

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Lisbon, Portugal

**Meeting Date:** September 12-16, 2022

## Agenda Item 11

For:

- ☐ Approval  
☒ Discussion  
☐ Information

### DIFFERENTIAL REPORTING

<b>Project summary</b>	The objective of this project is to develop a differential reporting regime that can be applied by public sector entities.	
<b>Task Force members</b>	To be determined	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Project Roadmap</a>	<a href="#">11.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">11.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">11.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Differential Reporting – Background to the Project</a>	<a href="#">11.2.1</a>
	<a href="#">Types of Differential Reporting</a>	<a href="#">11.2.2</a>
	<a href="#">Differential Reporting - Application of Tiers</a>	<a href="#">11.2.3</a>

**DIFFERENTIAL REPORTING:  
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
	To be determined as part of Project Brief approval

**INSTRUCTIONS UP TO PREVIOUS MEETING**

Meeting	Instruction	Actioned
	No instructions to date	

**DECISIONS UP TO PREVIOUS MEETING**

Meeting	Decision	BC Reference
	No decisions to date	

## **Differential Reporting – Background to the Project**

### **Purpose**

1. The purpose of this paper is to provide the IPSASB with a background to this project on Differential Reporting.

### **Background**

2. In March 2022, the IPSASB decided to add a project on Differential Reporting to the Work Program.
3. Public sector entities come in many different sizes. From large central governments to small local government agencies. However, presently there is only a 'one size fits all' set of IPSAS for these entities to apply.
4. The IPSASB has issued four consultation documents which proposed for a project on Differential Reporting to be undertaken. These consultations were:
  - (a) The [IPSASB Consultation on 2013-2014 Work Program](#);
  - (b) The [IPSASB Strategy Consultation 2015-2019 & Work Program Consultation 2015-2019](#);
  - (c) The [IPSASB Proposed Strategy and Work Plan 2019-2023](#); and
  - (d) The [Strategy and Work Program 2019-2023 Mid-Period Work Program Consultation](#).
5. Initially, constituents were not supportive of the IPSASB adding a project on Differential Reporting to its work program as it was considered that there was low urgency for the project. However, in the most recent two consultations (see paragraphs 4(c) and 4(d)) there was support for this project and this was confirmed by feedback given at roundtables that were held in Africa, Asia, Europe, and South America.
6. The consultations referenced in paragraph 4 noted that the International Accounting Standards Board (IASB) issued IFRS for SMEs [Small and Medium-sized Entities] in July 2009 (reissued in 2015). IFRS for SMEs is a self-contained standard (not an International Financial Reporting Standard (IFRS)) that is designed to meet the needs and capabilities of small and medium-sized entities. As such it is less complex than the full set of IFRS.
7. The recently published [International Public Financial Accountability Index 2021 Status Report](#) indicates there will be an increasing shift by governments from cash to accrual accounting over the next decade. Therefore, it is expected that with this increased shift to accrual accounting will come an increased use of IPSAS. However, for less complex public sector entities, the cost of 'full' IPSAS compliant financial reporting may outweigh the benefits to users unless some form of relief is provided. Therefore, a project on Differential Reporting may help to alleviate some burden.
8. It is intended that a project on Differential Reporting will allow the IPSASB to explore:
  - (a) The characteristics of less complex public sector entities; and
  - (b) The appropriate financial reporting approaches and guidance that could be applied by less complex public sector entities.

## Agenda Item 11.2.1

9. The Mid-Period Work Program consultation indicated that a project on Differential Reporting would explore which financial reporting principles would best meet the needs of less complex public sector entities and therefore ease their financial reporting burden.

### Major Issues

10. Two major issues that will need to be resolved in this project are:
- (a) What type of relief would be appropriate for less complex public sector entities; and
  - (b) What criteria should be applied to determine which entities are eligible to apply differential reporting.
11. These two issues are addressed in [Agenda Item 11.2.2](#) and [Agenda Item 11.2.3](#) respectively.

### Decision

For information only. No decision required.

## **Types of Differential Reporting**

### **Purpose**

1. The purpose of this paper is to provide the IPSASB with an overview of types of differential reporting in some jurisdictions to promote IPSASB discussion.

### **Background**

2. [Agenda Item 11.2.1](#) raised two issues that will need to be resolved as part of the Differential Reporting project. The first of these issues, which is the topic of this paper, is 'what type of relief would be appropriate for less complex public sector entities' to apply.
3. Based on staff's review of various jurisdictions, there are three options for providing relief for the purposes of differential reporting. These are:
  - (a) Simplifying the recognition and measurement requirements of existing IPSAS;
  - (b) Reducing the disclosure requirements; or
  - (c) Both (a) and (b).

### **Analysis**

4. To promote discussion on this issue, staff reviewed differential reporting regimes in other jurisdictions to determine the different approaches taken when providing relief for less complex entities. Following are some of the approaches used.

#### ***International – International Accounting Standards Board (IASB) - IFRS for SMEs***

5. The IASB sets international accounting standards for use by private sector entities. *IFRS for SMEs* was developed by the IASB to meet the needs and capabilities of small and medium-sized entities. It was estimated that 95% of all companies globally are SMEs. When developing this Standard the IASB decided not to include topics that are in the full set of IFRS but were not considered relevant for SMEs, these include earnings per share, interim financial reporting, and segment reporting.
6. Further, many principles for recognition and measuring assets, liabilities, income and expenses have been simplified in comparison to full IFRS. For example, goodwill is amortized rather than impaired, and all borrowing and development costs are expensed.
7. In addition, there is approximately a 90% reduction in disclosures as compared to full IFRS.
8. Therefore, IFRS for SMEs takes the approach noted in paragraph 3(c).

#### ***Australia – Australian Accounting Standards Board (AASB)***

9. The AASB sets accounting standards for use by for-profit entities and not-for-profit (NFP) entities (both private and public sector). There are two tiers of financial reporting for Australian entities – Tier 1 which is based on full IFRS and Tier 2 which provides disclosure relief for eligible entities (both for-profit and not-for-profit). [AASB 1060, General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#), provides the requirements for the second tier. Which entities these simplified disclosures apply to is addressed in [Agenda Item 11.2.3](#).

10. The AASB has utilized the IASB's IFRS for SMEs when determining how to simplify disclosures for Tier 2 entities. The AASB's framework documents<sup>1</sup> provide insight as to what principles are applied when determining these simplified disclosures. The approach taken is described in the following paragraph.
11. Simplified disclosures are determined by using a bottom-up approach, starting with the disclosures in IFRS for SMEs. This is based on the premise that:
  - (a) The disclosures in IFRS for SMEs should be retained where the recognition and measurement requirements and options are the same or similar with full IFRS (e.g., AASB Tier 1);
  - (b) Where the recognition and measurement requirements or options in IFRS for SMEs are not available in full IFRS then the related disclosures are removed; and
  - (c) Where the recognition and measurement principles in full IFRS Standards are significantly different from those in IFRS for SME, or certain topics are not addressed in IFRS for SMEs, then disclosures may be added.
12. Recognition and measurement requirements are the same for Tier 1 and Tier 2 entities. Therefore, in Australia the approach identified in paragraph 3(b) is applied.

***New Zealand – New Zealand Accounting Standards Board (NZASB)***

13. The NZASB has taken a multi-tiered approach for both for-profit entities and public benefit entities (PBE) (which includes the public sector). There are two tiers for for-profit entities and four tiers for PBEs.

***For-profit Entities***

14. Tier 1 for for-profit entities is based on IFRS and is known as NZ IFRS. Whereas Tier 2 is based on NZ IFRS with a reduced disclosure regime. There is no recognition and measurement relief for Tier 2 entities but the required disclosures have been significantly reduced. Therefore, for for-profit entities in New Zealand the approach in paragraph 3(b) is taken.

***Public Benefit Entities***

***Tier 1***

15. As noted in paragraph 13, there are four tiers for PBE entities in New Zealand. PBE Tier 1 standards are substantially based on IPSASs. However, the PBE Standards can also include some standards based on NZ IFRS and some domestic standards to cover gaps that are not addressed by IPSAS.

***Tier 2***

16. PBE Tier 2 standards are PBE Tier 1 Standards with a reduced disclosure regime. These Tier 2 standards have the same recognition and measurement requirements as Tier 1, and the reduced disclosures are substantially aligned with the reduced disclosures in the for-profit Tier 2 standards.

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<sup>1</sup> AASB For-Profit Entity Standard-Setting Framework, and AASB Not-for-Profit Entity Standard-Setting Framework.



Tier 3

17. Tier 3 has separate accounting requirements depending on whether the PBE is a public sector PBE or a NFP PBE. For public sector entities the relevant standard is the [Simple Format Reporting Standard – Accrual \(Public Sector\) \(PBE SFR-A \(PS\)\)](#). The relevant standard for NFP PBEs is the [Simple Format Reporting Standard – Accrual \(Not-for-profit\) \(PBE SFR-A \(NFP\)\)](#).
18. For both public sector PBEs and NFP PBEs the requirements, although based on Tiers 1 and 2 PBE standards, are substantially reduced and simplified in nature. Tier 3 requirements also include the preparation of a 'Performance Report' that covers both financial and non-financial information. Explanatory Guides containing optional templates and guidance notes assist Tier 3 entities in applying the requirements of the standard.

Tier 4

19. Similar to Tier 3, there are separate requirements depending on whether the entity is public sector PBE or a NFP PBE. However, both relevant standards apply cash accounting. Given that there is already a standard addressing cash accounting in IPSAS, staff do not consider it necessary to review these standards further.
20. Therefore, for PBE entities in both the public and NFP sectors, a combined approach as noted in paragraph 3(c) is utilized in New Zealand. [Agenda Item 11.2.3](#) will address which entities are eligible to apply which standard.

**United Kingdom**

21. Public sector accounting requirements in the UK are set out in the Government Financial Reporting Manual (FREM) and are based on IFRS standards with adaption for the public sector. Although there are some differences in adaptations and interpretations of some standards for Arm's Length Bodies, staff would not classify this as a differential reporting regime.
22. However, for the private sector and for non-public sector PBEs, the Financial Reporting Council (FRC) sets the accounting requirements and there are multiple tiers of accounting. Tier 1 is based on IFRS standards and is known as UK-adopted international accounting standards.
23. Tier 2 is a Reduced Disclosure Framework and is set out in [FRS 101, Reduced Disclosure Framework Disclosure exemptions from adopted IFRS for qualifying entities](#).
24. Tier 3 accounting is set out in [FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland](#). FRS 102 aims to provide entities with succinct financial reporting requirements. FRS 102 is based on IFRS for SMEs as first issued in 2009. However, the FRC substantially modified the requirements in both the scope of which entities are eligible to apply it and in terms of the accounting treatments provided. A summary of significant differences between FRS 102 and IFRS for SMEs is provided on the FRC website and can be accessed [here](#).
25. Tier 4 accounting requirements are set out in [FRS 105, The Financial Reporting Standard applicable to the Micro-entities Regime](#). This FRS is intended for use in the preparation of financial statements that qualify for the micro-entity regime (addressed in [Agenda Item 11.2.3](#)).
26. FRS 105 applies the recognition and measurement requirements of FRS 102, adapted when necessary to reflect the legal requirements of the micro-entities regime and simplified further to reflect the size and nature of micro-entities. For example, FRS 102 requires investment property to

be subsequently measured at fair value. While the FRC considered that where practicable all investment property should be measured at fair value, company law prohibits the revaluation of any asset by micro-entities and instead requires that fixed assets are measured at cost less depreciation and impairment. As such, in this instance the measurement requirement of FRS 105 deviates from FRS 102.

27. Therefore, for the accounting requirements for entities covered by FRC standards a mixed approach as set out in paragraph 3(c) is utilized. [Agenda Item 11.2.3](#) will address which entities are eligible to apply which standard.

***Other jurisdictions***

28. Staff surveyed some Board member jurisdictions to determine:
- (a) If there was a differential reporting in either the private or public sector; and if so
  - (b) What type of relief was given;
    - (i) Simplified accounting requirements;
    - (ii) Reducing the disclosure requirements; or
    - (iii) Both.

29. A summary of the responses from members is attached as Appendix A.

***Conclusion***

30. As mentioned, this paper is intended to provide a background to approaches taken by other jurisdictions for differential reporting. The intent is to provide some context for the Board to discuss which type of relief would be appropriate to use for public sector entities.

**Decision**

31. For information only. No decision required.

## Agenda Item 11.2.2

### Appendix A

#### Summary of responses initial research

	Brazil	China	Germany	Japan	Philippines	South Africa <sup>2</sup>	Sweden	Switzerland	Tanzania
<b><i>Is there differential reporting?</i></b>									
Private Sector	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Public sector			No		Yes	No	No	Yes	
<b><i>What type of relief is provided?</i></b>									
Simplified accounting	Yes	Yes	Yes	Yes	Yes	N/A	Yes	Yes	Yes
Reduced Disclosures	Yes	Yes	Yes	No	Yes	N/A	Yes	Yes	Yes
Both	Yes	Yes	Yes	No	Yes	N/A	Yes	Yes	Yes

<sup>2</sup> Discussions with staff from South Africa revealed that a project on differential reporting for the public sector had commenced twice but as of yet no differential reporting regime has been developed.

## **Differential Reporting - Application of Tiers**

### **Purpose**

1. The purpose of this paper is to provide the IPSASB with an overview of the criteria used by some jurisdictions to determine which entities are eligible to apply a differential reporting regime. This information is provided to promote IPSASB discussion.

### **Background**

2. [Agenda Item 11.2.1](#) noted two issues that will need to be resolved as part of the Differential Reporting project. The second issue, which is the topic of this paper, is what criteria should be applied to determine which entities are eligible to apply differential reporting.
3. Staff have reviewed several jurisdictions and determined that there are several approaches to make this determination. Staff identified the following approaches:
  - (a) Whether an entity has public accountability or not;
  - (b) Determining eligibility based on an element, or combination of elements such as size, turnover, number of employees etc.; and
  - (c) The determination is made through legislation (not through an accounting standard).

### **Analysis**

4. To promote discussion on this issue, staff reviewed jurisdictions to determine what criteria is used to decide which entities are eligible to apply differential reporting.

### ***International – International Accounting Standards Board (IASB) - IFRS for SMEs***

5. Paragraphs 1.1 – 1.7 of *IFRS for SMEs* provides the details of entities for which this standard is intended to apply.
6. As a summary, it is intended for use by small and medium-sized entities (SME). A SME is described as those entities that:
  - (a) **Do not** have public accountability; and
  - (b) Publish general purpose financial statements for external users.
7. An entity has public accountability if:
  - (a) 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
  - (b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
8. The complete section that addresses the description of small and medium-size entities is provided at [Appendix A](#) of this paper.

## **Australia – Australian Accounting Standards Board (AASB)**

9. Although Tier 2 requirements for Australian entities is set out in [AASB 1060, General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#) (as noted in [Agenda Item 11.2.2](#)), the application of accounting standards is set out in [AASB 1053, Application of Tiers of Australian Accounting Standards](#).
10. AASB 1053 also uses the concept of public accountability and forms part of the criteria used to determine which entities should apply Tier 1 or Tier 2. Paragraphs 13-16 provide the application of Tier 2 reporting requirements and can be found in full at [Appendix B](#) of this paper. However, the next paragraph provides a summary.
11. Tier 2 reporting requirements shall, as a minimum apply to the general purpose financial statements of the following types of entities:
  - (a) For-profit private sector entities that do not have public accountability;
  - (b) Non-for-profit private sector entities; and
  - (c) Public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

## **New Zealand – New Zealand Accounting Standards Board (NZASB)**

12. The NZASB has also used public accountability as one factor to determine which entities should apply differential reporting. The other element used is to make a distinction based on the level of expenses an entity incurs.
13. The following table illustrates the criteria that must be satisfied to meet a particular tier of accounting requirements in New Zealand. This table is included in [Explanatory Guide A1: Guide to Application of the Accounting Standards Framework \(EG A1\)](#).

Tier	Tier Criteria	Standards Set
<b>For-profit Entity Tiers and Requirements</b>		
Tier 1	<ul style="list-style-type: none"> <li>Has public accountability; or</li> <li>Is a for-profit public sector entity that has total expenses &gt;\$30 million<sup>3</sup></li> </ul>	NZ IFRS
Tier 2	<ul style="list-style-type: none"> <li>Has no public accountability; and</li> <li>Is a for-profit public sector entity that has total expenses ≤ \$30 million</li> </ul>	NZ IFRS Reduced Disclosure Regime (RDR)

<sup>3</sup> Amounts in this table are in New Zealand Dollars

Tier	Tier Criteria	Standards Set
<b>Public Benefit Entity Tiers and Requirements</b>		
Tier 1	<ul style="list-style-type: none"> <li>Has public accountability; or</li> <li>Has total expenses (including grants) &gt; \$30 million</li> </ul>	PBE Standards
Tier 2	<ul style="list-style-type: none"> <li>Has no public accountability; and</li> <li>Has total expenses (including grants) ≤ \$30 million</li> </ul> <i>and elects to be in Tier 2</i>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> <li>Has no public accountability; and</li> <li>Has expenses ≤ \$2 million</li> </ul> <i>and elects to be in Tier 3</i>	PBR SFR-A (PS) or PBE SFR-A (NFP)
Tier 4	<ul style="list-style-type: none"> <li>Has no public accountability; and</li> <li>Has total operating payments of less than \$140,000 in each of the previous two reporting periods (i.e., not a specified not-for-profit entity); and</li> <li>Is permitted by an enactment to comply with a non-GAAP standard</li> </ul> <i>and elects to be in Tier 4</i>	PBE SFR-C (PS) or PBE SFR-C (NFP)

14. The definition of public accountability is the same concept as used in IFRS however there are New Zealand specific requirements. The full concept of public accountability used in New Zealand can be found in [Appendix C](#) of this paper.

## United Kingdom

15. In the United Kingdom for financial reporting by entities other than public sector entities there are four tiers of financial reporting.
- Tier 1 – Full IFRS
  - Tier 2 – [FRS 101, Reduced Disclosure Framework Disclosure exemptions from adopted IFRS for qualifying entities](#)
  - Tier 3 – [FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland](#); and
  - Tier 4 – [FRS 105, The Financial Reporting Standard applicable to the Micro-entities Regime](#).
16. Which entities can apply which tier is not set by the standard-setter (Financial Reporting Council) but is rather established by various legislation. The concept of public accountability is not used and thresholds only apply to micro-entities. The application of the tiers is quite complex as there are some caveats within the relevant legislation. However, the following table provides a summary overview of which entities are eligible to apply which tier of accounting.

Tier	Tier Criteria	Standard(s)
<b>Tier 1</b>	UK-registered listed companies are required to use UK-adopted international accounting standards when preparing their consolidated financial statements.	UK-Adopted IFRS
<b>Tier 2</b>	The individual financial statements of a qualifying entity <sup>4</sup> may apply FRS 101.	FRS 101
<b>Tier 3</b>	Entities that are not eligible to apply FRS 105 and are not required to apply UK-Adopted IFRS may elect to use FRS 102.	FRS 102
<b>Tier 4</b>	FRS 105 may only be applied by micro-entities. A micro-entity is a company established under company law, and must meet certain qualifying conditions. Following are these conditions and a micro-entity cannot exceed two or more of the following criteria.  (a) Turnover: Not more than £632,000 ; (b) Balance sheet total: Not more than £316,000; and (c) Number of employees: Not more than 10.  Certain types of entities, such as charitable companies and parent companies that are required or choose to prepare consolidated financial statements, are excluded from the micro-entity regime and therefore cannot apply FRS 105.	FRS 105

## Conclusion

17. As mentioned, this paper is intended to provide a background to approaches taken by other jurisdictions for which criteria would be appropriate to use to determine which entities could apply a differential reporting regime.

## Decision

18. For information only. No decision required.

<sup>4</sup> For the purposes of FRS 102, a qualifying entity is:

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit and loss) and that member is included in the consolidation.

The following are not qualifying entities:

- (a) Charities;
- (b) Entities that are both required to apply Schedule 3 of the Regulations [The Large and Medium-size Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410)] and have contracts that are within the scope of IFRS 17, *Insurance Contracts*; and
- (c) Entities that are not companies but are both required to apply requirements similar to Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17.

## **Appendix A - International**

### **Extract from IFRS for SMEs**

#### **Description of small and medium-sized entities**

- 1.2 Small and medium-sized entities are entities that:
- (a) do not have **public accountability**; and
  - (b) publish **general purpose financial statements** for external users.
- Examples of external users include **owners** who are not involved in managing the business, existing and potential creditors, and credit rating agencies.
- 1.3 An entity has public accountability if:
- (a) 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
  - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
- 1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.
- 1.5 If a publicly accountable entity uses this Standard, its financial statements shall not be described as conforming to the *IFRS for SMEs*—even if law or regulation in its jurisdiction permits or requires this Standard to be used by publicly accountable entities.
- 1.6 A subsidiary whose parent uses full IFRS, or that is part of a consolidated group that uses full IFRS, is not prohibited from using this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the *IFRS for SMEs*, it must comply with all of the provisions of this Standard.
- 1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this Standard in its separate financial statements on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its consolidated financial statements in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.



## **Appendix B - Australia**

### **Extract from AASB 1053, Application of Tiers of Australian Accounting Standards**

#### **Application of Tier 2 Reporting Requirements**

- 13 Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities:
- (a) for-profit private sector entities that do not have public accountability;
  - (b) not-for-profit private sector entities; and
  - (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.
- These types of entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements.
- 14 Entities applying Tier 2 reporting requirements would not be able to state compliance with IFRSs.
- 15 Whilst Tier 2 reporting requirements are available under this Standard for general purpose financial statements of non-publicly accountable for-profit private sector entities, not-for-profit private sector entities and public sector entities (both for-profit or not-for-profit) other than those required to apply Tier 1 reporting requirements, regulators might exercise a power to require the application of Tier 1 reporting requirements.
- 16 Disclosures under Tier 2 reporting requirements are the minimum disclosures required to be included in general purpose financial statements. Entities may include additional disclosures using Tier 1 reporting requirements as a guide if, in their judgement, such additional disclosures are consistent with the objective of general purpose financial statements.

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**Public accountability** – an entity has public accountability if:

- (a) 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
- (b) it holds assets in a fiduciary capacity for a board group of outsiders as one of its primary businesses.

## **Appendix C – New Zealand**

### **Extract from Explanatory Guide A1: Guide to Application of the Accounting Standards Framework (EG A1)**

- 60 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. The definition, is the same as that used for the for-profit tier structure. In general, an entity has public accountability if it:
- (a) Meets the IASB definition of public accountability, i.e.:
    - (i) 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
    - (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); and
  - (b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.
- 61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.