



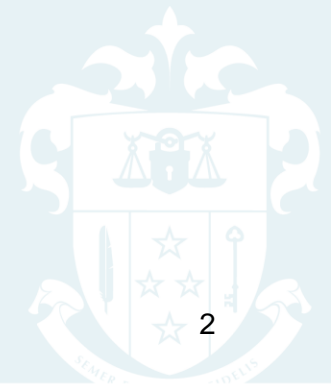
Financial Reporting and Auditing Conference  
Victoria University of Wellington  
October 2010

# Segmented Financial Reporting: Implications for NZICA

*Patricia McBride*  
*Director, Accounting Standards - NZICA*



**THE OPINIONS IN THIS  
PRESENTATION  
ARE THOSE OF THE SPEAKER.  
THEY ARE NOT TO BE  
ATTRIBUTED TO NZICA**



- Context
- Lessons from the past
- Implications
- Putting it all together



## SEM Outcomes Framework

- For profit entities alignment – 2 years
- Private sector not-for-profit entities alignment – 5 years  
(is this one likely to be useful??)



## Regulation

- Present – Securities Commission, Companies Office, NZICA etc
- Proposed – Financial Markets Authority, Changes to auditor oversight, NZICA etc



## International Impacts

- IASB directing efforts towards listed multi-national companies
- Likelihood that IFRSs will increase in complexity
- IPSASB has been converging with IFRSs. Complexity of potential public sector specific standards unclear



## Standard Setters

- Present                      FRSB / ASRB, PSB
- Proposed                    XRB / NZASB / NZAuASB,  
Successor to PSB



## Form of Segmentation

- Existing standards are segmented within standards  
(PBE, differential reporting, Old GAAP)
- Discussion paper proposal – multiple sets of standards





# REMEMBER THE MODEL

<b>For-Profit</b>	<b>Public Sector</b>	<b>Not-For-Profit</b>
Tier 1 IFRSs	Tier 1 IPSASs	Tier 1 NFP Application
Tier 2 Differential IFRSs/ IFRS for SMEs	Tier 2 Differential IPSASs	Tier 2 Differential NFP
	Tier 3 Simple Format Reporting	Tier 3 Simple Format Reporting

## NZICA / ICAA Collaboration

Initial areas of focus:

- Chartered Accountants program
- Products and services for members
- Joint marketing activities
- Shared IT systems



## What can we learn from implementation of IFRSs?

Extracts relevant to New Zealand from:

*Challenges and Successes in Implementing IFRSs*, IFAC,  
September 2004



## Success Factors

- Good relationships and cooperation among all stakeholders (including preparers, auditors, users, regulators, governments)
- Consideration of SMEs and SMPs and their needs



## Success Factors

- NZICA provides training for members
- NZICA educates analysts and journalists
- Organisation of forums by industry sector to discuss issues



## Actions – NZICA as member body

- Assist government, regulators and XRB
- Create awareness and expand the knowledge of students, members and others affected by the change



## Actions – NZICA as Regulator

- Establish an environment that provides for compliance
- Efficient and effective action to increase the consistency and quality of compliance with standards



# IMPLICATIONS

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## CA PROGRAM

New Zealand	Australia
4 year degree	3 year degree
Foundations PAS / PCE2	Technical modules Capstone
3 years practical experience	



## Pre-entry Qualifications

- Need to work with tertiary institutions to ensure appropriate entry standards



## CA Program

- Impact of differences between Australian and New Zealand standards on common course content (Australian RDR, Australian adoption of IPSASs?)
- If standards diverge, will benefit of common training and experience be lost (already have unavoidable differences, especially taxation)?



## Members

- Members operate throughout the financial reporting supply chain:
  - Preparers
  - Auditors
  - Users of financial reports (for themselves and/or clients)
  - Regulators
- NZICA responsibilities are to all members:
  - 3 colleges – CA, ACA, AT
  - Within college, varying degrees of members' knowledge



## Member Services

- CPD: Standards diverging between Australia and New Zealand may lose SEM benefits (should NZICA run courses on Australian GAAP?)
- Tools:
  - Preparation of financial statements
  - Audit
  - Analysis and interpretation



## Member Services

- Active participation in standard setting processes and regulatory developments
- Technical support: interpretation and application of standards



## Regulation

- Practice review: auditors of issuers
- Practice review: other financial reporting activities
- Professional conduct/discipline



## Standards

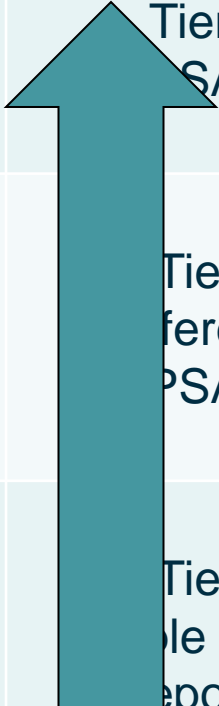
- Principles-based and preferably based on the same principles. Concerns:
  - Medium term potential for divergence of IASB and IPSASB conceptual frameworks
  - Potential for rules-based standards and the difficulties of working with multiple sets of rules
  - Start with simple first?
- No ability to cherry-pick between suites of standards, but with ability to opt-up (and maybe required then to stay at higher level?)





# SIMPLE TO COMPLEX?

For-Profit	Public Sector	Not-For-Profit
Tier 1 IFRSs	Tier 1 SASs	Tier 1 NFP Application
Tier 2 Differential IFRSs/ IFRS for SMEs	Tier 2 Differential PSASs	Tier 2 Differential NFP
	Tier 3 Simple Format Reporting	Tier 3 Simple Format Reporting



# Or COMPLEX TO SIMPLE?

For-Profit	Public Sector	Not-For-Profit
Tier 1 IFRS	Tier 1 IPSAS	Tier 1 NFP Application
Tier 2 Differential IFRSs/ IFRS for SMEs	Tier 2 Differential IPSASs	Tier 2 Differential NFP
	Tier 3 Simple Format Reporting	Tier 3 Simple Format Reporting

## Transition to XRB Standards

- Simple transition from existing standards
- Well balanced messages:
  - Not over-stating changes so the new standards look impossible
  - Not understating the amount of change so that they are ignored



## Transition to XRB Standards

End (beginning) of civilisation

Christchurch effect

**Somewhere about here?**

No change



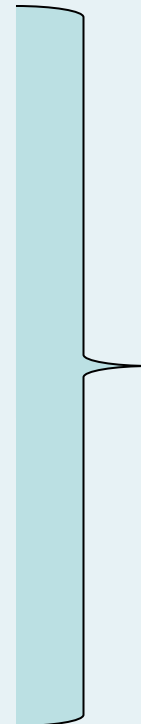
## Transition to XRB Standards



End (beginning) of civilisation

Christchurch effect  
**Or here?**

No change



Which  
message?



## Accountants

- Ability to work across different jurisdictions and sectors of the economy or specialisation?
- Ability to speak international accounting language(s)?
- Intelligent users of standards?



## Regulators (including NZICA)

- Understanding of principles
- Understanding of relevance of standards in different parts of the economy
- Understanding materiality
- Accepting preparers and auditors need learning period



## How much will really change?

- Multiple sets of standards won't change:
  - Was OLD GAAP / NZ IFRSs with PBE and differential reporting plus FRO
  - Will be IFRSs / Enhanced IFRSs / IPSASs plus differential reporting plus ....
- People don't like change:
  - Were asking for rules/certainty
  - Likely to still be seeking rules/certainty
  - Will still dislike change



## How much will really change?

- Specialisation likely to remain:
  - New audit regulation likely to encourage audits of issuers to be performed by larger firms
- Can regulators change?
- IASB / IPSASB changes in standards more likely to have significant impact than move to XRB
- Impact of technology?



# If life will continue much as before

1. How can we avoid the errors of the past?
  - Keep it simple – IFRSs pushed down to small companies
  - Provide understandable financial statements
2. Provide extensive, early and effective education to all in the financial reporting supply chain
3. With standard setting moving to XRB, NZICA can take the opportunity to educate and provide technical support to members
4. Encourage regulators to educate before they litigate



# THANK YOU

20 October 2010

