

26 January 2024

Carolyn Cordery
Chair, New Zealand Accounting Standards Board
External Reporting Board
PO Box 11250
Manners Street
Wellington 6142

Via email: Accounting@xrb.govt.nz

Dear Carolyn

Consultation Document – Public Benefit Entity Tier Sizes

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout New Zealand, Australia and internationally. We welcome the opportunity to provide feedback on the above consultation and make this submission on behalf of our members and in the public interest.

We commend the XRB for reviewing the Public Benefit Entity (PBE) tier sizes as they have not been adjusted since the XRB's Accounting Standards Framework was first established in 2012. In particular, we support in principle the proposal to increase the tier 2 and tier 3 PBE size thresholds.

Our general comments are set out below:

- We support all reporting thresholds being reviewed three yearly in line with the full review of the consumers price index (CPI) weights (and adjusted to account for inflation).
- We support increasing the PBE tier 2 and tier 3 thresholds as it is a step in the right direction to address many of our members' concerns around regulatory burden, especially on smaller charities and not-for-profits.
- Reporting thresholds should consist of objective and clear criteria based on the economic significance of entities and the need to protect the public interest.
- It is important that the costs of reporting do not exceed the benefits, especially for smaller tier 2 PBEs.

Our responses to the specific questions raised in the consultation document are included in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
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Chartered Accountants Australia and New Zealand

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Attachment

Q1. Do you agree with the proposal to increase the tier 2 PBE size threshold from \$30 million to \$33 million? Why or why not?

We agree with the proposal to increase the tier 2 PBE size threshold from \$30 million to \$33 million. It is consistent with the amendments in regulation 4 of the [Financial Reporting \(Inflation Adjustments\) Regulations 2021](#) that were made to the meaning of large in section 45 of the [Financial Reporting Act 2013](#). We note that while the threshold of \$30 million has numerical alignment with the meaning of “large” in section 45 of the [Financial Reporting Act 2013](#) (FRA) the bases are different. The FRA uses “total revenue” whereas the Accounting Standards Framework uses “total expenses”.¹

We support all reporting thresholds being reviewed three yearly in line with the full review of the consumers price index (CPI) weights (and adjusted to account for inflation). Inflation results in increased total expenses without an increase in scale. Without inflationary adjustments, entities will transition from tier 3 to tier 2, without those entities becoming larger or more complex in real terms.

Q2. Do you agree with the proposals to increase the tier 3 PBE size threshold from \$2 million to \$5 million? Why or why not?

We support the proposal to increase the tier 3 PBE size threshold. While we are not opposed to the quantum of the increase, we are also not entirely convinced of the need for it to be quite so significant (150%). We agree that it is important that the costs of reporting do not exceed the benefits, especially for smaller tier 2 PBEs. We believe that having a legislative basis as a reference point is useful in this regard. However, we note the proposed threshold also has no real basis in legislation, just as the current threshold no longer has a basis in legislation (the meaning of exempt company in section 6A of the [Financial Reporting Act 1993](#) which has since been repealed (turnover \$2 million or less)).

It is our view that any thresholds for reporting should consist of objective and clear criteria based on the economic significance of entities and the need to protect the public interest. The consultation document does not identify the criteria that was applied in arriving at the proposed increased threshold. The analysis in the consultation document is limited to the population of registered charities; it extrapolates this analysis to incorporated societies and excludes the public sector. While we acknowledge that determining an appropriate threshold requires judgement and therefore will be subjective, we would welcome a more detailed basis for the proposed tier 3 increase, allowing for a more informed response from stakeholders.

Given that this proposal is partly in response to the new [Incorporated Societies Act 2022](#), one possible basis that has not been canvassed in the consultation document is the threshold for the statutory requirement for incorporated societies to have their financial statements audited. Regulation 16 of the [Incorporated Societies Regulations 2023](#) sets out that an incorporated society must have its financial statements audited if in each of the two preceding accounting periods of the society, the total operating expenditure of the society and all entities it controls (if any) is \$3 million or more. That would represent a 50% increase on the current threshold which accounts for inflation and leaves headroom

¹ Paragraph 38, [XRB A1 Application of the Accounting Standards Framework](#)

for future proofing. Greater alignment between the reporting and assurance thresholds for particular entities would make the overall financial reporting framework simpler and therefore easier to apply.

In terms of costs, if an entity moved from tier 2 to tier 3 it may be more able to prepare its own Performance Report using the XRB template. Any potential cost savings would be appreciated by many in the sector as these savings could be allocated to advancing their purpose.

Q3. Do you have any other comments you would like to make on the PBE tier size thresholds?

We appreciate that this is not a first principles review, but we are of the view that introducing an asset-based threshold to the PBE tier size criteria should be considered as part of the NZASB's future work plan on the following basis:

- We understand that several submitters to the [Modernising the Charities Act](#) discussion paper raised the possibility of a dual test that includes an asset-based measure for determining which charities have a statutory requirement to prepare general purpose financial reports (GPFR) in accordance with XRB Accounting Standards. This is because there are a few charities 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.
- The effect of the [Incorporated Societies Act 2022](#) is to require all incorporated societies, except for those that meet the definition of a “small society”, to prepare financial statements in accordance with the XRB accounting standards. The definition of “small society” in section 103 of the [Incorporated Societies Act 2022](#) is a dual test that includes both a payments and assets criterion. Using a consistent approach between the statutory requirement to prepare GPFR and the PBE tier size criteria in the XRB's Accounting Standards Framework would make the overall financial reporting framework simpler and therefore easier to apply.