

Financial reporting guide

An overview of the New Zealand
financial reporting framework

December 2017



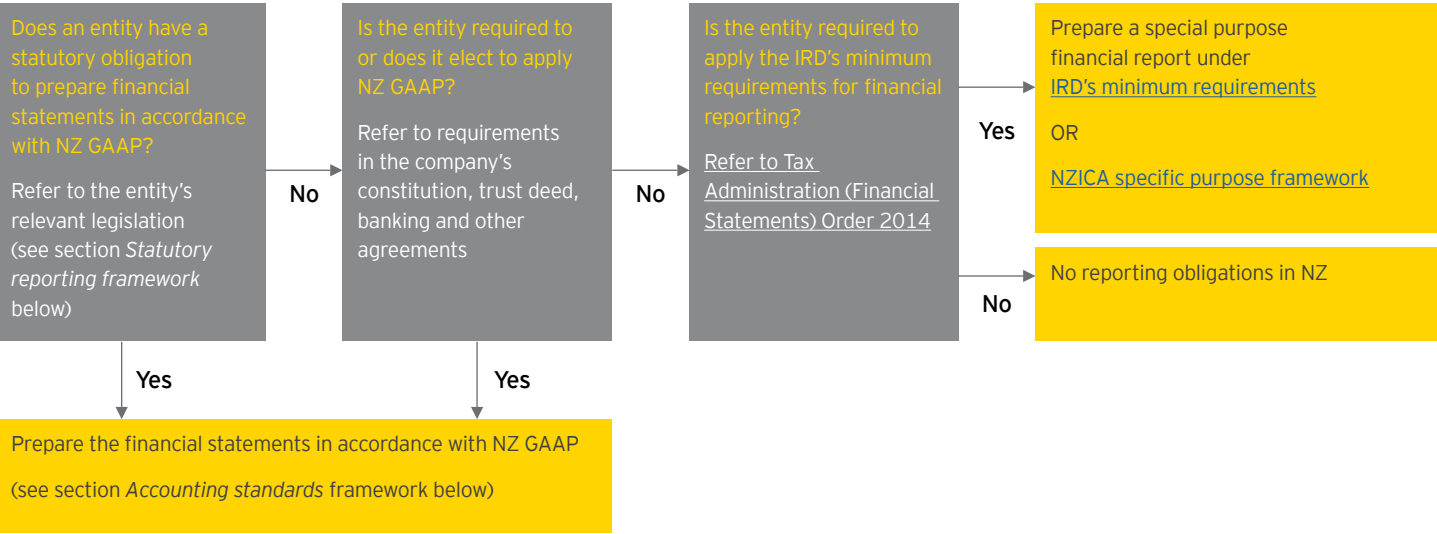
Building a better
working world

New Zealand financial reporting framework

The New Zealand Financial Reporting Framework consists of two parts:

- The statutory financial reporting framework, which sets out the statutory preparation, audit and filing requirements for various types of entities
- The accounting standards framework, which establishes the accounting standards to be applied by entities with statutory reporting obligations

The below flow diagram has been designed to assist you in navigating your way through the New Zealand financial reporting framework and this Guide.



Statutory reporting framework

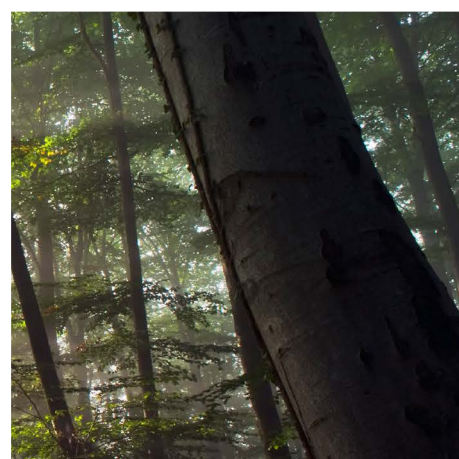
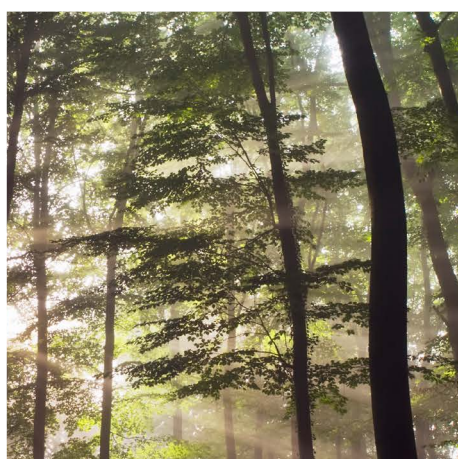
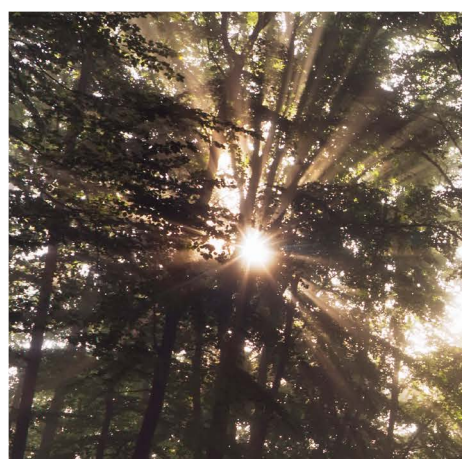
The statutory financial reporting framework sets out the financial reporting requirements for different types of entities, including requirements to:

- Prepare financial statements or group financial statements in accordance with New Zealand generally accepted accounting practice (NZ GAAP) or non-GAAP standards, hereafter referred to as general purpose financial reports (GPFR).
- Have those financial statements audited.
- Register or lodge those financial statements with the Registrar or otherwise distribute those financial statements to interested persons (for example, shareholders or members).

The underlying principle of the New Zealand statutory reporting system is to provide information to external users who have a need for an entity's financial statements but are unable to demand them.

The statutory framework uses three indicators to drive who should prepare GPFR:

- Public accountability (e.g., FMC reporting entities, public sector entities and registered charities).
- Economic significance (i.e., entity size).
- Separation of owners/members of the entity and its management.



The table below highlights statutory reporting requirements for companies, partnership and registered charities.

Entity	GPFR requirement	Audit requirement	Filing requirement
FMC reporting entities.	✓	✓	✓
Large New Zealand companies (with “large” defined as total assets greater than \$60m or revenue exceeding \$30m) with no overseas ownership or less than 25% overseas ownership that are not subsidiaries of a company incorporated overseas.	✓ A	✓ A, B	X
Large New Zealand companies (with “large” defined as assets greater than \$60m or revenue exceeding \$30m), with 25% or more overseas ownership that are not subsidiaries of a company incorporated overseas.	✓ A	✓ A	✓ A
Large New Zealand companies (with “large” defined as total assets greater than \$20m or revenue exceeding \$10m) with less than 25% overseas ownership that are subsidiaries of a company incorporated overseas.	✓ A	✓ A, B	X
Large New Zealand companies (with “large” defined as total assets greater than \$20m or revenue exceeding \$10m) with 25% or more overseas ownership that are subsidiaries of a company incorporated overseas.	✓ A	✓ A	✓ A
Large overseas companies that carry on business in New Zealand (with “large” defined as assets greater than \$20m or revenue exceeding \$10m).	✓ A, C	✓ A, C, D	✓ A, C
Companies with 10 or more shareholders.	✓ A, E	✓ A, E	X
Large partnerships, including large limited partnerships (with “large” defined as total assets greater than \$60m or revenue exceeding \$30m).	✓	✓ F	X
Retirement villages.	✓	✓	✓
Public entities as defined under the Public Audit Act 2001.	✓	✓	G
Registered charities under the Charities Act 2005.	✓	H	✓

A – A large New Zealand company or large overseas company (A) is not required to prepare either parent or group financial statements if A is a subsidiary of a body corporate incorporated or registered in New Zealand (B) and group financial statements that comply with NZ GAAP comprising B, A and all subsidiaries of B have been prepared. A large New Zealand company or large overseas company that is exempt from preparation requirements is also exempt from audit and filing requirements.

B – If a large New Zealand company has to prepare financial statements that comply with NZ GAAP, the company can opt out from an audit by means of a resolution passed by not less than 95% of the votes of those shareholders entitled to vote and voting on the question if the company is not expressly restricted from doing so in its constitution.

C – If a large overseas company is required to prepare, have an audit and file financial statements in New Zealand that comply with NZ GAAP, the company is required to prepare, have an audit and file financial statements that comply with NZ GAAP for its large New Zealand business (i.e., branch) with “large” defined as assets greater than \$20m or revenue exceeding \$10m.

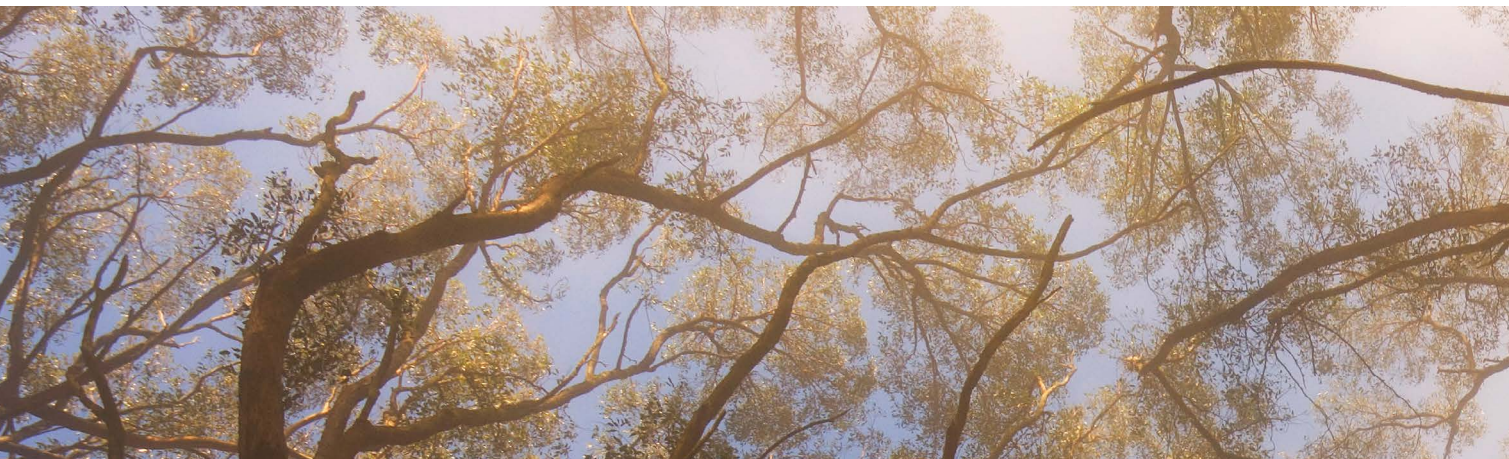
D – A large overseas company is not required to have an audit of its financial statements or group financial statements if its New Zealand business is not large (with “large” defined as assets greater than \$20m or revenue exceeding \$10m) and under the law in force in the country where the overseas company is incorporated or constituted, the qualifying financial statements are required to be prepared, but are not required to be audited.

E – Can opt out if a resolution passed by not less than 95% of the votes of those shareholders entitled to vote and voting on the question and the company is not expressly restricted from doing so in its constitution.

F – Can opt out, if within 6 months from the start of an accounting period, a resolution is passed or signed by partners who together have contributed at least 95% of the capital contributions of all the partners.

G – Requirements contained in public sector legislation.

H – Registered charities with total operating expenses \$1m or more are required to have an audit performed by a qualified auditor. Registered charities with total operating expenses greater than \$500,000 are required to have an audit or review of their financial statements performed by a qualified auditor.



Other requirements

- ▶ Deadlines for preparation, audit and filing (where applicable) requirements for GPFR are:
 - ▶ Four months for all FMC reporting entities.
 - ▶ Five months for companies.
 - ▶ Six months for registered charities.
- ▶ Separate financial statements for a parent company do not need to be prepared if group financial statements are prepared. However, the requirements of the Financial Reporting Act 1993 remain effective for some reporting entities under transitional provisions of the Financial Reporting Act 2013. Those entities continue to present separate parent financial statements when group financial statements are prepared.
- ▶ Retirement village operators are not included in the definition of an FMC reporting entity and therefore do not automatically fall within the top tier of reporting. However, operators still need to prepare GPFR and have an audit.
- ▶ Friendly societies and branches are required to prepare GPFR unless a majority of the members opt out of compliance by way of a resolution. However, entities with operating expenditure over \$30m cannot opt out of preparing the financial statements. Additionally, friendly societies and branches that are FMC reporting entities or insurers continue to have financial reporting obligations.
- ▶ The Financial Market Conduct Act 2013 requires all credit unions to comply with the financial reporting obligations that apply to FMC reporting entities and other financial market participants.
- ▶ For FMC reporting entities, failure to comply with financial reporting obligations may result in an offence for both the entity and its directors (rather than just the directors as is currently the case), with a maximum penalty of imprisonment for a term not exceeding 5 years and a fine not exceeding \$500,000 (in the case of an individual) or \$2.5m (in the case of an entity).

The Financial Reporting Act 2013 also provides legislation to empower the External Reporting Board (XRB) to issue financial reporting standards for a wider range of entities, including registered charities.

The Exposure Draft of the Incorporated Societies Bill

The Law Commission commenced a review of the Incorporated Societies Act 1908. It published an issues paper in June 2011 with the main recommendation to replace the 1908 Act with a new Incorporated Societies Act. In response to the issues paper, in November 2015 the Ministry of Business, Innovation and Employment (MBIE) issued the [Exposure Draft \(ED\) of the Incorporated Societies Bill](#) for public comment. The comment period was closed in June 2016. Currently the MBIE is working towards the Bill being introduced into the House in 2018, with a view to enactment in 2019. The new legislation will then likely come into force in two steps - in 2021 and 2023. In addition to other amendments to the 1908 Act, the ED proposed changes to financial reporting. The proposed changes, if finalised as proposed, will require all societies to prepare GPFR. There also will be a requirement to lodge them with the Registrar within six months of the end of the society's financial year. This means that incorporated societies will have the same preparation obligations as registered charities:

- ▶ Societies with annual operating expenditure \$2 million or less in one or both of the two preceding financial years will be able to prepare a performance report in accordance with the XRB's simple format reporting standards for not-for-profit entities (Tiers 3 or 4)
- ▶ Societies that do not qualify for Tier 3 or 4 reporting will be required to prepare financial statements in accordance with the more extensive Tier 1 or 2 Public Benefit Entity (PBE) Standards.

Further information on the ED and the MBIE process on the Bill is available on the [MBIE website](#).

Accounting standards framework

The XRB is responsible for setting accounting standards for entities with statutory requirements to prepare GPFR. The XRB has issued a multi-standards framework that requires different sets of accounting standards to be applied by for-profit entities and public benefit entities (PBEs).

Therefore, under the XRB's multi-standards approach, determining whether an entity is a PBE or a for-profit entity is the first step in establishing the particular financial reporting requirements for any entity that has a statutory requirement to prepare the financial statements under NZ GAAP. PBEs are defined as follows:

"Reporting entities whose primary objective is to provide goods and services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders" (XRB A1, Appendix A).

For-profit entities are reporting entities that are not PBEs.

The accounting standards framework for for-profit entities and PBEs is outlined in the tables below. The tables also include references to the applicable EY resources that provide a relevant set of illustrative financial statements. Additional guidance is also provided, following the tables, to assist in determining the appropriate accounting standards to be applied by for-profit entities and PBEs, including the qualifying criteria and other considerations.

For-profit entities

The tier structure of the for-profit accounting standards framework consists of two tiers.

	Criteria of the tier	Applicable Accounting Standards	Applicable EY publication
Tier 1	<ul style="list-style-type: none"> ▶ "Publicly accountable" entities (as defined by the IASB, including entities deemed to be publicly accountable*) ▶ Large for-profit public sector entities** (i.e. expenses > \$30m) 	NZ IFRS in full	Good Group New Zealand Limited for the year ended 31 December 2017
Tier 2	<ul style="list-style-type: none"> ▶ Not "publicly accountable"* ▶ Non-large for-profit public sector entities** 	NZ IFRS with Reduced Disclosure Regime (NZ IFRS RDR)	The publication is available on the IFRS page of the EY website (ey.com/nz/ifrs)

* Refer to the discussion below on Tier 1 for-profit entities for the definition of "publicly accountable"

** For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001

Tier 1 for-profit entities

For-profit entities that meet the Tier 1 criteria are required to comply with NZ IFRS in full.

Under the for-profit accounting standards framework tier structure, the following for-profit entities meet the Tier 1 criteria:

- ▶ “Publicly accountable” entities (see below); or
- ▶ Large for-profit public sector entities (i.e. with expenses > \$30 million).

An entity is “publicly accountable” if it:

- ▶ meets the International Accounting Standards Board (IASB) definition of public accountability; or
- ▶ is deemed to be publicly accountable in New Zealand.

Under the IASB definition, an entity is publicly accountable if:

- ▶ its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- ▶ it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

An entity is deemed to be publicly accountable in the New Zealand context if it is:

- ▶ an FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities, specifically:
 - a) an issuer of equity securities or debt securities under a regulated offer
 - b) a manager of registered schemes, but only in respect of financial statements of a scheme or fund

c) a listed issuer

d) a registered bank

e) a licensed insurer

f) a credit union

g) a building society, or

- ▶ an FMC reporting entity that is considered to have a higher level of public accountability by a notice issued by the Financial Markets Authority, or
- ▶ an entity under the transitional provisions of the Financial Reporting Act 2013.

Tier 2 for-profit entities

The term “Tier 2 for-profit entities” refers to entities that qualify for and elect to apply NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

A for-profit entity may elect to report under NZ IFRS RDR if it is:

- ▶ Not “publicly accountable” (see the discussion above on Tier 1 for-profit entities); and
- ▶ In respect of for-profit entities in the public sector, is not large (i.e. with expenses ≤ \$30 million).

Small and medium-sized for-profit entities

Small and medium-sized for-profit entities (SMEs), that are not required to prepare GPFR under the statutory framework, instead need to prepare special purpose financial statements (SPFR) for tax purposes, using minimum standards set by the Inland Revenue Department. Also, guidelines have been issued by the Chartered Accountants Australia and New Zealand for entities preparing SPFR.



Public benefit entities

A four tier structure for PBEs has been established, with reporting requirements for each of the four tiers.

The PBE tier structure includes:

- a set of PBE Standards to be applied by large and medium-sized (Tier 1 and 2) public sector and not-for-profit PBEs.
- Simple Format Reporting standards for Tiers 3 and 4 public sector and not-for-profit PBEs.

	Criteria of the tier	Applicable Accounting Standards	Applicable EY Publication
Tier 1	<ul style="list-style-type: none"> ▸ “Publicly accountable” entities (as defined by the IASB, including entities deemed to be publicly accountable*) ▸ Large entities (i.e. expenses > \$30m) 	PBE Standards in full	Good City Council for the year ended 30 June 2018 The publication is available on the IRFS page of the EY website (ey.com/nz/ifrs)
Tier 2	<ul style="list-style-type: none"> ▸ Medium-sized entities (expenses between \$30m and \$2m) that are not publicly accountable* 	PBE Standards Reduced Disclosure Regime (PBE Standards RDR)	
Tier 3	<ul style="list-style-type: none"> ▸ Small entities (expenses ≤ \$2m) that are not publicly accountable* 	PBE Simple Format Reporting - Accrual (Public Sector) PBE Simple Format Reporting - Accrual (Not-for-profit)	Please contact your local EY representative
Tier 4	<ul style="list-style-type: none"> ▸ Micro entities (expenses < \$125,000 and permitted by legislation to be in Tier 4) that are not publicly accountable* 	PBE Simple Format Reporting - Cash (Public Sector) PBE Simple Format Reporting - Cash (Not-for-profit)	

* Refer to the discussion above on Tier 1 for-profit entities for the definition of “publicly accountable”



Tier 1 PBEs

PBEs that meet the Tier 1 criteria are required to comply with PBE Standards in full. PBE Standards are based on International Public Sector Accounting Standards (IPSAS), with some modifications for the New Zealand environment.

Under the PBE tier structure, the following PBEs meet the Tier 1 criteria:

- ▶ “Publicly accountable” entities (see the discussion above on Tier 1 for-profit entities); or
- ▶ Large (i.e. with expenses > \$30 million).

Tier 2 PBEs

The term “Tier 2 PBEs” refers to entities that qualify for and elect to apply PBE Standards Reduced Disclosure Regime (PBE Standards RDR).

A PBE may elect to report under PBE Standards RDR if it is:

- ▶ not “publicly accountable” (see the discussion above on Tier 1 for-profit entities); and
- ▶ not large (i.e. with expenses ≤ \$30 million).

Tier 3 PBEs

The term “Tier 3 PBEs” refers to PBEs that qualify for and elect to report under PBE Simple Format Reporting – Accrual. This standard includes templates and simplified requirements for the financial statements. This should result in reduced compliance costs, especially compared with NZ IFRS. Simple Format Reporting Standards – Accrual accounting is considered a GAAP framework and thus entities applying it will be complying with GAAP in New Zealand. Tier 3 PBEs are required to prepare accounts on an accrual basis.

A PBE may elect to report under PBE Simple Format Reporting – Accrual if it:

- ▶ is not “publicly accountable” (see the discussion above on Tier 1 for-profit entities); and
- ▶ has total expenses ≤ \$2 million.

Tier 4 PBEs

The term “Tier 4 PBEs” refers to PBEs that qualify for and elect to report under PBE Simple Format Reporting – Cash. The standard includes simplified templates and reporting requirements for the financial statements. Tier 4 PBEs are permitted to prepare financial statements on a cash basis. PBE Simple Format Reporting – Cash accounting is a non-GAAP framework.

A PBE may elect to report under PBE Simple Format Reporting – Cash if it is permitted by legislation to report in accordance with non-GAAP standards (i.e. the cash basis of accounting) because it:

- ▶ is not “publicly accountable” (see the discussion above on Tier 1 for-profit entities); and
- ▶ has operating payments < \$125,000.

Are you ready for the new accounting standards?

As we enter 2018, many New Zealand businesses will pass the date of initial application of a series of significant accounting changes, including the new revenue recognition standard, NZ IFRS 15 *Revenue from Contracts with Customers* and the final version of NZ IFRS 9 *Financial Instruments*. Is your business ready for the coming wave of accounting change?

To help you understand and prepare for the new accounting standards, we developed a number of EY thought leadership materials. Some of these materials are listed below. Please refer to [EY website \(ey.com/ifrs\)](http://ey.com/ifrs) for the most recent EY publications and webcasts. We also encourage you to contact one of EY member firm Assurance partners or a member of the EY Financial Accounting Advisory Services team to discuss ways in which we can help you adopt the new NZ IFRS standards. In the back of this publication, you will find our contact details.

NZ IFRS 9

Classification and measurement

- ▶ IFRS Developments, Issue 130: [IASB issues an Amendment to IFRS 9](#)
- ▶ Applying IFRS: [IFRS 9 for non-financial entities](#)
- ▶ Applying IFRS: [Classification of financial instruments under IFRS 9](#)

Impairment

- ▶ EY IFRS 9 impairment banking survey
- ▶ Applying IFRS: [Impairment of financial instruments under IFRS 9](#)
- ▶ [Basel Committee proposes guidance on accounting for expected credit losses](#)

Hedging

- ▶ IFRS Developments [Issue 109: Next steps for the accounting for dynamic risk management project](#)
- ▶ Thought Center webcast: [Hedge Accounting for non-financial entities](#)
- ▶ Applying IFRS: [Hedge accounting under IFRS 9](#)

Other

- ▶ IFRS Developments Issue 77: [IASB issues a discussion paper on accounting for macro hedging](#)
- ▶ Applying IFRS: [Credit valuation adjustments for derivative contracts](#)

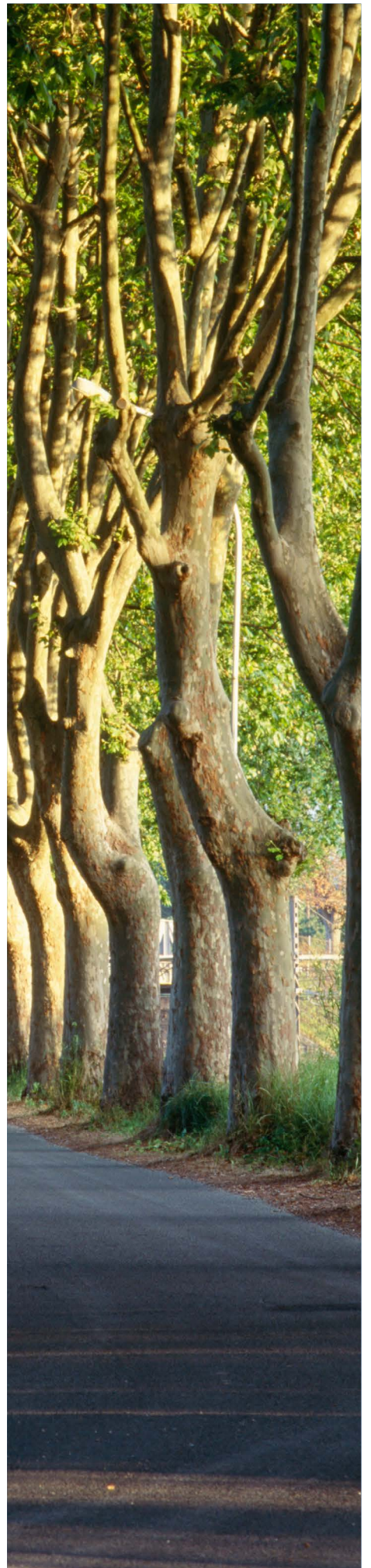
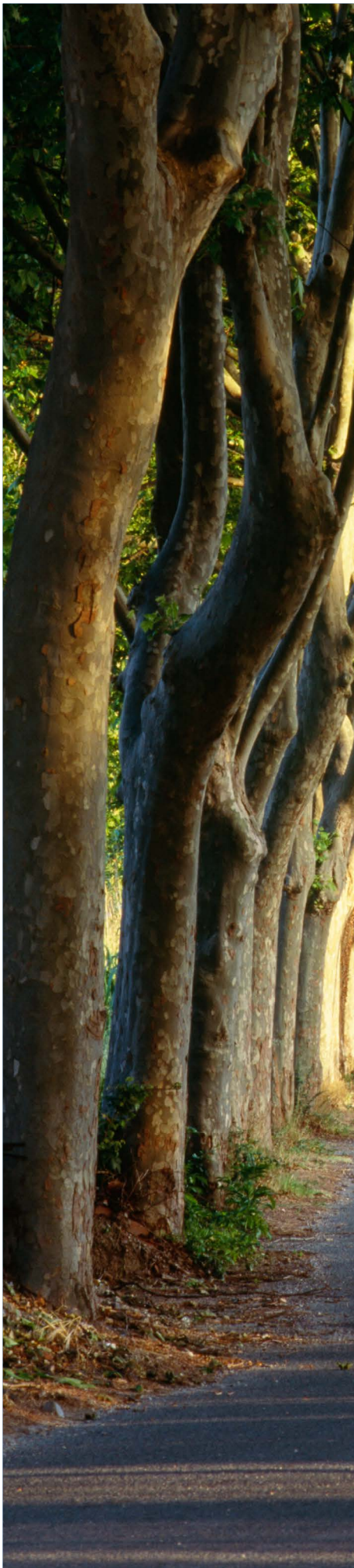
NZ IFRS 15

General materials

- ▶ Applying IFRS: [A closer look at the new revenue recognition standard \(Updated October 2017\)](#)
- ▶ Applying IFRS: [Presentation and disclosure requirements of IFRS 15](#)

Industry materials

- ▶ Applying IFRS in Engineering and Construction: [The new revenue recognition standard](#)
- ▶ Applying IFRS in Mining and Metals: [The new revenue recognition standard - mining and metals](#)
- ▶ Applying IFRS in Retail and Consumer Products: [The new revenue recognition standard - retail and consumer products](#)
- ▶ Applying IFRS in Real Estate: [The new revenue recognition standard - real estate](#)
- ▶ Applying IFRS in Telecommunications: [The new revenue recognition standard - telecommunications](#)
- ▶ Applying IFRS in Software and Cloud Services: [The new revenue recognition standard - software and cloud services](#)
- ▶ Applying IFRS in Technology: [The new revenue recognition standard - technology](#)
- ▶ Applying IFRS in Asset Management: [The new revenue recognition standard - asset management](#)
- ▶ Applying IFRS in Automotive Industry: [The new revenue standard - automotive](#)
- ▶ Applying IFRS in Life Sciences: [The new revenue recognition standard - life sciences](#)
- ▶ IFRS Developments for Oil & Gas: [The new revenue recognition standard - oil and gas](#)
- ▶ IFRS Developments for Oil & Gas: [The new revenue recognition standard - oilfield services](#)
- ▶ IFRS Developments for Power and Utilities: [The new revenue recognition standard](#)





How we can help you

EY Financial Accounting Advisory Services and Assurance professionals bring together a wealth of accounting knowledge from diverse experiences advising a range of clients across the public, corporate and not-for-profit sectors.

We can help your organisation apply the New Zealand financial reporting framework as well as assist with the interpretation and implementation of new accounting standards applicable to your organisation.

For the new accounting standards that become effective in 2018, NZ IFRS 9 and NZ IFRS 15, we can leverage our experience on the major projects to:

- Assist your organisation in implementing new NZ IFRS 9 and NZ IFRS 15 requirements using an established methodology
- Support and advise the design and implementation of models, processes,

systems and control changes to capture the information necessary to apply the new rules

- Provide tailored training on the implications of the new requirements
- Support you in assessing the impact on regulatory capital and tax
- Provide comparisons with your peers to help determine the direction of your project
- Help you to better understand how the opportunities and challenges of NZ IFRS 9 and NZ IFRS 15 could impact your business, and enable you to make informed decisions about how to adopt
- Share market insights with you on current methodologies, peers' views and preferable solution options

Contacts

For more information, please contact your usual EY advisor or a member of the Financial Accounting Advisory Services team:

Auckland



Graeme Bennett

Tel: +64 274 899 943
graeme.bennett@nz.ey.com



David Pacey

Tel: +64 212 425 716
david.pacey@nz.ey.com



Alex Knyazev

Tel: +64 218 53 152
alex.knyazev@nz.ey.com



Yulia Bogatova

Tel: +64 274 899 408
yulia.bogatova@nz.ey.com

Christchurch



Bruce Loader

Tel: +64 274 899 984
bruce.loader@nz.ey.com



John Hodge

Tel: +64 274 329 184
john.hodge@nz.ey.com



Kim Wilson

Tel: +64 276 049 465
kim.wilson@nz.ey.com



Charis Halliday

Tel: +64 275 54 3047
charis.s.halliday@nz.ey.com

Wellington



Grant Taylor

Tel: +64 274 899 410
grant.taylor@nz.ey.com



Stuart Mutch

Tel: +64 274 899 378
stuart.mutch@nz.ey.com



Lara Truman

Tel: +64 274 899 896
lara.truman@nz.ey.com



Gali Slyuzberg

Tel: +64 274 899 565
gali.slyuzberg@nz.ey.com



David Borrie

Tel: +64 21 923 431
david.borrie@nz.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.

© 2017 Ernst & Young, New Zealand.
All Rights Reserved.

APAC No. NZ00000911
NZ1730981
ED None

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk.

ey.com