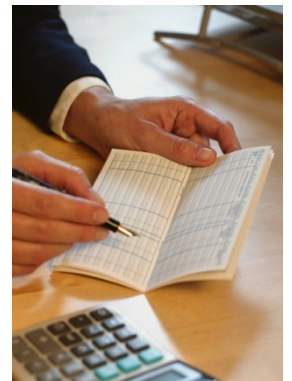




Proposed Future Accounting and Assurance Standards Framework – An Overview

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Introduction

- MED Discussion Document: “The Statutory Framework for Financial Reporting”
 - Focuses on which entities should be statutorily required to prepare GPFR i.e. “who” should report
 - Assigns responsibility for determining “what” to report to the ASRB
- ASRB companion Discussion Document:
 - Accounting Standards to be used when preparing GPFR
 - Level of assurance to be obtained on GPFR

A blue-toned image of a spiral-bound notebook and a pen. The notebook is on the left, and the pen is on the right, pointing towards the bottom right corner. The text "MED Document" is overlaid in white on the notebook.

MED Document

MED Document: Institutional Arrangements

- MED proposing a new External Reporting Board (XRB)
 - Reconstituted ASRB
 - Independent Crown Entity (as now)
- Consolidate all standard setting functions of:
 - ASRB , Financial Reporting Standards Board, Professional Standards Board
- Responsible for:
 - Financial reporting strategy
 - Preparation and approval of accounting standards
 - Preparation and approval of assurance standards

MED Document: Financial Reporting Principle

Primary Principle

The overarching reason for financial reporting is to provide information to external users who have a need for an entity's financial statements but are unable to demand them.

MED Document: Who Should Prepare GPFR

- **Publicly accountable entities**
 - Issuers and entities holding assets in a fiduciary capacity
 - All public sector PBE entities
 - Registered charities & any other NFP entity receiving public donations (Except NFP entities with expenditure <\$20k)
- **Economically significant entities**
 - For-profit
 - Two of: turnover \geq \$20m, assets \geq \$10m, employees \geq 50
 - NFP entities
 - expenditure \geq \$20million
- **Entities with owner-manager separation**
 - All sectors: entities with owners \geq 10 (unless they opt out)

MED Document: Assurance

- All entities required to prepare GPFR must obtain assurance on their financial reports
- Except:
 - Small NFP entities (expenditure <\$100k)
 - Separation Indicator entities may opt out

A blue pen is shown writing on a blue spiral notebook. The pen is positioned diagonally from the top right towards the bottom left. The notebook is open, and the pen is in the process of writing on the page. The background is a solid blue color.

ASRB General Standards Framework

General Framework: Overview

- Taking a user information needs focus
- Sector-specific accounting standards to address those needs
- Reporting tiers to match costs and benefits

Sector-Specific Standards

- Currently a single set of standards applies to all sectors
 - NZ IFRS
- IFRS has a capital markets focus
 - Growing view they are not well suited to PBEs
 - Auditor-General
 - NZICA Not-For-Profit Sector Advisory Committee
 - Officers of Parliament and Finance and Expenditure Select Committees
 - Respondents to Revised Release 8 ITC

Reporting Tiers

- Use Reporting Tiers to address cost-benefits
 - Reduce costs of preparation as benefits reduce
 - Apply differential reporting to lower tiers
 - Consistent with current practice and MED Document presumption
- Number of tiers
 - Matter of judgement
 - Establish on a sector-specific basis
 - Maximum of three
 - Consistent with current practice



For-Profit Sector Reporting

For-Profit Sector: IASB Distinction

- IFRS for SMEs differentiates between
 - Publicly Accountable entities
 - Other entities
- An entity is publicly accountable if:
 - It's debt or equity securities are traded in a public market;
or
 - It holds assets in a fiduciary capacity as part of its primary business

For-Profit Sector: IASB Distinction

ASRB Tentative Proposal

Use IASB distinction to define
For-Profit Tiers

For-Profit Tiers

- Tier 1:
 - Issuers of securities traded in a public market
 - Entities that hold assets in a fiduciary capacity as part of their primary business

- Tier 2:
 - Others required to prepare GPFR
 - Issuers of securities not traded in a public market
 - Large entities
 - Entities with ≥ 10 owners

For-Profit Standards

- IFRS developed specifically for publicly accountable for-profit entities
 - Should be applied to Tier 1
- IFRS or NZ IFRS?
 - A rationale for NZ IFRS = ensure applicable to NZ circumstances
 - Experience shown that no substantive modifications can be made
 - No significant differences between IFRS and NZ IFRS
 - Effort to create NZ IFRS not justified

For-Profit Standards: Tier 1

ASRB Tentative Proposal

(Pure) IFRS apply to

For-Profit Tier 1

With additions through separate standards
e.g. prospective financial information

For-Profit Standards: Tier 2

ASRB Tentative Proposal

Does not have a preferred option of

IFRS for SMEs OR

Differential IFRS (ideally developed in conjunction with Australia)

Keen to get views about:

- Factors it should take into account
- Material concerns about IFRS for SMEs
- Benefits of a joint NZ-Australia Differential IFRS



PBE Sector Reporting

PBE Tiers

	Public Sector (operating expenditure)	NFP Sector (operating expenditure)
Tier 1	$\geq \$20\text{m}$ + Leviers of coercive revenue	$\geq \$10\text{m}$
Tier 2	$\$2\text{m} - <\20m	$\$1\text{m} - <\10m
Tier 3	$< \$2\text{m}$	$< \$1\text{m}$

Different thresholds to create rough equivalency

PBE Standards: Public Sector

- International Standards exist: IPSAS
 - Developed specifically for public sector = relevant
 - More cost effective than developing own standards
 - Key issue: is IPSAS credible and robust?
- ASRB view
 - Provided governance arrangements can be sorted out, IPSAS is close to being suitable
 - Discussions underway

PBE Standards: NFP Sector

- No international standards for the NFP Sector – have asked IFAC about intentions
- Options:
 - Develop NZ Standards specifically for NFP Sector
 - Use Standards from other sectors: IFRS or IPSAS
 - Modify other sectors' Standards
 - Adopt other jurisdictions Standards (e.g. UK SORP)

PBE Standards: NFP Sector

ASRB Tentative Proposal

“NFP Application” of IPSAS should be developed for NFP Sector

PBE Standards: Application to Tiers

ASRB Tentative Proposal

Apply PBE Standards

Tier 1: Full Standards

Tier 2: Differential Version

Tier 3: Simple Format Reporting

PBE Standards: Tier 3

- Simple format reporting appropriate given the small size of entities in this Tier
- Template type approach
- Must still comply with fundamental aspects of GPFR:
 - Accrual based
 - Measurement bases aligned with full standards
 - Fundamental disclosures
 - Core statements:
 - Financial Performance
 - Financial Position
 - Simple Service Reporting



Assurance Framework

Assurance Level

ASRB Tentative Proposals

Tier 1: Audit

Tier 2: Audit

Tier 3: Review

Adopt (pure) international assurance standards

Audits: ISA

Reviews: ISRE

Timing

- Submissions due: 29 January 2010
 - Followed by policy formulation period, Government decisions, legislative change
- So 2-3 years before ready to begin transition
 - Very little happening immediately
 - Significant development and education issues to be addressed