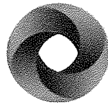 Grant Thornton

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Dear Sirs

Discussion Documents: Financial Reporting In New Zealand

We are pleased to respond to an Invitation to Comment on the Ministry of Economic Development's September 2009 Discussion Document: *The Statutory Framework for Financial Reporting* and the Accounting Standards Review Board's September 2009 Discussion Document: *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting* (the Discussion Documents).

Grant Thornton's response to these Discussion Documents reflects our position as auditors and business advisors to listed companies, issuers, not-for-profit organisations, public sector entities, privately held companies and businesses in New Zealand.

Detailed responses to all the questions posed by the MED and the ASRB are noted in two Appendices to this letter. Outlined below are our views on some of the more substantive issues raised in the Discussion Documents.

Time for a change

Our understanding of IFRS has become much more sophisticated since the decision to adopt IFRS was made in 2002. We are now aware that IFRS primarily addresses the needs of profit-oriented companies who need to access global capital markets and that this is not appropriate for the majority of New Zealand entities. We agree that a tailored financial reporting regime with a move away from the sector neutral approach makes sense.

In the month leading up to the release of the Discussion Documents, Grant Thornton undertook a survey of clients and contacts around the country. This survey, involving more than 100 individuals, included questions based around the UK FRC Report *Louder than Words* covering the four principles of financial reporting as identified by the FRC being 'Targeted, Proportionate, Coordinated and Clear'. Specifically, questions included attitudes towards sector neutral financial reporting, and the importance of delivering regulations and accounting standards in a clear and comprehensive way. Nationally, over 90% of respondents agreed that more emphasis on delivering regulations and accounting standards in a clear and comprehensive way is needed.

The results of our survey could be interpreted in a number of ways but the clear signal we took from the feedback is that it is now clearly time for a change. This thinking echoes the G20's call for action on accounting standard setting back in April 2009.

It took a long time for the Discussion Documents to be issued. Now that they are in the public domain we believe that it is crucial to maintain momentum and quickly turn these proposals into updated legislation and regulation as for some entities it will take time to build systems and processes to meet the new requirements. We would prefer to see a 'Big Bang' approach to the adoption of any new regime (i.e. adopting all of the changes at the same time rather than phasing the requirements in on a sector by sector basis).

Our view is that the Financial Reporting Act 1993 (FRA) has been a very effective piece of legislation. Its key weakness has been the limitations placed on its scope. We are very pleased to see the proposals being extended to cover not-for-profit entities. However, as noted below, we have some concerns that the FRA still does not go far enough.

Trusts and trust accounting

The Discussion Documents cover the issues relating to companies, charities, public sector entities and Maori asset governance entities in great detail but in our view very much skirt around the issue of trusts and trust accounting. Given the extent to which New Zealanders use trusts and the sheer number of trusts of varying sizes in New Zealand, it is regrettable that the financial reporting needs and responsibilities of trustees and beneficiaries involved with this type of reporting entity have not been more fully considered.

Accounting for trusts is currently driven by case law, which means that New Zealand courts effectively determine the accounting policies and principles applied by trusts. Appendix A to the MED Discussion Document states that for the majority of trusts the indicators do not apply and therefore no changes are proposed. Our view of that assessment is that it fails to take account of the many discretionary trusts that currently exist that some would argue do require general purpose financial statements to be prepared. Given that the proposals will lead to a radical shake-up of accounting for almost every other entity type in New Zealand, the lack of consideration and analysis given to trusts is surprising and we would urge both the MED and the ASRB to address this important financial reporting matter.

Other for-profit entities

Whilst partnerships are mentioned in the table on page 78 of the MED Discussion Document, we think that more clarity should be given within the main body of the document to include partnerships and joint venture. We note that these entities are included by default in 'for-profit entities' but would like to see more discussion specifically addressing these types of entities. Unless good arguments to the contrary can be put up, our view is that they should be subject to the same indicators and thresholds as companies to provide consistency across all for-profit entities regardless of the ownership structure.

Tiers 1 and 2 in the not-for-profit sector

Table 3 in the ASRB Discussion Document shows the "Distribution of PBE Entities by Expenditure". This table clearly demonstrates that, at the proposed annual operating expenditure thresholds, there will be 23 entities in Tier 1 (over $10 million) and 445 entities in Tier 2 (over $1 million). For the 23 entities in Tier 1, the documents propose the use of full IPSAS with a New Zealand specific NFP application, whereas the Tier 2 entities would use a differential version of this.

Tiers 1 and 2 taken together would comprise less than 0.5% of the total sector. Therefore to us it seems inappropriate from a cost-benefit perspective to separate them. Our suggestion is to abolish Tier 1 for the not-for profit sector. This would result in all entities with annual operating expenditure of over $1 million using the same reporting requirements, being a differential version of IPSAS with a specific NFP application which covers the user needs of all entities in this size bracket.

Implementing our recommendation would still result in small number of entities having to use IPSAS with the NFP application; however we consider that the public interest in these entities is sufficiently high to justify the requirement for greater transparency than would be provided by the Simple Format Reporting requirement for Tier 3.

Thresholds

In answering the ASRB questions in Appendix 2, we have commented on the application of $1 million expenditure as the threshold for the not-for-profit sector, as contrasted to $2 million for the public sector. Our view is that greater reliance on volunteers is not a strong enough reason for justifying the difference between the two thresholds.

Expenditure is adopted as a measure of economic significance, which is defined in the MED Document as "the economic or social impact that a large entity is likely to have on the national or a regional economy if it fails". Our view is that the economic and social impact of an entity failing is actually increased by the use of employees rather than volunteers because the employees would lose their income.

We also note that the $20,000 lower limit for Tier 3 is arbitrary and seems very low. Given that there is also a suggestion that entities with expenditure of < $100,000 are not required to have any assurance, we propose that this may be a more appropriate lower limit for Tier 3.

Therefore we propose that the thresholds should be the same for public sector and not-for-profit entities. Our proposals for the expenditure thresholds for tiers are set out in the tables below:

Current ASRB Proposals:

	Public sector	NFPs
Tier 1	> $20 million	> $10 million
Tier 2	$2m - $20m	$1m - $10m
Tier 3	< $2 million	$20,000 - $1 million

Proposed alternatives:

	Public sector	NFPs
Tier 1	> $20 million	
Tier 2	$2m - $20m	> $2 million
Tier 3	< $2 million	$100,000 - $2 million

Too many rule books

One of our key concerns over the contents of the Discussion Documents is the significant increase in financial reporting expertise which will be needed to apply the proposed standards. Not only will the need for existing NZ IFRS specialists continue, there will also be a need for both public sector specialists and not-for-profit specialists because of the proposed segmentation of the financial reporting framework. Adding to this, the number of tiers gives effectively 8 different sets of GAAP for entities required to prepare General Purpose Financial Reports (GPFR)[1].

This will put significant pressure on New Zealand's accounting profession and may lead to reduced independence and reduced choice for entities in terms of professional advisors and auditors because some accounting firms may choose only to operate in certain segments.

[1] These comprise:
1) Full IFRS
2) Differential NZ (or transTasman) IFRS
3) IFRS for SMEs
4) IPSAS (adapted for NFPs)
5) Differential IPSAS (adapted for NFPs)
6) Full IPSAS
7) Differential IPSAS
8) Simple Financial Reports

Functional equivalence and resourcing

The need to have "functional equivalence" with Australia in financial reporting and auditing matters is important. However we have some concern that New Zealand could be swept up in a vortex of Australian solutions because the AASB currently has significantly more financial reporting resources available to respond to the issues of the day.

In a previous submission to the ASRB, we said that a significant increase in future funding and resources would be needed to stay on top of the avalanche of accounting pronouncements being issued by the IASB. We also said that seeking volunteer input into the development of accounting standards needs to come to an end because we believe creating standards on a pro-bono basis restricts the pool of talent that can be called upon to help develop NZ accounting and auditing standards.

Our view is that, consistent with other significant government organisations, all members of the XRB and its supporting committees should be fairly remunerated for the time that they put in to developing standards.

With the increasing importance of actuarial assessments in financial reporting we believe consideration should immediately be given to creating an actuarial subcommittee of the XRB. And in light of recent developments in Copenhagen, we would also strongly support the creation of an XRB subcommittee that specifically considers Sustainability Reporting (e.g. dealing with carbon credit emissions and measures of operational efficiency).

We believe that in the not-too-distant future the XRB mandate must extend to considering not only financial reporting matters, but also non-financial measures because there will be an expectation from stakeholders that an effective, efficient and integrated audit process is present when Annual Reports are produced.

Economic significance versus privacy

The views expressed in the business press following the release of the Discussion Documents reflect strongly held views around disclosure and privacy, commenting on the perceived fundamental principles of New Zealand business being privacy and commercial confidentiality. There is always going to be a trade-off between economic significance and the need for privacy to protect commercially sensitive information. Ultimately a political decision needs to be made in relation to the grandfathering proposals. Our view is that economic significance must come above privacy. For this reason we do not support the grandfathering proposal.

Limited liability, charitable status and other similar statuses from which entities benefit should be seen as a privilege rather than a right.

IFRS for SMEs versus differential reporting

We note the Discussion Documents suggest the possible use of *IFRS for Small and Medium-sized Entities* (IFRS for SMEs) standard for large for-profit entities in Tier 2, giving the alternative as some form of New Zealand (or trans-Tasman) differential reporting.

Not having full details of the amended Differential Reporting disclosure concessions being proposed by the standard setters on both sides of the Tasman currently makes it impossible to decide which version is superior.

Allowing reporting entities to use IFRS for SMEs is logical if the government is genuine in its intention to reduce compliance costs wherever possible. Going in its favour is the observation that in our opinion this standard will need minimal work to adapt it to New Zealand, and it has the benefit that it will not be updated for another 18 months and every three years after that. At the entity level, the IFRS for SMEs standard requires approximately one third of the number of disclosures of the current New Zealand differential reporting regime (i.e. approx 1,000 items) which in turn requires disclosure of approximately one third of the total number of disclosures under full IFRS (which currently amount to nearly 3,000 items).

In terms of recognition in global capital markets, what the IFRS for SMEs standard does provide is a globally comparable standard for New Zealand entities seeking cornerstone investors from offshore to support their entrepreneurial objectives. Similarly, for NZ entities wishing to make offshore investments in SMEs that have used this standard, allowing a NZ entity to produce consolidated financial statements on this basis makes sense and, in our opinion, should not be prohibited.

We are disappointed that the ASRB made the decision to delay approving the IFRS for SMEs standard - a standard which took the IASB five years to complete. We can see little downside in allowing for-profit reporting entities in New Zealand to immediately adopt this standard.

We draw to both the MED and ASRB's attention that the IFRS for SMEs standard has been very well received in South Africa. We understand that an IFRS for SMEs standard has been in use in South Africa since October 2007 and it has significantly reduced compliance costs. When the standard was reissued in July 2009, a number of significant changes were made to recognition, measurement and disclosure requirements in the standard, but none of them created significant operational difficulties. Given the IASB has committed to updating and revising the IFRS for SMEs standard again in 2011, we are confident that some of current criticisms made to the IASB in relation to this standard will be carefully considered and dealt with in an appropriate manner to ensure the benefits associated with the standard remain.

There are some application issues associated with IFRS for SMEs to which consideration must be given; these include the issues of transition between IFRS for SMEs and full IFRS, and any situations arising where a company uses IFRS for SMEs but is a subsidiary of an issuer which is using full IFRS. The difficulties arise because of the differing measurement bases allowed; whilst IFRS offers a revaluation option, this is not allowed by IFRS for SMEs and therefore a number of transition adjustments may be needed if an entity moved between Tier 1 and Tier 2. Similarly, consolidation adjustments may be required for group accounting where an issuer parent applying a revaluation model includes a Tier 2 company in its group accounts.

The impression we have gained from discussions we have had with our technical experts in Australia is that there is currently very little support for IFRS for SMEs in that country. This is because the AASB prefers an Australia-specific reduced-disclosure regime that does not amend recognition and measurement principles contained in full IFRS. Our view is that New Zealand will have to think carefully about whether to strictly align with Australia or go it alone and allow NZ entities to report under either IFRS for SMEs or under the converged Trans-Tasman Differential Reporting regime. To us, permitting both bases of accounting makes sense until it can be proven that there is a clearly preferred financial reporting regime.

Use of IPSAS

We agree that the proposed use of IPSAS for public benefit entities is an appropriate direction to take. However we do have some concerns about the "completeness" of IPSAS to deal with the myriad of financial reporting issues faced by public benefit entities in New Zealand.

As it currently stands, IPSAS is incomplete and, in our opinion, would not provide a comprehensive stable platform for financial reporting. Further work is still needed to achieve full alignment with IFRS. Until this work is complete, or at least significantly progressed, we would not be confident signing off a set of public benefit entity financial statements. The anticipated time frame for completing the "stable platform" should leave sufficient time to allow IPSAS to be approved and adopted in New Zealand; however it is not clear whether or not the IPSAS deadlines will be achieved. The fact that the resources allocated to the IPSAS Board are only a fraction of those allocated to the IASB is a cause for concern.

Our understanding is that Australia is not currently planning to adopt IPSAS. If IPSAS were adopted in New Zealand, we understand that New Zealand's public benefit entities may end up being some of the first in the world to do so. While there is nothing inherently wrong in being a "first mover", given the unproven nature of IPSAS, and the fact that these standards for our public sector will have the force of law behind them, we urge the ASRB to be particularly diligent in reviewing them before their adoption and application in New Zealand.

To close on a more positive note, New Zealand has a great track record in public sector reporting and has made a significant contribution and commitment to IPSAS over a long period of time. Given the level of investment that has been made over the years we would be disappointed if we were not able to eventually recognise and widely deploy IPSAS developed standards here in New Zealand.

Companies falling below Tier 2

New Zealand companies have a history of keeping proper books and records in order to prepare GPFR. It is likely that the initial response of many small New Zealand for-profit entities will be to continue to report to their stakeholders much as they always have done, but that as time passes, we suspect that very small companies will start to drift away from the disciplines currently imposed on them and directors may become increasingly unsure of what their financial obligations are.

Our understanding is that NZICA intends to provide ongoing guidance to its members in terms of what is expected, however the difficulty will lie with maintaining proper books and records for an entity where there are no accountants, and the professional assistance sought previously may be discontinued on the understanding that GPFR are no longer necessary. These entities will not benefit from NZICA guidance.

We believe both the MED and ASRB have an important role to play in reminding the directors of "exempt" companies that they still need to prepare some financial information for the purposes of the IRD, and for any major creditors or funders who require this as part of the funding agreements.

Since 1993, financial statements have been used to apply the solvency test; when financial statements are not prepared, the concept of solvency takes on a different dimension and an alternative method of determining a company's solvency will be needed. We would strongly encourage the MED to undertake some field testing before an amended solvency test is decided upon.

Financial reporting timetables

Many audit and accounting firms have to manage significant peaks and troughs in their business due to the majority of companies using 31 March as their year end because of tax arrangements. Changing the reporting deadline from five months to four months will further compress the 'busy season', creating even more seasonality in the sector.

Whilst the timeliness of financial reporting is important, we consider that increasing the pressure in this way could potentially impact the quality of reporting. We suggest that it should be made easier for companies to choose an alternative year end date in order to alleviate this problem. Adopting this policy recommendation will probably require extensive coordination and consultation with the IRD. We believe this is a point that could be considered alongside the Tax Working Group's recently released report back to the Government.

Increased use of electronic media for financial reporting

We note the increasing use of XBRL and Standard Business Reporting (SBR) in financial reporting functions, and the importance of correct digital tagging. Our view is that it is essential that digital tagging is accurate and in line with appropriate, sector-specific accounting standards in order to ensure the effectiveness of this media.

We believe the XRB, supported by a subcommittee if necessary, needs to take responsibility for approving and/or reviewing the digital tags associated with any government-sponsored XBRL and SBR initiative.

Parent company reporting

In terms of providing information useful for decision making, when group financial statements are prepared we believe there is little added benefit in providing parent company financial statements as well. On this issue our view is that New Zealand should mirror whatever decision is made in

Australia. If they choose to drop the requirement (as implied in the Corporations Amendments Bill (Corporate Reporting Reforms) 2010 Exposure Draft) to provide parent company financial statement information, then New Zealand should do likewise.

Overseas company reporting

The proposal to no longer require overseas-owned companies that are not large to be audited and file financial statements is appropriate. While this has the potential to restrict a detailed analysis of the level and types of offshore investment in New Zealand, the compliance costs associated with this requirement are, in many instances, quite substantial.

Managing assurance expectations

We agree that in many instances a review engagement will be more appropriate than an audit, however it will be essential for those governing entities to appreciate that a review engagement should not be considered "half an audit" because this is certainly not the case.

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If you require any further information or comment on the findings and opinions we have expressed, please do not hesitate to contact either me or Mark Hucklesby, our National Technical Director.

Yours faithfully
Grant Thornton New Zealand Limited

CR Dixon
New Zealand Service Line Leader - Audit

cc Ms J Perry, Chairman, Financial Reporting Standards Board

Appendix 1: MED Questions

Institutions and statutory responsibilities

Q1: What comments do you have on the proposal to transfer the Institute's financial reporting and assurance standards responsibilities to a reconstituted ASRB?

- We agree with the concept of the XRB.
- It is appropriate to consolidate standard setting responsibilities to allow a more streamlined, efficient and fast-moving approach to the adoption of financial reporting and assurance standards.
- Clarity is needed to ensure understanding of 'who does what' within the financial reporting arena, particularly in respect of for-profit entities that fall outside the Tier 1 and Tier 2 criteria outlined in the Discussion Documents.
- Accountability and independence from political and other vested interests will be of the utmost importance to the XRB.
- We see merit in increasing the number of members of XRB given the pace of change, increased output of IASB, and the need for experience from individuals who have worked in all three sectors of the economy.
- Resourcing has been discussed in a previous GT submission to ASRB – we believe all members of the XRB and its subcommittees should be fairly remunerated to secure the services of some of the best standard setters in the country.
- We see a need for an actuarial subcommittee given the importance of getting standardisation and quality in the reporting of liabilities measured at fair value in financial statements.
- In light of recent developments in Copenhagen and an increasing number of entities now moving towards sustainability reporting, we believe the XRB should be mandated to consider the reporting and auditing dimensions of non-financial aspects of entity reporting.

Q2: What comments do you have on the proposals for the manner of setting the number of tiers and the qualifying criteria for each tier?

- We agree that consistency is needed.
- We agree with Option F such that the XRB has chief responsibility with the Responsible Minister's approval being largely a formality. We believe this option provides accountability without too much political involvement.
- Neither XRB nor Responsible Minister should be able to act unilaterally and agree with the features suggested in paragraph 42 which imply Responsible Minister has limited power.

Financial reporting principles and indicators

Q3: What comments do you have on the Primary Principle and the indicators of financial reporting? Should any other principles and/or indicators be considered?

- We agree with the Primary Principle and indicators of financial reporting.
- The Primary Principle could be more specific – i.e. we support in this respect what NZICA is suggesting, that the Primary Principle be rewritten as "The overarching reason for government requiring the preparation, distribution and assurance of an entity's financial statements is to benefit users who would not otherwise be able to access them."
- We also agree with the cost-benefit approach brought into the ASRB Discussion Document and sitting as a background to the Primary Principle and other indicators in the MED Document.
- It is important to consider all stakeholder groups; employees, customers, suppliers, as well as major creditors/owners.
- Therefore we maintain that economic significance is a very important indicator in its own right.
- Although some would say that providing financial information to external stakeholders is an ineffective mechanism for preventing an entity from failing; GPFR allows customers/employees/suppliers to make informed decisions which is even more important

in the case of a failing business.

Q4: What comments do you have on our broad conclusions in relation to preparation, publication and distribution; and assurance?

- It is appropriate to consider preparation, publication and distribution together, in that the cost is largely in the preparation and the benefit largely in publication and distribution.
- We agree that GPFR without assurance is of less value but that the cost-benefit approach is needed in particular for smaller entities.

The application of the indicators to for-profit entities

Q5: What comments do you have on the tests (annual income, total assets and employee numbers) for determining whether a for-profit entity is economically significant? What comments do you have on the two-out-of-three test or the alternative "revenue plus one other" approach outlined in Section 5.3.1? What comments do you have on the current thresholds of $20m revenue, $10m assets and 50 FTE employees?

- Tests of annual income, total assets and employee numbers appear to be in line with those currently used overseas and between them give a good indicator of the economic significance of a for-profit entity. In general the annual income and profitability of an entity will be the numbers of most interest to any stakeholder of a for-profit entity, but the variability of profitability from one year to the next would make it inappropriate as a test for economic significance.
- The use of an alternative "revenue plus one other" approach would not be expected to have a significant impact as compared to the existing approach. However, it may impact entities which act as an agency and report all income as revenue whilst having to pass on a large proportion of this. Such entities may employ few people and have the characteristics of a small entity but handle large transactions.
- The current thresholds should be compared to those used overseas in similar economic environments, and as a proportion of the total economy. Determining at what stage an entity becomes 'economically significant' is very difficult and will vary between a large city and a small town as well as from one country to another.
- The thresholds should be reviewed sufficiently often that they do not become outdated and overly onerous.

Q6: What comments do you have on the proposal to make no changes to the filing requirements for companies with 25% or more overseas ownership?

- It would be inconsistent to change the filing requirements for these companies, given that those with 25% or more overseas ownership are only required to file audited GPFR if they are large; under the proposals, all large companies should be required to file audited GPFR.
- It is important not to create additional barriers for overseas investment – if the requirement for large companies to file changes, then so should the > 25% overseas ownership requirement.

Q7: What comments do you have on the proposal to remove filing requirements for overseas-incorporated companies whose New Zealand businesses are not large?

- This should enhance overseas investment in the New Zealand economy and can therefore only be seen as a good thing. There is no increased accountability, economic significance, or owner-manager separation (three indicators) as a result of overseas incorporation.

Q8: What comments do you have on the preparation/opt-out and no preparation/opt-in proposals for for-profit entities that meet the Separation Indicator only?

- In keeping with the Primary Principle, it is appropriate to have an opt-out or opt-in approach for entities which meet the Separation Indicator only.

- Option A appears too complex when the stated aims of the proposals as a whole are a reduction in complexity; it would be preferable to have either an opt-in or an opt-out approach for all companies where only this separation indicator is met.
- Opt-out rules would be consistent with current legislation (such as not to appoint an auditor), and would allow for greater transparency (owners would know that they are voting to opt-out, whereas they may not be aware of the option to vote for an opt-in).

Q9: What comments do you have on the criteria we have used to illustrate the proposals described in the previous question (i.e. (a) 10 or more shareholders for identifying companies with a significant number of shareholders; (b) 5% of voting shares by value for opt-in; and (c) no vote against for opt-out and opt-down)?

- 10 shareholders seems arbitrary and possibly too high on the basis that senior management rarely consists of more than about 4 individuals for this type of entity (i.e. non-large and not publicly accountable).
- 5% of voting shares by value seems inconsistent with the use of 10 or more shareholders – in many circumstances this would only require one obstructive/difficult shareholder.
- Opt-out with perhaps 80% in support?

Q10: What comments do you have on the proposal to remove the requirement for medium and small companies to prepare GPFR? What are the compliance cost implications?

- We agree that this is in line with the cost-benefit principle as GPFR require far more in the way of disclosure than any Special Purpose Financial Reports that a medium or small company may need to prepare.
- These companies are likely to continue to generate some financial reporting, for management purposes, tax purposes and other funding requirements.
- Companies may need to be reminded of their legal obligation to keep proper books and records regardless of the preparation of GPFR. Experience in Australia suggests that this requirement has been misinterpreted at times.
- The estimates given in the Discussion Documents relating to compliance cost reductions vary so widely as to be of very little value as a basis for decision-making.
- The compliance cost reductions don't take into account the reduction in assurance requirements; for overseas owned non-large companies this will have a significant cost reduction.

Q11: What comments do you have on the Australian 'grandfathering' provision, exempting existing large companies at the time of the law change, from lodging financial statements with ASIC?

- The 'grandfathering' provision favours mature companies over those which are growing. We do not agree with it in principle as it creates inconsistency between entities and again adds complexity to the regime.

Q12: What comments do you have on the advantages and disadvantages of requiring large non-issuer companies (and other entities impacted) to file financial statements under a 'grandfathering' regime?

- One of the key pressure-points of these Discussion Documents focuses on the requirement for large non-issuer companies to file financial statements and the threat to privacy and confidentiality that this is perceived to constitute. However, we believe that the protection afforded by limited liability is a privilege rather than a right and as such should be met by accountability in the form of filing financial statements. We do not agree with using a 'grandfathering regime' to introduce this, preferring an all-at-once approach.
- Clearly the disadvantages of requiring large non-issuer companies to file financial statements are increased compliance costs and reduced commercial confidentiality, with some concern

around 'trade secrets' or exploitation of financial weakness.

The application of the indicators to public sector entities

Q13: What comments do you have on the proposal to retain the requirements for all public sector entities to publish assured GPFR?

- The majority of public sector entities meet the Public Accountability Indicator, almost by definition. Those that do not meet this indicator will meet the Separation Indicator, and therefore application of the Primary Principle and Indicators to public sector entities suggests that all of these entities should publish GPFR. Users should be able to determine the value for money and stewardship of their taxpayer funds in order to make informed political decisions.
- Given the level of public accountability of the majority of public sector entities, we agree that it is appropriate to require these GPFR to be assured.

Q14: Do you consider that the changes outlined in Part 3 will provide an appropriate framework for public sector entity standards setting?

- Part 3 sets out the practical operation of XRB. We consider that the XRB as described should provide an appropriate framework for public sector entities.

The application of the indicators to private non-profit entities

Q15: What comments do you have on the proposal to use annual operating expenditure as the means for determining whether a private non-profit entity is small, medium or large?

- Private non-profit entities comprise a huge range of organisations of varying revenues, assets, employee numbers, volunteer numbers, donor numbers etc. In general, operating expenditure seems to be the most consistent factor across a large variety of entities and therefore is an appropriate starting point for determining the 'size' of an entity.

Q16: What comments do you have on the proposals to use annual operating expenditure of $20,000 and $20 million as the cut off points between small and medium, and medium and large respectively? If you consider that other criteria should be used, what are those criteria and what cut-off points should be used?

- Using $20 million as the cut off point for large entities would give an estimated 12 large private non-profit entities; therefore the cost of separating this number of entities is likely to far outweigh the possible benefits.
- However, entities of this size are likely to also meet one or both of the other Indicators and are therefore likely to be required to produce GPFR for this reason.
- The use of the $20,000 limit for small entities which would be exempt from preparing any GPFR is proposed in order to consider the benefit versus proportionate cost; for these entities, it is likely that the preparation of GPFR could easily cost upwards of 5% of total expenditure.
- Entities with below $20,000 expenditure are expected to have reduced separation between management and interested parties and financial info is therefore likely to be more transparent to those users who require it.
- It is difficult to comment on the lower limit of $20,000 without a more extensive understanding of the nature of entities in, for example, the $20,000 - $100,000 annual operating expenditure bracket, and the user needs of these entities.
- Given the proposal that entities with annual operating expenditure of less than $100,000 are not subject to any assurance requirements, this may be a more appropriate cut-off point.

Q17: What comments do you have on the proposal that financial reporting obligations outlined in this Part would not apply to gaming machine societies?

- The reasons given, i.e. that gaming machine societies are already highly regulated, appear appropriate, especially given that they are required by section 108 of the Gambling Act 2003 to prepare financial statements in accordance with the FRA and GAAP.
- However, it seems unusual to specifically exclude them, and may add unnecessary confusion.
- We believe it may be better in terms of reducing complexity and increasing transparency not to exclude these societies and to leave the requirements of the Gambling Act as an extra layer of compliance on top of GPFR.

Q18: What are your views on the preparation, distribution, publication and assurance proposals appearing in Part 7.6 and the Appendix insofar as it relates to private non-profit entities?

- The ASRB proposals restricting the assurance requirements to entities with operating expenditure greater than or equal to $100,000 are appropriate, thus reducing the financial reporting compliance costs to a more sensible proportion of total costs.
- We believe there is confusion in the public domain around the purposes, nature, assurance levels and costs of review engagements. A review should never be construed as "half an audit", but we suspect that is a perception many individuals have.
- The use of a review engagement as opposed to an audit engagement does not always offer significant cost reductions but does always result in reduced assurance. Therefore it may be more useful to require an audit for all entities with expenditure > $100,000.
- The summary included in Part 7.6 gives the impression that gaming machine societies would not have to prepare any GPFR; this is misleading given their existing financial reporting requirements (as discussed above).
- We agree that it is impossible to regulate unincorporated charities.

The application of the indicators to Maori asset governance entities

We have limited experience in dealing with Maori asset governance entities therefore have provided only brief comments to questions 19 to 23:

Q19: What are your views on the proposal to make no changes in relation to Maori trust boards?

- Maori trust boards are not dissimilar to public sector entities and therefore should be treated in the same way for financial reporting purposes. We therefore agree that they should continue to prepare assured GPFR.

Q20: What are your views on the proposals appearing in Part 8.3.1 in relation to Maori incorporations as summarised in Part 8.4?

- Maori incorporations are extremely similar to companies and other for-profit entities. It is therefore appropriate to treat them in the same way as for-profit entities for financial reporting purposes. We agree with the proposed changes although we note that the audit and filing requirements differ to those for companies.

Q21: What are your views on the proposal to make no changes in relation to Maori reservations?

- This appears appropriate, the financial aspects of these reservations in general appear to be minimal, and there is already some accountability in place under the Maori Land Court.

Q22: What are your views on the proposal for the Maori Land Court to continue to have the responsibility for setting financial record keeping and reporting obligations for Maori land trusts?

- We believe that the Primary Principle and Indicators should also be applied to these entities, and whilst this appears to lead to the conclusion that the majority of Maori land trusts do not need to publish GPFR, some of the trusts are economically significant and should be required to publish GPFR.
- Although we believe that the Maori Land Court should continue to have responsibility for setting financial record keeping and reporting obligations for Maori land trusts which do not meet any of the Indicators, it seems appropriate for those which are economically significant to be subject to the provisions of these proposals.

Q23: What are the advantages and disadvantages of requiring economically significant Maori land trusts to publish GPFR?

- See our response to question 22 above.

Consequential issues

Q24: What are your views on the advantages and disadvantages of giving assurance standards the force of law?

- We believe it should not be necessary to give assurance standards the force of law. The proposed standardisation of assurance standards and the requirement to comply with assurance standards would make non-compliance an offence; there are already penalties for non-compliance which can be used as an argument in civil liability cases.
- Adding the force of law to assurance is likely to reduce professional judgement in auditing and as noted, lead to a tick-the-box approach to auditing.
- It is also likely to increase costs with a more defensive and possible 'over-auditing' approach.
- If auditing standards are to be given the force of law, then auditors must be given the opportunity to limit their liability, because if there were to be a corporate failure, they should not be entirely responsible for the loss that results.

Q25: What are your views on the proposal to make it an offence to unduly influence, coerce, manipulate or mislead an auditor?

- Directors have responsibility for preparation of financial statements – we would like a statement of this responsibility to be included in annual reports immediately before the financial statements.
- They are also responsible for providing information to auditors.
- It may be difficult to prove that any of the actions mentioned is deliberate.
- However, the proposal acknowledges importance of cooperation in the relationship between auditor and management.
- Need to also consider at what level people would be responsible – e.g. junior staff misleading an auditor at the request of management; who would be responsible in this instance?
- The proposal does have the advantage of shifting some of the responsibility to the entity being audited.
- New Zealand should look at experience in other jurisdictions.

Q26: What are your views on the proposal to make it an offence to recklessly or knowingly include false or deceptive matters in an audit report?

- This seems appropriate; it is never acceptable conduct given the reliance on auditors as independent examiners. Any document required by the Companies Act 1993 (which includes audit report) should not include false or deceptive matters.

Q27: What are your views on the proposal to introduce a requirement to change statutory monetary thresholds within a certain time period? What are your views on the ten year proposal?

- It is important to review statutory monetary thresholds regularly.
- 10 years seems like a long time. For example at an average 3% inflation, the $1 million threshold would have increased to approximately $1.35 million during this time, therefore a number of entities would move between tiers purely due to the impact of inflation
- Perhaps 5 years would be more appropriate. It would not be an expensive exercise.

Q28: What are your views on the proposals appearing in Part 9.1.3 concerning the three exemption powers?

- The historical non-use of section 29A, being the power of the ASRB to exempt classes of entities from reporting standards, suggests that it is unnecessary. Also the total revision of the financial reporting framework means that significant consideration is being given to financial reporting needs and there should not be a need to exempt classes of entities from reporting standards subsequent to this complete revision.
- Sections 35A and 35B relate primarily to overseas companies, with Section 35A allowing the Securities Commission to grant exemptions to directors of issuers that are incorporated outside New Zealand and Section 35B empowering the Registrar of Companies to grant exemptions to overseas companies where the New Zealand financial reporting requirements are unduly onerous or burdensome. Due to the proposed removal of the requirement for non-large overseas-incorporated companies to file GPFR, there should be a lessening need for Section 35B.
- As with any exemption, it would be expected that each case is considered on an individual basis with due consideration paid to the user needs. On this basis we agree with the retention of Section 35A and Section 35B.

Q29: What are your views on the proposed change to the solvency test?

- We agree that the solvency test needs to change due to the removal of the requirement for all companies to produce GPFR.
- The first option, referring instead to the required accounting records which "at any time enable the financial position of the company to be determined with reasonable accuracy", should provide a strong enough basis to determine solvency, when combined with the directors' consideration of other circumstances.
- The second option, solely basing conclusions on solvency on the directors' view of circumstances does not appear to give a sufficiently robust or evidential basis for determining solvency.

Other issues

Q30: Do you consider that the parent company preparation and filing requirements should be retained, modified or removed? What are the compliance cost implications?

- The removal of parent company preparation and filing requirements in the circumstances where group GPFR are filed would sit far more comfortably with IFRS.
- We also note that Australia is proposing the removal of parent company filing requirements, replacing it with disclosure notes in the group financial statements.
- Users are far more likely to be interested in the group as a whole than the parent company. Removing the requirement for parent company accounts would correspond with the aim of reducing complexity.
- Compliance costs would be reduced by removing this requirement, however not by a substantial amount as much of the work needed in preparing disclosures for parent company financial statements would also be needed to calculate the consolidated figures.

Q31: Assuming the parent company requirements were to be modified, what modifications should be made?

- We recommend special purpose reporting only for parent companies – i.e. to creditors etc where the legal separation of the company is important. This is reflected by the MED statement that the needs of bankers do not need to be given significant weighting when considering the requirement for GPFR as they are able to demand financial information from borrowers.

Q32: What are your views on the proposal to require contributory mortgage brokers and the broker's nominee company to make GPFR available to investors?

- Considering the user needs principle and the accountability of these entities to their investors, it would be appropriate to treat them in the same way as issuers and make GPFR available to investors.

Q33: Do you consider that the filing deadline for entities with publication requirements should be reduced? What are your views on the IMF suggestion of four months?

- The reduction to four months recognises the importance of timeliness of information.
- However, it may impact on the quality of information provided.
- It poses difficulties for accounting and assurance providers, increasing the seasonality of business even further and putting significant pressure on a very short time frame.
- We suggest adopting four months but allowing greater flexibility of year ends and encouraging entities to change their year ends in order to benefit from higher quality service from accounting and assurance providers.

Q34: What are your views on the issues relating to remuneration disclosures for key management personnel?

- This is always a difficult topic because of the sensitivity of the information.
- In some entities there is significant reliance on contractors and this is not reflected in these disclosures which can reduce the transparency of the disclosures.
- We agree that the current thresholds appear to be on the low side but without looking in more detail at remuneration of senior management across a variety of industries it is difficult to comment.
- The Australian approach, with a more outcomes-based approach gives much more useful information but is likely to only be applicable to Tier 1 entities, with the higher levels of disclosure not appropriate for Tier 2.

New Zealand-Australia Single Economic Market

Q35: Do you have any comments on the proposals appearing in this document from a Single Economic Market perspective?

- It is important from a political and diplomatic standpoint to put these proposals in the context of a Single Economic Market given the Memorandum of Understanding on the Coordination of Business Law.
- The objective of only having to prepare one set of GPFR which meet both NZ and Australia requirements is critical.
- Need to be aware of the differences in resources available, the size of the economy and the size and nature of individual entities involved when considering the development of new trans-Tasman standards.
- XRB independence is important, both politically and from Australia.

MED's proposals for each class of entity (Appendix)

Q36: Do you have any comments on the proposals in the table in the Appendix?

- We have already covered these in the answers provided above.

General question

Q37: Do you have any other comments?

- **Trusts –** whilst considering numerous other entities, trusts have not been considered in any level of detail throughout these Discussion Documents. Trust accounting is currently governed by case law which does not seem to be the most appropriate method of setting financial reporting requirements for these entities of which there are so many in New Zealand.
- Appendix A states that for the majority of trusts, the indicators do not apply and therefore no changes are proposed. This assessment fails to take account of the many discretionary trusts that exist, that some would argue require GPFR.
- Although significant change may not be necessary for a large number of trusts which do not meet any of the three indicators, more discussion is needed in this area as there are a number of trusts which do meet some or all of the indicators.
- Given that the proposals will lead to a radical shake-up of accounting for almost every other entity type in New Zealand, the lack of consideration and analysis given to trusts and their financial reporting requirements is surprising and, in our opinion, a missed opportunity.
- Similarly for **other for-profit entities,** although the table in Appendix A gives some examples of the application of the indicators to partnerships, there is no commentary on these entities. We would like to see more discussion within the main Discussion Documents in the area of partnerships, joint ventures, and other for-profit entities.

Appendix 2: ASRB questions

General Framework for the Application of Accounting and Assurance Standards

Q1: Do you agree that the distinction between for-profit and public benefit entity sectors is a useful and cost-effective basis for classifying users and their information needs? If not what other basis would you suggest and why?

- We agree that this distinction is a useful basis for classifying users and their information needs.
- It is true that this split is the most apparent for classifying users and information needs in that users of for-profit financial statements have very different needs from those of public benefit entity financial statements.
- Cost effectiveness is questionable because of the relatively small size of the New Zealand economy and the additional requirements created by this distinction.
- The benefit is likely to outweigh the cost with greater transparency and appropriateness of PBE reporting under the proposed regime.

Q2: Do you agree with the Board's view that the time has probably come for New Zealand to consider embracing sector-specific (rather than sector-neutral) accounting standards? If not, why not?

- We agree with this view.
- However, we note the importance of maintaining some consistency across sectors such that similar transactions are accounted for in a similar way (i.e. transaction neutrality).
- An informal survey conducted by Grant Thornton New Zealand suggests that there is not particularly strong support however, with 41% supporting a move away from sector-neutral accounting standards, 28% disagreeing with this move and 31% with no view.
- The move would be in line with international recognition of importance of separate standards, and even a separate conceptual framework (IPSASB).

Q3: Do you agree that: (a) using reporting tiers is a cost-effective way to recognise the cost-benefit principle; and (b) the criteria for tiers should be established on a sector specific basis? If not, what alternative approaches do you suggest and why?

- The use of reporting tiers is crucial to recognising the cost-benefit principle; there is no 'one size fits all' approach.
- By agreeing that sector specific reporting is needed, it is appropriate to set the criteria on a sector specific basis, although there should be some correlation between the tiers in each sector, so that there is some evidence of consistency. For example, having only 23 not-for-profit entities in Tier 1 is not consistent with the number/proportion of for-profit entities in Tier 1.
- We are not sure of appropriateness of Tier 1 for the not-for-profit sector. This is probably where the biggest flaw exists in terms of cost-benefit principle – there would be 23 or so entities reporting under their own framework. As noted in our covering letter, we propose abolishing Tier 1 for this sector.

Proposed Accounting Standards Framework: For-Profit Entities

Q4: Do you agree that the distinction between publicly accountable entities (as defined by the IASB) and other entities should be used as the criteria to establish the for profit tiers? If not, what alternative would you suggest and why?

- We agree that this is appropriate as this is the definition offered by the IASB under whose framework the Tier 1 entities will be expected to report.

Q5: Do you agree that, as small for-profit entities generally won't be required to prepare GPFR, only two reporting tiers are necessary in the for-profit sector? If not, what would you suggest and why?

- We agree that the two tier approach is appropriate. It would not be cost-effective to have more than 2 tiers in this sector. That said, we are concerned at a lack of comparability in financial reporting that will inevitably emerge as a result of this decision.
- We believe that NZICA has an important role to play in ensuring that sufficient guidance is given to its members (currently in excess of 30,000) to ensure that there is no degradation in the quality of financial statements currently being produced.

Q6: Do you agree that (pure) IFRS should be used for reporting by Tier 1 for-profit sector entities? If not, what alternative would you suggest and why?

- We agree as this is the sphere in which IFRS is designed to operate. It should not be necessary to have an NZ-specific IFRS as there are no unique factors in the NZ economy to justify an NZ version. Experience with the current NZ equivalents to IFRS suggests that the cost outweighs the benefit.

Q7: (a) What factors (and their relative weighting) do you think the Board should take into account when choosing between the two reporting options for Tier 2 for profit entities (IFRS for SMEs; or a differential version of IFRS, ideally developed jointly with Australia)?
(b) What concerns of a material nature (if any) do you have about applying IFRS for SMEs? What are the reasons for these concerns?
(c) What benefits do you perceive would result from a differential framework that is jointly developed between New Zealand and Australia?

- Key factors to take into account when choosing between the two options are international recognition, cost-effectiveness, and appropriateness for entities in Tier 2.
- IFRS for SMEs provides international consistency, comparability and recognition.
- It also provides the cost effectiveness of using an already established international standard rather than writing a New Zealand or trans-Tasman differential regime.
- One of the problems of writing standards jointly with Australia is the difference in resources available, with Australia having access to significantly more resource than New Zealand.
- A differential framework developed jointly between NZ and Australia would be more cost effective than a NZ one. It would also promote the objectives of the Single Economic Market. But the use of an international standard (i.e. IFRS for SMEs) would be a better approach.
- Our concerns with IFRS for SMEs centre on the differences in measurement from pure IFRS particularly around revaluation model.
- It is appropriate to allow entities the choice between IFRS for SMEs and a differential IFRS. This would enable entities reporting to the UK (which is in the process of adopting IFRS for SMEs), for example, to use IFRS for SMEs, and entities reporting to Australia to use differential IFRS.
- Please see our covering letter for further detail around this question.

Proposed Accounting Standards Framework: Public Benefit Entities

Q8: Do you agree that entity size (based on expenditure but not asset value), and in the case of public sector entities also the nature of the accountability relationship, should be used to allocate entities to the PBE sector tiers? If not, what alternative would you suggest and why?

- For PBEs, entity size is strongly linked to the accountability relationship and to separation factors.
- We agree that expenditure is a better indicator of size than asset value.
- We note that an entity's size and its economic significance are both difficult to determine and may not be the same. For example an entity employing 50 people with operating expenditure of $2 million will be far more economically significant in rural towns than in a metropolitan city (i.e. Auckland, Hamilton, Wellington, Christchurch).

- However, some basis for allocating entities to the tiers is needed, and expenditure does appear to be the most straight-forward method.

Q9: Do you agree that for the PBE Sector Tier 1 should comprise entities with expenditure ≥$20 million (public sector) or ≥$10 million (not-for-profit sector) plus entities that are leviers of coercive revenue (regardless of size)? If not, what alternatives would you suggest and why?

- We agree that the public sector Tier 1 should comprise entities with expenditure ≥ $20 million and entities that are leviers of coercive revenue.
- However we propose that there should be no Tier 1 for the not-for-profit sector, as noted above and in our covering letter.

Q10: Do you agree that Tier 3 should comprise entities with expenditure under $2 million (public sector) or under $1 million (not-for-profit sector)? If not, what alternative would you suggest and why?

- We agree in principle but have some questions around the difference between public sector and NFP in terms of the $2 million/$1 million.
- Expenditure is being used here as a measure of economic significance – defined as 'the economic and social impact of an entity failing'. This does not provide a good enough reason for differentiating between the two sectors. The ASRB argument for the distinction focuses on the increased costs to the public sector of having employees, contrasted with the use of volunteers in the not-for-profit. However, should an entity fail, the impact would be greater for an entity with employees than that with volunteers.
- Reducing the threshold from $2m to $1m for the not-for-profit sector doubles the number of entities in this bracket (from 230 to 468) based on the figures published in Table 3 of the document, but this does not provide sufficient grounds for reducing the threshold; the same argument could be made for reducing it further.
- In order to determine the most appropriate threshold, more information is needed from the users of these financial statements in terms of where the thresholds should be and what the users' information needs are.

Q11: Do you agree that: (a) a set of NZ PBE Accounting Standards should be developed for use by PBEs; (b) as part of this IPSAS be used as the basis for reporting in the public sector; and (c) a NFP Application (building on IPSAS) be used as the basis for reporting in the not-for-profit sector? If not, what alternative would you suggest and why?

- NZ PBE Accounting Standards are needed to recognise the different user needs not met by IFRS or other current NZ reporting frameworks.
- IPSAS should provide a strong basis for this, and is growing in stature internationally. We agree that the continued application of funds to the development of IPSAS rather than a separate NZ equivalent would be more beneficial. However, some concern around the timely delivery of complete IPSAS. See our comments in our covering letter.
- The difficulty of NZ specific standards is primarily cost.
- However, there is also need to maintain consistency with international standards where possible.
- Opportunity to provide a lead in terms of a differential form of IPSAS may end up helping many countries other than New Zealand.
- NFP Application best as a short addition to the original IPSAS – keep differences to a minimum, but recognise what users actually want to see in GPFR.
- Use existing FRSB NFP Reporting Guide as a basis to minimise cost but need to apply critical thought to ensure that it is forward-looking and aligned with principles of IPSAS.

Q12: Do you agree that: (a) the full PBE standards should apply to Tier 1; and (b) a differential version of the PBE standards should apply to Tier 2 in the PBE sectors? If not, what alternative would you suggest and why?

- We agree with this for the public sector; it mirrors the for-profit Tiers and reflects cost-benefit principle at the individual entity level.

- For the not-for-profit sector, the existence of Tier 1 has been discussed above.
- The key disadvantage is the need to develop a differential version which could prove costly at the governance level. However, the benefit is likely to outweigh the cost.
- The use of IPSAS and the development of a differential version of the PBE standards provides an opportunity for NZ to provide leadership in the international financial reporting arena.

Q13: Do you agree that 'Simple Format Reporting' should apply to Tier 3 entities in the PBE sectors? If not, what alternative would you suggest and why?

- 'Simple Format Reporting' should be used to minimise the requirements for these small entities which are often reliant on volunteers.
- What is included in this Simple Format Reporting should be determined through discussions with the users of public sector and not-for-profit GPFR.
- It is vital that the nature of this simple format reporting is sufficient to cover the IRD and other governance requirements for these entities.
- Simple Format Reporting should be closely linked to the Standard Business Reporting initiative driven by the IRD.

Q14: Do you agree that PBEs that are issuers should continue to fall within the PBE sector requirements provided that they should never fall below Tier 2? If not, what alternative would you suggest and why?

- This appears to be the most appropriate way of dealing with these entities.

The Proposed Assurance Framework

Q15: Do you agree that the same tiers developed for accounting standard application should be used to determine assurance requirements? If not, what alternative would you suggest and why?

- Use of the same tiers reduces any complexity and confusion which would be caused by using different tiers and thresholds. Therefore we agree that the same tiers should be used to determined accounting and assurance requirements.

Q16: Do you agree that a satisfactory matching of costs and benefits is achieved by requiring Tier 1 and Tier 2 entities to obtain audit engagements and Tier 3 entities to obtain review engagements? If not, what alternative would you suggest and why?

- Given the level of detail likely to be present in the Tier 3 Simple Format Reporting, a review engagement is much more appropriate than an audit engagement for these entities.
- However, there must be more clarity over what a review engagement constitutes; there is a risk of people considering it to simply be 'half an audit'. Rarely does the level of assurance provided or the cost of a review engagement compared to an audit reflect this.
- For Simple Format Reporting and the size of entities involved in Tier 3, limited assurance is appropriate. We note the Auditor General's comments about the public expectation of reasonable assurance. This adds to the need for better communication of what a review engagement entails.
- For Tier 1 and Tier 2 in the public and not-for-profit sectors, considering the public accountability of these entities, a full audit is appropriate. For the smaller entities, the cost of a full audit is likely to be reduced by straight forward transactions.

Q17: Do you consider that pure ISA and pure ISRE should be adopted as the basis for providing assurance on GPFR? If not, what alternative would you suggest?

- We agree that this is the most appropriate basis for providing assurance.
- It ensures consistency across assurance providers both within NZ and internationally.
- It allows international comparability in an increasing globalised world.

- It is not cost-effective to maintain NZ equivalents which are substantively the same as the underlying international standards.

Related Issues and Comments

Q18: Do you agree that the XRB should: (a) have a 'safeguard authority' over the adoption of international standards that are inappropriate in a material respect in the New Zealand environment; and (b) the 'inappropriate in a material respect' test should apply to IFRS, IPSAS, ISA and ISRE? If not, what alternative (if any) would you suggest and why?

- Although the probability of materially inappropriate standards being issued seems remote, it is prudent to have a 'safeguard authority' over the adoption of international standards for each of IFRS, IPSAS, ISA, and ISRE.
- The XRB is the appropriate authority to oversee this.

Q19: Do you agree that provision should be made for additional New Zealand accounting and assurance standards to address areas not covered by international standards? If not, what alternative would you suggest and why?

- We agree that there should be flexibility to introduce additional (but not alternative) standards.
- They should be in line with i.e. not contradictory to, international conceptual frameworks.
- They should be kept to a minimum to reduce cost and complexity.