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Warren Allen  
Chief Executive  
External Reporting Board  
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Wellington 6142  
New Zealand

Email: [submissions@xrb.gov.nz](mailto: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](mailto: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 suggested<sup>1</sup> 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.

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<sup>1</sup> <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 submission<sup>2</sup> 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.

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