

Make your voice heard

Legislation is anticipated in early 2012 and comments on the Government's proposals may be sought at that time.

The External Reporting Board (XRB) is seeking comments on its consultation paper by 16 December 2011. We encourage you to make your voice heard. Some of the questions being asked include:

Do you agree that public sector PBEs should be defined by reference to the definition of public entities in the Public Audit Act 2001?

Do you agree that all PBE issuers should be allocated to tier one regardless of their size? Alternatively, should PBE debt issuers that would not otherwise be in tier one be in tier two with but with tier one requirements, particularly relating to financial instruments to ensure that the needs of users are met?

Do you agree that a suite of NZ PBE standards that use IPSAS as its base, but which are modified for any recognition, measurement or disclosure matters considered inappropriate in the New Zealand context, and to make them relevant, applicable and understandable in the NFP context, be adopted at this juncture (rather than pure IPSAS)?

Do you agree that the same recognition and measurement requirements should apply to all tiers, subject to the possibility of some concessions for tier three entities to reflect the simple nature of their requirements?

Do you agree that a Reduced Disclosure Requirements version of the full NZ PBE Accounting Standards should apply to tier two entities?

Do you agree that the target date for NFP entities to compulsorily adopt the NZ PBE Accounting Standards should be financial years beginning on or after 1 July 2014, with early adoption from 1 July 2013?

If you don't agree with any of the above, what alternative views would you suggest and why?

More information

The Minister's announcement of changes to the financial reporting framework can be found on the **Minister of Commerce's** website, with information also available on the www.med.govt.nz website.

Documents issued by the External Reporting Board, available at www.xrb.govt.nz, include:

- Position Paper: *Accounting Standards Framework: A Multi Standards Approach*,
- Consultation Paper: *Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities*, and
- Consultation Paper: *Accounting Standards Framework for General Purpose Financial Reporting by Public Benefit Entities*.

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Changes to the statutory financial reporting framework

Implications for not-for-profit entities.



An update on the Minister of Commerce and XRB's revised proposals for New Zealand's statutory financial reporting framework

Not-for-profit entities (NFP) are all public benefit entities (PBEs as currently defined by NZ IAS 1) other than public sector PBEs.

Tier one reporters

Who

Certain large NFP entities (expenses over \$30 million)¹
NFP issuers (regardless of size) – for example credit unions, friendly societies that issue insurance products and NFP retirement villages that are issuers under the Securities Act definition

Basis of reporting

NZ PBE Accounting Standards. Based on IPSAS but modified as appropriate for the New Zealand context and for NFP entities

Assurance and filing

Assurance requirements have not yet been determined for registered charities. PBE issuers and other large NFP entities will require audited financial statements

All financial statements to be filed with an appropriate body or distributed to members

Thresholds

Tiers of reporting are proposed to help match the costs and benefits of reporting. For public benefit entities (PBEs) the threshold has been set based on expenditure. Size is determined *“by reference to expenses as recorded in the Operating Statement and/or Statement of Comprehensive Income”* with *“no exclusions or exemptions”*.

Cash accounting is proposed for not-for-profit (NFP) entities with expenses under \$40,000, with expenses likely to be measured on a cash basis.

Opt in/out

Private not-for-profit entities (such as friendly societies that do not provide insurance products) will be able to opt out of assurance or both assurance and preparation if agreed to by a simple majority of all members of the entity. Not-for-profit entities with annual operating expenditure of less than \$150,000 will be able to opt into assurance if agreed to by 5% or more of members.

¹For example registered charities, gaming machine societies that operate in commercial venues and gaming machine societies that operate in club societies

Tier two reporters

Who

Certain medium sized NFP entities with expenses between \$2m and \$30 million¹

NFP retirement villages not in tier one

Basis of reporting

NZ PBE Accounting Standards as for tier one but with reduced disclosure requirements

Assurance and filing

Assurance requirements have not yet been determined for registered charities

NFP retirement villages that are not issuers are required to distribute audited financial statements to residents

All financial statements to be filed with an appropriate body or distributed to members

NZ PBE Accounting Standards

The 2009 discussion documents proposed that International Public Sector Accounting Standards (IPSAS) be used as the basis for NZ PBE Accounting Standards, due to concerns that International Financial Reporting Standards (IFRS) are not meeting the needs of the sector. The External Reporting Board (XRB) continues to support this view but notes that it is too early to adopt pure IPSAS. Therefore the XRB proposes that IPSASs form the basis of the NZ PBE standards but are modified as appropriate for New Zealand and for NFP circumstances. Areas where modification may be made include the concept of control in the NFP context, definition and application of liabilities and equity, recognition of uncompleted contracts, in kind goods and services, and disclosure (such as donations, fundraising revenue, members fees and fundraising costs). NFP examples and implementation guidance will also be provided.

For details of the current IPSAS on issue refer to:

<http://www.ifac.org/PublicSector/Pronouncements.php>

NFP Issuers

To ensure consistency, all NFP issuers (regardless of size) are in tier one to align with their 'for-profit' counterparts however the XRB is keen to get feedback on this proposal.

Tier three reporters

Who

Certain small NFP entities with expenses under \$2m¹

Basis of reporting

Simple format reporting, based on accrual accounting
Simple format reporting for NFP entities with expenses under \$40,000, based on cash accounting

Assurance and filing

Assurance requirements have not yet been determined for registered charities

All financial statements to be filed with an appropriate body or distributed to members

Simple format reporting

Requirements for simple format reporting will need to be developed. The XRB proposes that this will involve accrual accounting with measurement and recognition aligned with that of tiers one and two. It is possible that some concessions will be given to reflect the “simple” nature of tier three entities, however these have not yet been developed. It is proposed that templates will be provided.

No reporting obligations

No requirements are currently proposed for some NFP entities including Maori reservations, entities registered under the Charitable Trusts Act 1957, and unincorporated and incorporated societies, unless they are registered charities. The Government will consider financial reporting issues for incorporated societies and charitable trusts, once a Law Commission review of the Incorporated Societies Act 1908 is completed.

Other proposals

- Parent financial statements will not be required, although the XRB may set specific disclosure requirements to provide information on the parent's results
- Entities will be able to opt-up to a higher tier
- If an entity falls into two or more categories (e.g. charity and incorporated society), the higher or highest reporting obligation applies
- Economically significant industrial and provident societies will be required to file audited financial statements. The filing requirement will be removed for the rest and the for-profit opt in/opt out proposals would apply for preparation and assurance
- Compulsory adoption of NZ PBE Accounting Standards is proposed for periods beginning on or after 1 July 2014 or later to align with legislative changes. Early adoption permitted from 1 July 2013.