

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 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?

The proposed PBE tier framework incorporates feedback from respondents to the Discussion Document proposals. Are there any other factors not already considered that you think should be?

Do you agree that (a) all public sector PBEs should be required to adopt the NZ PBE Accounting Standards in the same financial year, and (b) the target date for adoption should be the financial year beginning 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 public sector entities.



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

Proposed definition for public sector PBEs

"Public entities as defined by the Public Audit Act 2001 that are public benefit entities (as currently defined by NZ IAS 1), and all Offices of Parliament"

September 2011

Tier one reporters

Who

Entities with expenses over \$30 million
Entities that levy coercive revenue
All PBE issuers (regardless of size)

Basis of reporting

NZ PBE Accounting Standards
Based on IPSAS but modified as appropriate for New Zealand.
Will incorporate financial reporting standards such as FRS 42

Assurance and filing

No changes proposed

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".

For simplicity, the threshold of \$30 million expenditure for tier one has been set to align with the threshold of \$30 million revenue or \$60 million assets for 'for-profit' entities. Assets are not considered a good measure of economic significance for PBEs who often have large endowment or heritage type assets rather than productive ones.

Public sector entities that are 'for-profit'

The three tiers of reporting noted here only capture public sector entities that are PBEs. Public sector entities that are 'for-profit', such as State Owned Enterprises and council controlled trading companies, are captured by the requirements for 'for-profit' entities. All PBE issuers (regardless of size) are proposed to be in tier one to align with their 'for-profit' counterparts however the XRB is keen to get feedback on this proposal.

Tier two reporters

Who

Entities with expenses between \$2m and \$30 million

Basis of reporting

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

Assurance and filing

No changes proposed

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. The XRB expects the modifications to be relatively few in number based on the current IPSAS on issue.

For details of the current IPSAS on issue refer to:

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

Initially, existing standards such as FRS 42: *Prospective Financial Statements* and FRS 43: *Summary Financial Statements* will be included as NZ PBE Accounting Standards with modifications for PBEs as needed. Over time, additional standards may be provided by the XRB if the International Public Sector Accounting Standards Board (IPSASB) doesn't address certain areas such as service performance reporting.

Tier three reporters

Who

Entities with expenses under \$2m
Sub tier for entities with expenses under \$40,000

Basis of reporting

Simple format reporting, based on accrual accounting

Assurance and filing

No changes proposed

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.

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
- Schools will be allocated to tiers on the basis of their size despite concerns regarding their consolidation. The XRB notes that the Ministry of Education can request information for consolidation purposes if required
- Due to Crown consolidation it is proposed that all public sector PBEs transition to the new standards on the same date, with the earliest date being proposed for the financial year beginning on 1 July 2013 although a later date may be established.