

# Perspective

*This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas*



## The XRB seeks feedback on its strategy for developing accounting standards

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The External Reporting Board (XRB) issued the Discussion Paper: *Targeted Review of the New Zealand Accounting Standards Framework* for public consultation in July 2019.

Your feedback on this Discussion Paper (DP) is important. It will help the XRB refine its strategy for setting accounting standards for public sector entities, registered charities and other not-for-profit (NFP) entities, and companies and other for-profit entities.

In this article, the XRB explains what the targeted review is all about, and why your feedback is so important.

### What is the New Zealand Accounting Standards Framework (the “ASF”)?

The ASF sets out the XRB’s strategy for developing accounting standards for those entities that are required by law to prepare financial statements in accordance with standards issued by the XRB. Such entities include public sector entities, all registered charities (from the smallest to the biggest) and certain other NFP entities, as well as certain companies and other for-profit entities.

The XRB first issued the ASF in 2012, in conjunction with the Government’s reforms to the statutory financial reporting obligations of entities in New Zealand through the enactment of the Financial Reporting Act 2013. The Government’s reforms included a new requirement for all registered charities to report in accordance with accounting standards issued by the XRB.

The introduction of the ASF represented a significant change to the approach for setting accounting standards in New Zealand – and significant changes to the accounting requirements of many entities, particularly registered charities and other NFPs with statutory reporting requirements, as well as public sector entities.

The ASF has two underlying objectives.

1. To **meet user needs** – by recognising that the user information needs of a for-profit entity will be different from those of a Public Benefit Entity (PBE); and
2. To **balance the costs and benefits** of reporting – by establishing a tiered approach that provides for different accounting requirements based on the size and nature of an entity.

When the ASF was first introduced in 2012, it was built around three key elements – a **multi-sector, multi-standards, tiered** approach.

This was a significant departure from the previous sector-neutral, “one size fits all” approach to developing accounting standards.

The ASF uses International Financial Reporting Standards (**IFRS**) for developing accounting standards for for-profit entities, and International Public Sector Accounting Standards (**IPSAS**) as the base for developing accounting standards for PBEs (being those entities with a focus on the delivery of goods and services for social or community benefit).

In addition, the ASF introduced Simple Format Reporting Requirements for Tier 3 and Tier 4 PBEs, to balance the costs and benefits of reporting by smaller entities.



## Why is the XRB conducting a Targeted Review of the ASF?

Now that the ASF has been effective for 4-5 years for many entities, the XRB considers it timely and important to “**check-in**” with stakeholders, to receive feedback on whether the ASF is functioning as anticipated and is achieving its original objectives.

The XRB considers it is too soon to conduct a first-principles review of the ASF, but is keen to receive feedback on where refinements can be made.

The key objectives of the ASF are to check-in on whether:

- (a) the ASF is functioning as anticipated and achieving its desired objectives;
- (b) there are any unintended consequences or concerns to date arising from the implementation of the ASF; and
- (c) any refinements are needed in response to any new developments or emerging issues since the ASF was first developed.

## Observations from application of the ASF

The informal feedback received by the XRB to date has indicated the application of the ASF is generally working well. We have been told that:

- Asserting compliance with IFRS continues to be important for for-profit entities in Tier 1, for international competitiveness.
- The reduced disclosure regime (RDR) for Tier 2 for-profit entities appears to be operating as intended.

- The move to PBE Standards based on IPSAS for Tier 1 and Tier 2 PBEs has allowed for the development of standards that reflect the NFP and public sector PBE context.
- The tiered approach and introduction of Simple Format Reporting Requirements for Tier 3 and Tier 4 PBEs has been useful in balancing the costs and benefits of reporting for smaller charities.

The XRB is aware of some implementation challenges being voiced by smaller charities reporting under the Tier 3 and Tier 4 Simple Format Reporting Requirements – for this reason, the XRB is committed to conducting a **separate standards-level review of the Tier 3 and Tier 4 reporting requirements** shortly after the targeted review of the ASF.

For many organisations, financial statements prepared in accordance with accounting standards are critical for demonstrating accountability to stakeholders – be they shareholders and creditors in the for-profit sector, or taxpayers, ratepayers, the general public or donors in the PBE sector.

**It is important that we receive feedback and suggestions on the aspects of the ASF for which you believe improvement is needed, to ensure the ASF remains fit for purpose.**

## The scope of the targeted review

The Targeted Review focuses on the ASF itself – the XRB’s strategy for developing accounting standards.

It is not a review of specific requirements in accounting standards or auditing and assurance requirements. Nor is it a review of which entities should be required to report under the XRB’s accounting standards – this is determined by the Government through legislation.

This is a targeted review and not a first-principles review of the ASF. Therefore, at this stage we are not reconsidering the ASF’s multi-sector, multi-tiered approach, or which international standards are used as the base for New Zealand standards.

## What aspects of the ASF is the XRB seeking feedback on?

### General feedback

The Targeted Review is seeking general feedback from constituents.



Are you aware of any developments in the financial reporting environment since the ASF was first developed, or any unintended consequences arising in practice, that would require refinements to the ASF?

In addition, the Targeted Review highlights three specific matters for comment (SMCs).

Feedback on these matters will assist the XRB in considering whether refinements to the ASF are required.

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

Currently, PBE Standards for public sector and NFP PBEs in Tiers 1 and 2 are closely based on IPSAS. However, maintaining close alignment with IPSAS has recently become more challenging due to international developments. We want to know your thoughts on our strategy for developing PBE Standards going forward.



Should the XRB’s strategy 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?

Responses to this question will assist the XRB in considering future refinements to our approach to developing accounting standards for public sector PBEs, registered charities and other NFPs in New Zealand.

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

Under the ASF, for-profit entities in Tier 2 prepare financial statements in accordance with NZ IFRS RDR. The disclosure requirements for Tier 2 for-profit entities are harmonised with Australia. The Australian Accounting Standards Board is currently considering changes to its approach for developing for-profit Tier 2 disclosure requirements. There have also been recent international developments in relation to the Tier 2 regime. To inform the XRB's approach to maintaining and enhancing Tier 2 for-profit disclosure requirements in light of these developments, we want to know your thoughts on the importance of maintaining harmonisation with Australia for Tier 2 for-profit disclosures.



How important is maintaining harmonisation with Australia for Tier 2 for-profit disclosure requirements?

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

Under the ASF's tiered approach, lower tiers have more simplified accounting requirements. The tier that applies to a PBE depends on whether the PBE has "public accountability" (as defined in the standard XRB A1) and the PBE's size, based on expenses.

PBE Tier	Tier Size Threshold
1	Annual expenses over \$30 million or has "public accountability"
2	Annual expenses between \$2 million and \$30 million
3	Annual expenses less than or equal to \$2 million
4	Annual operating payments less than \$125,000 (the XRB is unable to amend this)



Are there any unintended consequences or recent developments that would require changes to the PBE tier size criteria?

Please bear in mind that the XRB is unable to change the \$125,000 threshold for Tier 4, as this threshold is set by the Government in legislation.

## How to have your say

You can find more information on the Targeted Review of the ASF on the XRB's website. The [Targeted Review homepage](#) has a full copy of the DP, a Summary Document and other background information.

You can choose to comment on all the questions raised in the DP or select the questions that are of most interest to you.

You can submit your feedback to the XRB by completing an [online feedback form](#), or by uploading your submission as a document to our website. If online submission does not work for you, please refer to our DP for other ways to provide your feedback.

The XRB needs your feedback – the submission period closes on 15 November 2019.