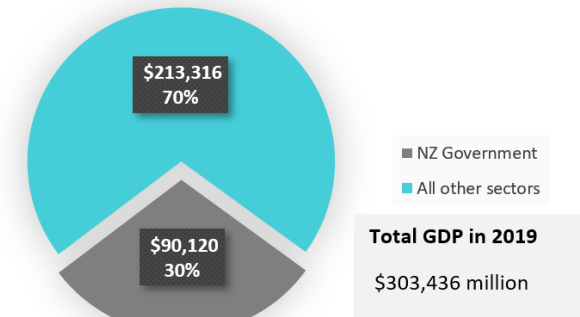
Sector of Reporting Entities by Count



Income of Reporting Entities by Sector (\$m)



Split of GDP by Sector (m)



# How we work



The XRB adopts international standards as a starting point for creating standards. Our two technical Boards the NZASB and NZAuASB consider and debate international standards with input from XRB technical staff, user research and relevant stakeholders.

## Who

Standards apply to is  
**determined by Legislation**

## What

is in the Standard is  
**determined by the XRB**

## Liaison with international standard setters

International alignment is particularly important for entities operating in the international capital markets where being able to assert compliance with international reporting standards is important for fund raising. This approach also reduces domestic standard setting costs.

There are four international standard setting bodies the XRB liaises with. These are:

- The International Accounting Standards Board (IASB): International Financial Reporting Standards (IFRS);
- The International Public Sector Accounting Standards Board (IPSASB): International Public Sector Accounting Standards (IPSAS);
- The International Auditing and Assurance Standards Board (IAASB): International Standards on Auditing (ISA);
- The International Ethical Standards Board for Accountants (IESBA): International Code of Ethics.
- We have commenced relationship building with international organisations in the field of Climate Related Financial Disclosures and integrated reporting.

New Zealanders hold key positions on the IASB (Vice-Chair), IPSASB (Member) and IAASB (Public Member).

## Ensuring local relevance

The XRB also recognises the ability to ‘New Zealand –ize’ standards, where appropriate. This is a critical aspect of ensuring preparers and users have trust and confidence in the information provided as well as providing a platform to understand whether standards are generating the information users need and what practical issues are being encountered with the implementation of standards.

We do this through a combination of;

- Roundtable discussions
- Direct consultation and engagement
- Provision of guidance, FAQ’s and/or ‘Alerts’

## Operating transparently

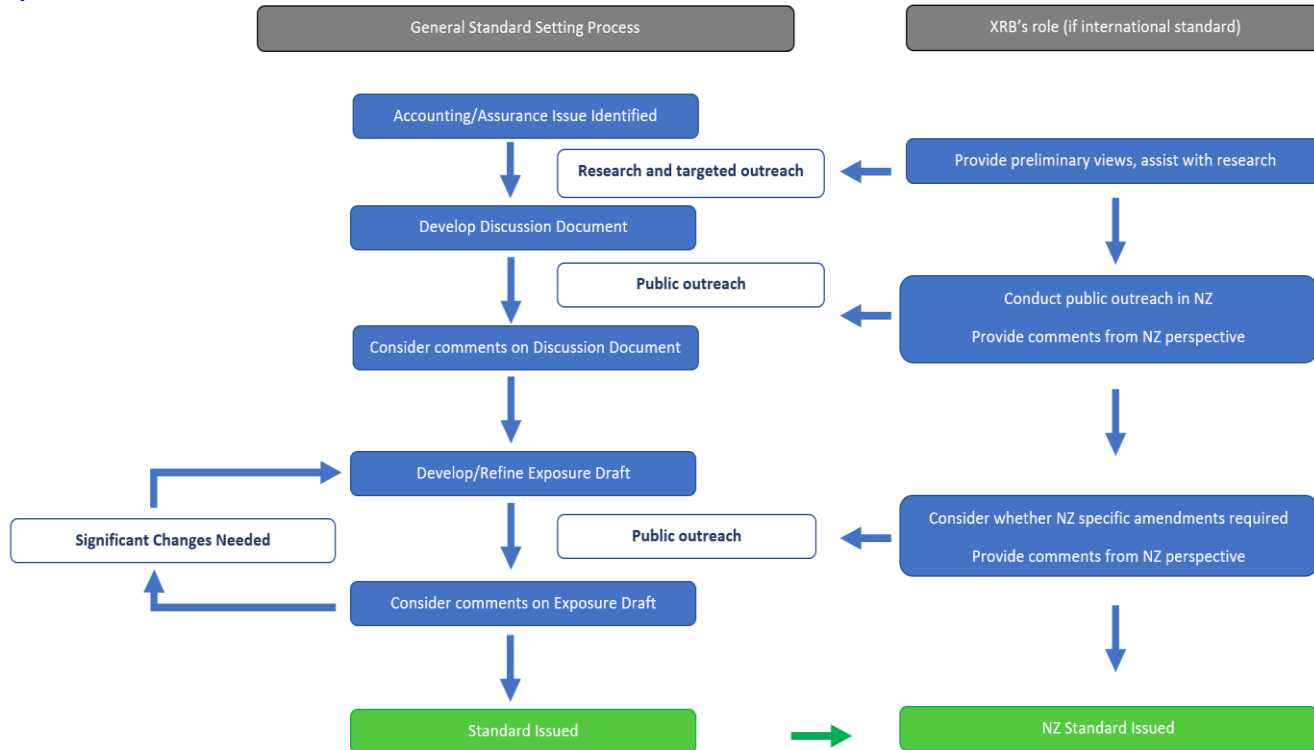
The XRB Board and its two standard setting sub-boards hold the majority of the non-governance part of meetings in open session. Agenda papers for the open part of the meetings are available for download from the XRB website ([www.xrb.govt.nz](http://www.xrb.govt.nz)) as are the relevant minutes.

All standards are issued for public consultation in New Zealand.

# Process

Section 22 of the Financial Reporting Act 2013 requires us to ensure all who would be affected by the issue of a standard or an amendment are consulted and have an opportunity to provide feedback. The XRB Board has developed a set of due process guidelines which the NZASB and the NZAuASB must follow before issuing a standard, amendment to a standard, or other pronouncement.

## Overview



## Final sign-off

Before a new standard (or amendment, authoritative notice or other pronouncement for issue) can be approved, the standard-setting Board must be assured that:

- reasonable steps have been taken to consult with persons or organisations likely to be affected by the proposed standard/amendment/pronouncement
- the proposed standard/amendment/pronouncement is likely to achieve its objectives
- the advantages of the proposed standard/amendment/pronouncement are sufficient to justify its issue.

The standard-setting Board prepares a certificate and signing memo which outlines the due process followed, the major issues raised by the constituency during that process, and the conclusions reached by the standard-setting Board in considering them. The XRB Board Chair signs the certificate and the standard-setting Board can then issue the standard/amendment/ pronouncement.

All standards issued by the XRB are disallowable instruments subject to the Disallowable Instruments Act 2012. As such, all standards issued are gazetted, with copies sent to the Minister's Office, and then presented to the House. The House has a general statutory power, by resolution, to amend any disallowable instrument or to revoke and substitute any disallowable instrument. To our knowledge, this power has never been exercised for accounting or auditing standards since the establishment of the XRB.

# Strategic Focus & Priorities

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# Extended External Reporting



Extended External Reporting (EER) is the umbrella term adopted by the XRB in 2018 to refer to broader and more detailed types of reporting beyond information presented in an entity's statutory financial statements. More recently, the term **integrated reporting** is becoming more commonly-used and the XRB will review terminology.

## What is EER?

EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.

It encapsulates sustainability reporting, non-financial reporting, pre-financial reporting, management discussion and analysis, management commentary, ESG reporting (Environmental, Social and Governance), corporate responsibility, community and environmental reporting and more.

EER shows how an entity creates value over the short, medium and long term using a combination of quantitative and qualitative information, much of it forward-looking. It is founded on the idea that an entity can best tell its value creation story in terms of natural, human, social, and financial capitals. An integrated report aims to explain how the entity draws on the capital inputs and show how its activities transform them into outputs.

There is growing demand globally and in New Zealand for entities to provide:

- increased transparency on material risks (including ESG risks) and strategies for managing those risks;
- forward-looking information about an entity's long-term sustainability;
- information about an entity's key resources and relationships; and
- greater visibility around corporate citizenship.

We see EER/ integrated reporting as sector neutral. The XRB supports the continued innovation in EER and is committed to working collaboratively with key stakeholders, including policy makers and regulators, to help generate the right balance between policies, regulation and innovation.

We view the implementation of CRFD as an important step towards EER. In addition to our work on CRFD, the XRB is undertaking other activities relating to EER including:

- Providing an EER navigational resource to help make better-informed decisions when considering EER.
- Considering developing guidance on EER.
- Considering the assurance implications of EER.

# Climate Related Financial Disclosures



Climate Related Financial Disclosures are a key Government priority for building a productive, sustainable and inclusive economy, in particular priority 1.4: transitioning to a clean, green and carbon-neutral New Zealand. In September, Cabinet agreed to the introduction of mandatory climate-related financial disclosure requirements for listed issuers, large registered banks, licensed insurers, and managers of registered investment schemes. The XRB sees the need for climate-related financial disclosures as the most urgent issue amongst wider demands for reporting entities to publish integrated reports.

The XRB has been charged with developing the reporting standards and guidance. Our focus will be on developing standards that are suitable for Aotearoa New Zealand, taking account of the extent to which climate issues are specific to NZ and its adaptation policies and transition risks and the broad range of entities it will apply to.

The standards we develop will be based on the Financial Stability Board Taskforce on Climate Financial Disclosures (TCFD) Framework, which includes 11 disclosure areas across the four TFCD themes:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

This work will rely heavily on engagement and consultation across a wide range of sectors. The XRB will, with the input and engagement from stakeholders (with a focus on relevant industries, climate experts and Māori), develop standards that focus on information that is relevant and faithfully shows what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely and understandable.

Currently the 11 disclosure areas across the four TFCD themes are extremely high level and will not, as they stand, produce useful information that meets the characteristics described above. Undertaking this work requires an extension to the XRBs mandate. This will involve an amendment to legislation, due to take place in 2021.

We are currently in the process of building our capacity and capability to deliver this work at pace. Specifically, this involves employing specialist staff and the establishment of an Expert Advisory Panel.

**We are working towards the delivery of the first disclosure by early 2023.**

# Education & Awareness

The XRB has a statutory obligation to consult with stakeholders before issuing accounting or auditing & assurance standards. The XRB is committed to following appropriate due process and considers this an essential part of the standard setting process. We organise many seminars, webinars and podcasts as well as publish articles and newsletters on a wide range of matters. The XRB Board also engage with key stakeholder groups about broader financial reporting matters. The XRB has an unblemished public reputation and overall stakeholder satisfaction survey results from 2018 record over three-quarters of stakeholders as satisfied with the service and performance of the XRB.

## Future proofing

We are increasingly aware however, of the need to engage with a broader range of audiences and to increase understanding of the XRB and its role. In addition, we are mindful of the complexities of the Standards themselves, which is exacerbated by how they are presented, and the difficulties some organisations face when implementing them.

## Focus areas

- Development of a refreshed Communication and Engagement Strategy
- Website enhancements to improve overall accessibility/usability
- Greater emphasis on engaging with Māori
- Improving access and use of standards
- Explore digitisation of standards.

# XRB Board Members



**Michele Embling**

Former Chair and Partner, PwC, Auckland, Chair XRB  
(appointed 1 May 2019, term expires 30 April 2024)



**Michael Bradbury**

Research Professor, Massey University, Auckland  
(term expires 18 December 2021)



**Julia Fink**

Chief Financial Officer, Upper Hutt City Council  
(appointed 1 May 2019, term expires 30 April 2024)



**Jacqueline Robertson-Cheyne**

Independent Director (appointed May 2019, term expires  
30 April 2024)



**Jane Taylor**

Deputy Chair, Barrister and Professional Company Director,  
Queenstown (term expires 30 April 2023)



**Bill Edge**

Chairman of Financial Reporting Council, Australia,  
Melbourne (reappointed to 28 July 2022)



**John Kensington**

Head of Banking and Finance Audit Partner, KPMG, Auckland  
(term expires 18 December 2021)



**Fergus Welsh**

Chief Financial Officer, Ministry of Health  
(reappointed to January 2025)