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14 December 2012

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Dear Tony

Invitation to Comment: PBE Standards for Public Sector PBEs

Grant Thornton New Zealand Limited (Grant Thornton) is pleased to provide the External Reporting Board (XRB) with its comments on the External Reporting Board PBE Standards for Public Sector PBEs (the ED). We have considered the ED along with the accompanying Invitation to Comment (ITC) and set out our comments below. We have also responded to specific questions raised in the ITC in Appendix I.

Grant Thornton's response to both the ED and the ITC reflects our position as auditors and business advisers to both large and medium-sized Public Sector Public Benefit Entities (PBEs) in New Zealand.

Opening remarks

The director community in New Zealand is currently focused on the authorisation of financial statements that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Our observation is that this community may be frustrated by the need to monitor and understand two financial reporting frameworks at different stages of development, one being based on International Public Sector Accounting Standards (IPSAS) and the other being based on International Financial Reporting Standards (IFRS). While the XRB, in our opinion, has done a good job so far in publicising the imminent changes to financial reporting in the public sector, we believe it is essential that the momentum of change it has generated over the last 18 months or so is not lost.

While we recognise that the two frameworks (i.e. IFRS and IPSAS) have essentially "the same DNA" we believe that directors of public sector entities may put pressure on their public sector accountants to explain any differences from current practice (based on NZ IFRS). More specifically they will likely be asked to demonstrate why the differences arising from using IPSAS results in more useful and accurate information being provided to users of public sector PBE financial statements. To solve this, we believe it is essential that the XRB continues to draw attention to the recognition, measurement, presentation and disclosure differences between the two regimes and explain why they are necessary.

We anticipate that some tension will exist in the New Zealand governance community because of differences between the two frameworks, particularly in the perceived delay of IPSAS adopting new standards and amendments issued under IFRS.

Directors of public sector entities may need to be re-educated on what may be perceived by many as "old NZ IFRS" standards (because the PBE standards we are introducing into New Zealand are based on IPSAS which have been converged with IFRS but are excluding new requirements introduced subsequent to 31 December 2008). With these implementation delays an issue we can see directors at audit committee meetings asking whether or not the XRB is promoting best-practice financial reporting in the public sector when IPSAS lags IFRS by such a long period. In essence, none of the post GFC changes introduced by the IASB have been reflected in IPSAS, so as a director of a Public Sector PBE one has to question whether this is strategic weakness given the significant changes to IFRS that have been made since 2008.

Convergence of IPSAS with IFRS

We note the PBE standards which have primarily been based on IPSAS issued by the IPSASB are in many respects consistent with IFRS issued by the IASB (and therefore consistent with the proposed framework for for-profit entities in New Zealand). However, upon our review of the individual 39 EDs it was evident they did not include any of the IFRS amendments or new standards issued by the IASB over the last 4 years, and the majority of the current IASB EDs are not featured on in the IASB Work Program 2013-2014.

Upon review of the IPSASB Work Plan 2013-2014 we note no changes to IPSASs has occurred in relation to IFRS amendments since the completion of the IPSAS convergence project in late 2009. The IPSAS Convergence Project substantially converged IPSASs with IFRSs issued as at 31 December 2008. Since this date IFRSs have been subject to significant tranches of new standards and amendments, with more than 600 pages of new or revised requirements and changes to nearly 30 standards. These changes appear to have not been considered by IPSASB. Recently issued new IFRS requirements and EDs have been issued in the wake of global financial crises, including the specific areas of financial instruments, consolidation, leases and revenue recognition.

Our concern is that there is a significant time lag between IFRS developments and their consideration by the IPSASB. While on one hand we accept the financial reporting user needs and risks in the public sector are in many respects different from the for-profit sector, on the other hand they do share similar characteristics and operate in the same markets (i.e. both the for-profit and public sector have an expectation of disclosing the risks in relation to financial instruments and how those risks are being managed). At a minimum we would expect standards issued by the IASB to be considered by the IPSASB in a timely fashion (say 12 months) and incorporated into IPSAS (and accordingly adopted by the XRB) after making necessary amendments to ensure the standards are appropriate for the public sector.

Given the time lag between IFRS amendments being considered by the IPSASB we draw attention to the following:

- Comparability between the for-profit and public sector is inhibited, which is unhelpful given the size of the public sector and impact on the New Zealand economy. In addition consolidation of for-profit and PBEs by various parent entities and the Crown may become more complicated.

- Many of the significant changes to IFRS over the last 4 years and in recently released standards (that have not been reflected in the PBE standards) have been as a result of addressing criticisms of financial reporting in the wake of the global financial crises. It is widely accepted that significant improvements were needed.

- As a strategy policy level we are concerned the 3 – 4 year time lag between IASB issuing new standards and amendments and these being considered by IPSASB is not appropriate given the significant size of the public sector in New Zealand.

Local interpretations and implementation guidance

We note the PBE standards have incorporated many of the IFRICs and SICs issued by the IASB within the applicable standards as implementation guidance. These interpretations typically provide specific guidance for complex transactions where further guidance was deemed required ensuring consistency in application of the standards.

The IPSASB does not at present have an equivalent body issuing interpretation guidance in the form of equivalent IFRICs or SICs; hence we raise the question in regards to who will be responsible for establishing interpretation guidance for the PBE Framework moving forward after first-time adoption? While in the past the Office of the Auditor-General (OAG) has actively recognised IFRICs and SICs applying NZ IFRS for the public sector, will they continue to do so for public sector PBEs when IPSAS comes into effect?

Our preference is that that the XRB, rather than the OAG, should take the lead responsibility for providing interpretation and implementation guidance of IPSAS.

Financial Instruments

The PBE Public Sector is a huge borrower of funds. It also holds significant investments where the risks associated with these financial instruments requires clear disclosures, similar to the expectation of disclosures provided in the for-profit framework (in many respects the Public Sector has higher expectation in regards to volume of disclosures). In light of the GFC and the current sovereign debt crisis in certain parts of the world, the IASB has been actively pursuing the completion of enhancements to its financial instruments standards.

To date the IASB Financial Instruments Project has resulted in amendments to NZ IFRS 7 *Financial Instruments: Disclosures* and the completion of parts of NZ IFRS 9 *Financial Instruments*. These enhancements have been issued by the IASB to promote increased transparency while decreasing complexity, but none of this has yet been incorporated with the proposed PBE standards for New Zealand.

We also note the IPSASB Work Program 2013-2014 does include a financial instruments project on its agenda due to resource constraints. We are therefore concerned that the proposed PBE standards include requirements in relation to financial instruments that are out of touch with the current environment and do not address key issues such as impairment of receivables and loans (e.g. provisioning for collectability of student loans on an expected loss basis rather than an incurred loss basis).

Although the XRB may be reluctant to pre-empt the amendments to IPSAS, our concern is that financial reporting issues arising from the GFC will not be addressed on a timely fashion if the PBE Framework is issued based on "aged" PBE standards (in comparison to IFRS).

We put forward the following question for consideration by the XRB: what is worse outcome?

- changing NZ IPSAS on a timely basis to align with IFRS developments (where changes are applicable to PBE Public Sector) and making subsequent amendments when the IPSAS equivalent amendment is issued at a later date; or

- delaying the development of the PBE standards until the IPSASB has issued an amended standard.

Without unnecessarily complicating the situation, we would encourage the XRB to consider the incorporation of recent IFRS amendments into PBE Standards where applicable to the Public Sector. We would like to see IFRS amendments and new standards issued by the IASB being considered by the XRB on a case-by-case basis, and upon review of its merits we think they should be adopted early into PBE standards before being considered by the IPSASB. We see this position being especially important for Tier 1 Public Sector Entities, given the size of their footprint in the NZ capital market.

Tier 2 and RDR

We have previously noted a number of concerns in relation the proposed reduced disclosure regime (RDR) in our submission on the for-profit framework because we feel that recognition and measurement concessions noted in *IFRS for SMEs* have the potential to generate substantial savings for Tier 2 reporting entities. We feel this conclusion is equally applicable to the PBE Public Sector.

As an interim measure we agree the RDR proposals are appropriate under the PBE Framework; however as a separate exercise we would like to see the XRB formally assess and evaluate potential compliance cost savings through modifying the current Tier 2 PBE Standards measurement and recognition rules to mirror what is in the *IFRS for SMEs*.

We encourage measurement and recognition concessions being provided to Tier 2 entities as an accounting policy choice, similar to current approach taken under Differential Reporting where reporting entities have the option to choose which concessions are applied. Notwithstanding many public sector PBEs require consolidation into Crown Accounts (and therefore recognition and measurement concessions need to be standardised), many small local authorities do not have the same reporting imperatives. As a standard setter we believe the XRB has an obligation to reduce compliance costs across as many Tier 2 and Tier 3 reporting entities as possible.

Fresh start accounting
Having identified deficiencies in NZ IFRS as an appropriate basis for financial reporting for PBE Public Sector (and hence the issue of PBE Standards), there is a certain irony that NZ IFRS accounting policies currently applied, may be required to be carried forward upon first-time adoption of PBE Standards.

Our view is that entities should not be prohibited from selecting an entirely new basis of accounting, if it is seen to produce more relevant and reliable information in the context of the Public Sector. Put another way just because historical cost for example is currently used to account for land and buildings, this should not pre-determine the consideration of another basis of accounting available under the PBE standards e.g. fair value.

Closing remarks
We have printed off the 38 EDs available via your website and it is useful to be able to access digitally all the standards with relevant additional documents also attached (i.e. Basis for Conclusions). However, we think it is essential that the XRB publish a bound hard copy of these standards well ahead of adoption date.

While we acknowledge the XRB is not a publishing house, we raise the question whether there are plans to provide bound volumes of the standards on an annual basis, similar to the IASB and IPSASB. Traditionally the New Zealand Institute of Chartered Accountants (NZICA) has published the annual "Applicable Financial Reporting Standards" on an annual basis for NZ IFRS. Who will take responsibility for providing accountants, finance managers and students with a comprehensive hard-copy of the applicable NZ PBE Standards for the Public Sector?

A ready reference is important for posterity and so we encourage the XRB to make plans to provide a printed version of the standards. We are sure we will not be alone in wanting a bound volume (or volumes) of the PBE Public Sector Standards.

Responses to specific questions posed by the Board are answered in Appendix 1 to this letter.

If you have any questions, or would like us to amplify any of our comments on the ITC or the ED, please feel free to make contact with either one of us.

Yours sincerely
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Appendix 1 - Feedback on specific questions

Appendix I provide comments on specific questions raised in the Invitation to Comment on the PBE Standards for Public Sector PBEs Exposure Drafts.

The comments provided are based on our review of the suite of 39 standards that the New Zealand Accounting Standards Board (NZASB) proposes will comprise Public Sector PBE Standards for Tier 1 and Tier 2 entities. Comments related to specific matters within the ED are referenced to the specific paragraph to which they relate.

Feedback on specific questions asked

Question One
Are there any significant requirements in any of the proposed PBE Standards that you consider to be inappropriate in the New Zealand environment? If yes, please specify the standard, the paragraph concerned, and the problem with the requirement, an alternative(s) to the requirement and the reasons why the alternative is more appropriate than the original requirement.

Response

Comments on each separate PBE ED are provided below. We have highlighted any proposed requirements which we deem inappropriate in the New Zealand environment. In addition we also highlight differences between the PBE ED and the corresponding NZ IFRS where we consider these differences are not appropriate.

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
IPSAS 1	Presentation of Financial Statements	**(a) Equivalent NZ IFRS paragraph not included in PBE IPSAS:** The following NZ IAS 1 *Presentation of Financial Statements* requirement has been omitted from the corresponding PBE IPSAS standard: *NZ IAS 1.40A: An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements.* **Reason why the NZ IFRS requirement is deemed appropriate for PBE IPSAS:** The requirement of the third balance sheet has been subject to extended debate since it was introduced through amendments to NZ IAS 1 in 2007. We suggest the merits of disclosing the third balance sheet be considered by the XRB for Tier 1 PBE entities (and an exemption be provided for Tier 2 entities). Where retrospective adjustments have been made to opening equity positions, the revised numbers should be presented on the face of the Statement of Financial Position with additional note disclosure as required by PBE IPSAS 3. **Suggested alternative:** Additional requirement added to PBE IPSAS 1: "An entity shall present a third statement of financial position as at the beginning of the preceding period when: (i) it applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements; and (ii) the retrospective restatement resulted in a material adjustment to the net asset position previously reported at the beginning of the preceding period." Our suggested additional paragraph for Tier 1 PBE entities specifically removes references to "reclassifications" as provided in NZ IAS 1. This ambiguous term has been removed to ensure a third balance sheet is only required under the PBE Framework where there has been a material amendment to previously reported numbers for the beginning of the preceding period.

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	(b) Statement of Comprehensive Income does not exist under IPSAS: PBE IPSAS 1 requires the presentation of a statement of financial performance whereas NZ IAS 1 requires the preparation of a statement of comprehensive income (or two statements, statement of financial performance and statement of comprehensive income). The result under PBE IPSAS 1 is certain items of income and expenses are excluded from the reported surplus or deficit and recognised directly in the statement of changes in equity. Movements permitted to be recognised directly in the statement of changes in equity are defined in other PBE standards, and is consistent with other comprehensive income movements permitted under NZ IAS 1. **Problem with current requirement:** We agree that a statement of comprehensive income is not appropriate for the PBE Public Sector and would add little value to the usefulness of financial statement disclosures. However we are concerned the current ED may result in entities reporting more income and expense movements directly through the statement of changes in equity than is permitted within the individual IPSAS standards. Currently PBE IPSAS 1 paragraphs 99 – 101, provide guidance on items of income and expenses that shall be included in the reported surplus and deficit. This guidance highlights there are "circumstances" where a particular item may be excluded and provides "examples" of items that meet the definition of income and expenses, but are usually excluded from the reported surplus or deficit. **Suggested alternative:** We suggest PBE IPAS 1 include a definitive (and comprehensive) list of revenue and expense items where other standards require the movement to be recognised in the statement of changes in equity, this list would be referenced to the applicable standard.

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	A clear statement should be provided, that unless the revenue and expense movement is included in the list provided with PBE IPSAS 1, it shall be recognised in the reported surplus or deficit. A similar approach is taken under NZ IAS 1: the components of other comprehensive income are listed in paragraph 7 under definitions. A similar definition is, however, not provided under the NZ IPSAS 1 for income and expense items excluded from the surplus or deficit.
IPSAS 2 Cash Flow Statements	No concerns noted in relation to proposed requirements.
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	No concerns noted in relation to proposed requirements.
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	No concerns noted in relation to proposed requirements.
IPSAS 5 Borrowing Costs	No concerns noted in relation to proposed requirements.
IPSAS 6 Consolidated and Separate Financial Statements	**General comments:** We anticipate the determination of controlled entities requiring consolidation in Group financial statements under both NZ IPSAS and NZ IFRS will be consistent in most cases. We are pleased to note IPSAS 6 has a focus on defining control from a Public Sector and PBE context with useful examples. The detailed application guidance will also assist in the determination of controlled entities. Refer to further comments provided to question 14. **Additional requirements suggested:** NZ IAS 27 *Consolidated and Separate Financial Statements (*and NZ IFRS 10 *Consolidated Financial Statements)* establishes the parent entity accounting requirements for changes in ownership interests where control is retained and when it loses control of a subsidiary entity. Similar guidance is not provided by IPSAS 6.

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	While movements in ownership interests of subsidiaries in the PBE Public Sector may prove rare, the need to account for these types of transactions will arise from time-to time. **Suggested alternative:** We suggest either the applicable NZ IFRS paragraphs be incorporated into the PBE IPSAS, or at a minimum PBE IPSAS 6 highlight NZ IFRS should be used as authoritative support for these types of transactions.
IPSAS 7 Investments in Associates	**General comments:** We are comfortable that the definition of significant influence used to determine an associate investment will result in the same conclusions being drawn under both the for-profit (IFRS) and PBE entities (IPSAS) frameworks. While it has been noted that PBE IPSAS 7 technically has a narrower scope than NZ IAS 28, we do not think this will result in differences in practice. We do however raise concerns about some differences between the PBE IPSAS and NZ IFRS in relation to loss of control of associate investments, as discussed below. **(a) Additional guidance recommended:** We note PBE IPSAS 7 does not provide direct guidance for the accounting for the loss of significant influence in an associate, especially the calculation of the gain or loss recognised in the statement of financial performance. Guidance on the appropriate accounting treatment is provided in NZ IAS 28 *Investments in Associates*. These requirements were added to the IFRS standards after amendments were deemed required to avoid a divergence of accounting treatments in practice. **Concerns with current requirements:** The lack of current guidance within PBE IPAS 7 for the accounting for loss of significant influence in an associate may lead to preparers reaching unintended conclusions based on their own application of the broader principles. We encourage guidance be added to the PBE Framework to avoid any divergence

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	from current practice and ensure consistency with the New Zealand's For-Profit Framework. **Suggested alternative:** The explicit requirements for accounting for loss of significant influence of an associate provided within NZ IAS 28 paragraphs 18, 19 and 19A either be incorporated within the context of PBE IPSAS 7 or provided through additional application guidance. The application guidance could be added as an appendix and therefore ensuring PBE IPSAS 7 is consistent with "pure" IPSAS as issued by the IPSASB. **(b) Additional guidance recommended:** We note under PBE IPSAS 7, on loss of significant influence of an associate requires an investor to use the carrying amount of the investment retained in the former associate as the cost on initial recognition, contrast this with NZ IAS 28 which requires the determination of the fair value of the investment retained at the date in which significant control is lost. **Concerns with current requirements :** The current potential difference in how to calculate the gain or loss on de-recognition of an associate investments and the subsequent carrying value of the investment retained, under PBE IPSAS and NZ IFRS should be resolved. The non-fair value re-measurement of the retained investment at the date in which significant influence is lost has potentially a two-fold impact: • The true economic reality of the sale of the ownership interest will not be recognised in the reported profit or loss, if the ownership interest is sold at a premium or discount price. • The carrying value of the retained investment will be carried at a deemed cost value that is potentially under/over stated, due to carrying value not reflecting the fair value at the date in which significant influence is lost. This point is important because PBE IPSAS 29 allows investments in equities when an active market does not exist to be subsequently carried at cost, therefore any

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	difference will not be corrected in subsequent reporting periods. We consider measurement and recognition differences between PBE IPSAS and NZ IFRS are only appropriate where they exist due to the nature of PBE activities and risks. In this case there does not appear a valid reason for the difference. **Suggested alternative:** Consideration be given to amending PBE IPSAS 7 to ensure the measurement of the retained investment in a former associate after loss of significant influence is converged between PBE IPSAS and NZ IFRS. As per NZ IAS 28.18: "…On loss on significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between: (a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and (b) the carrying amount of the investment at the date when significant influence is lost."
IPSAS 8 Interests in Joint Ventures	**General comments:** We are comfortable that the recognition and accounting for joint ventures under both PBE IPSAS and NZ IFRS will be consistent in most cases We do however raise concerns to differences between the PBE IPSAS and NZ IFRS in relation to differences of accounting when a venturer loses joint control of a joint venture. **(a) Additional guidance recommended:** We note PBE IPSAS 8 does not provide direct guidance for the accounting for the loss of control of joint ventures, especially the calculation of the gain or loss recognised in the statement of financial performance. Guidance on the appropriate accounting treatment is provided in NZ IAS 31 *Interest in Joint Ventures*, which requires initial measurement of an investment in a previously

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	jointly control entity to be fair value. **Concerns with current requirements:** We are concerned that the lack of guidance in PBE IPSAS 8 for accounting for loss on control of a joint venture will lead to a divergence in practice from the for-profit sector and may lead to unintended practices. We also note IPSAS PBE 8 is silent on the initial carrying value of the joint venture investment when control is lost (i.e. is it fair value, cost or some other measurement?). **Suggested alternative:** Consideration is given to amending PBE IPSAS 7 to ensure the measurement of the retained investment in a former associate after loss of significant influence is converged between PBE IPSAS and NZ IFRS. The specific paragraphs within NZ IAS 31, addressing these transactions are NZ IAS 31.45 and 45A.
IPSAS 9 Revenue from Exchange Transactions	No concerns noted in relation to proposed requirements.
IPSAS 10 Financial Reporting in Hyperinflationary Economies	No concerns noted in relation to proposed requirements. **General comments:** While we have noted there a number of substantive differences between PBE IPSAS 10 and NZ IAS 29 *Financial Reporting in Hyperinflation Economies,* we agree with the XRB analysis that the differences are not likely to be significant. Furthermore our NZ IFRS experience has demonstrated this standard is rarely applicable to the activities of reporting entities (or their subsidiaries) in the New Zealand Public Sector.
IPSAS 11 *Construction Contracts*	No concerns noted in relation to proposed requirements.

Standard (PBE ED)	Requirement deemed inappropriate or additional requirements suggested
	General comments: We have noted the guidance in NZ IFRIC 15 *Agreements for the Construction of Real Estate,* is not included in PBE IPSAS 11. This IFRIC is significant for reporting entities engaged in the construction of real estate for the purpose of subsequent sale, because it provides interpretation guidance for when revenue from the construction of real estate is recognised. We agree with the XRB that this interpretation will be rarely applicable to public sector PBEs, given the construction of real estate is typically undertaken by for-profit entities. In circumstances when public sector PBE entities are judged to be engaged in construction of real estate, NZ IFRIC 15 should be considered as authoritative support, in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors.*
IPSAS 12 Inventories	No concerns noted in relation to proposed requirements. **General comments:** We agree with the XRB, that consistent with NZ IAS 2, PBEs should continue to be required to measure inventories at cost, adjusted when applicable for any loss of service potential.
IPSAS 13 Leases	No concerns noted in relation to proposed requirements based on current practice. **Future changes to lease accounting:** We note the IASB project plan includes Leases, which has been subject to extended debate, with a "Target ED" expected Q1, 2013. The IASB Lease Project includes significant changes to the current accounting for leases; proposals include the removal of operating leases to ensure reporting entities recognise all lease assets and liabilities on their statement of financial position. We consider it important for the accounting of leases to remain consistent between the PBE Framework and the For-Profit Framework. The Government cannot be ignored as a significant lessor in the New Zealand market. We can see no valid reason why the accounting for leases by the PBE public sector should be different than the for-profit sector. Therefore any fundamental changes to lease accounting under NZ IFRS should also be

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
		incorporated into the PBE standards. This may require the adoption of NZ IFRS amendments into PBE standards before any amendments are considered by the IPSASB.
IPSAS 14	Events After the Reporting Date	No concerns noted in relation to proposed requirements.
IPSAS 16	Investment Property	**Concerns with current requirements:** We find it surprising that PBE IPSAS 16 has been modified to require valuation of investment property to be undertaken (or reviewed) by an independent valuer, given this requirement has been removed under the for-profit framework as a result of *Harmonisation Amendments* and this requirement does not exist under "pure" IPSAS. **Suggested alternative:** We encourage a consistent approach to determining fair value as that required by the for-profit framework. Where fair value is not based on an independent valuer, additional disclosure will be required explain how the entity has measured fair value.
IPSAS 17	Property, Plant and Equipment	**Concerns with current requirements:** Again we are surprised that PBE IPSAS 17 has been modified to require valuation of property, plant and equipment (when carried at fair value) to be undertaken (or reviewed) by an independent valuer, given this requirement has been removed under the for-profit framework as a result of *Harmonisation Amendments* and this requirement does not exist under pure IPSAS. **Suggested alternative:** We encourage a consistent approach to determining fair value as that required by the for-profit framework. Where fair value is not based on an independent valuer, additional disclosure will be required explain how the entity has measured fair value.
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	No concerns noted in relation to proposed requirements.
IPSAS 20	Related Party Disclosures	Refer to further responses provided to Question 18.
IPSAS 21	Impairment of Non-Cash-Generating Assets	No concerns noted in relation to proposed requirements.

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
IPSAS 22	Disclosure of Information About the General Government Sector	As per review of the XRB's analysis of the impact of this standard, we note the conclusion the standard is currently not applicable to the Government or any other Public Sector PBE. We therefore question its inclusion within the suite of PBE Standards at this time when other non-applicable IPSASs have been excluded.
IPSAS 23	Revenue from Non-Exchange Transactions	Refer to further responses provided to Question 19.
IPSAS 25	Employee Benefits	No concerns noted in relation to proposed requirements.
IPSAS 26	Impairment of Cash-Generating Assets	No concerns noted in relation to proposed requirements.
IPSAS 27	Agriculture	No concerns noted in relation to proposed requirements.
IPSAS 28	Financial Instruments: Presentation	No concerns noted in relation to proposed requirements. **General comments:** We note there are a number of differences between PBE IPSAS 28 and its equivalent IASB standard, IAS 32 *Financial Instruments: Presentation*. We agree these differences are fairly narrow scope and arise from changes made by the IPSASB to ensure IPSAS 28 is appropriate for the Public Sector.
IPSAS 29	Financial Instruments: Recognition and Measurement	No concerns noted in relation to proposed **current** requirements. **General comments:** We note IPSAS 29 has been based on IAS 39 *Financial Instruments: Recognition and Measurement* issued by the IASB. While IAS 39 is currently effective, it will soon be replaced by IFRS 9 *Financial Instruments*. Following the GFC the measurement and recognition of financial instruments in accordance with IFRS has been subject to extended criticism, namely IAS 39 was highlighted as a standard that was broken and required change. We therefore encourage the XRB to consider the merits of incorporating IFRS 9 within the PBE standards as early as possible. This may mean the inclusion of IFRS 9 within the PBE New Zealand Framework, before IFRS 9 has been considered by IPSASB.

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
		We consider there should only be limited occasions (if any) where differences in the recognition and measurement of financial instruments between the for-profit sector and PBE Public Sector should arise. A scenario where the For-Profit Sector is applying NZ IFRS 9 and the PBE Public Sector is applying PBE IPSAS 29 (converged with NZ IAS 39) is not, in our opinion sustainable, if confidence in the financial reporting of both sectors is to be retained.
IPSAS 30	Financial Instruments: Disclosures	No concerns noted in relation to proposed **current** requirements. **General comments:** We note there are a few differences between PBE IPSAS 30 and its equivalent IASB standard, IFRS 7 *Financial Instruments: Disclosures.* We agree these differences are fairly narrow scope. The PBE IPSAS 30 is largely converged with IFRS 7 (effective 1 July 2011). The IASB has completed amendments to IFRS 7 in the last year and we expect further amendments in the future. We encourage the XRB to consider these amendments on a case-by-case basis when issued by the IASB to consider if they should result in consequential amendments to PBE IPSAS 30.
IPSAS 31	Intangible Assets	No concerns noted in relation to proposed requirements.
IPSAS 32	Service Concession Arrangements: Grantor	No immediate concerns noted in relation to proposed requirements, however given an equivalent standard does not exist under NZ IFRS closely monitoring of it's application in practice will be required. Refer to further responses provided to Question 21.
IFRS 3	Business Combinations	No concerns noted in relation to proposed requirements.
IFRS 4	Insurance Contracts	No concerns noted in relation to proposed requirements.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	No concerns noted in relation to proposed requirements.

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
IAS 12	Income Taxes	**General comments:** We note IPSAS does not have an income tax standard equivalent to NZ IAS 12 *Income Taxes*. Upon review of the IPSASB Work Plan 2013-2014 there appears to be no intention to issue an IPSAS standard on Income Taxes in the near future. We presume this situation has arisen because the IPSASB has taken the view that there is no income tax payable in the Public Sector. From a New Zealand Public Sector context, it is appropriate that an income tax standard be included with the suite of PBE standards. The PBE Public Sector is New Zealand is far reaching and includes certain entities that may be subject to income tax (although we would suggest cases may be rare). We agree including NZ IAS 12 with no amendments to the PBE standards appears to be the most appropriate short-term measure. Where applicable the Public Sector is already is already applying this standard with no significant concerns arising. We encourage the XRB to lobby the IPSASB to include on their Work Plan an income tax standard for the Public Sector. **Concerns:** Our one concern is that a number of Tier 2 Public Sector PBEs are currently reporting in accordance with NZ IFRS and applying differential reporting exemptions, which include an exemption from accounting for deferred tax. Under Tier 2 and RDR no recognition and measurement concessions will be provided and therefore many of these reporting entities will be accounting for deferred tax for the first time. We suggest XRB staff investigate the impact of accounting for deferred tax on Public Sector PBEs and assess whether additional implementation guidance is required.
IAS 34	Interim Financial Reporting	No concerns noted in relation to proposed requirements.
FRS 42	Prospective Financial Statements	No concerns noted in relation to proposed requirements.
FRS 43	Summary Financial Statements	No concerns noted in relation to proposed requirements.

Standard (PBE ED)		Requirement deemed inappropriate or additional requirements suggested
FRS 45	Service Concession Arrangements: Operator	No concerns noted in relation to proposed requirements.
FRS 46	First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs	Refer to further responses provided to questions 5,6,7,8 & 9.
FRS 47	First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs	Refer to further responses provided to questions 5,6,7,8 & 9.

Question Two
Do you consider that any of the standards within NZ IFRS that have been omitted from the suite of PBE Standards should be included? If so, which ones and why?

Response

NZ IFRS omitted from PBE Standards		Comments on non-inclusion
NZ IFRS 2	Share-based Payments	We agree this standard would be rarely applicable to a Public Sector PBE. Where applicable the NZ IFRS standard would be required to consideration in accordance with PBE IPAS 3 *Accounting Policies, Changes in Accounting Estimates.* No further concerns noted.
NZ IFRS 6	Exploration for and Evaluation of Mineral Resources	We agree this standard would be rarely applicable (if ever) to a Public Sector PBE. Where applicable the NZ IFRS standard would be required to consideration in accordance with PBE IPAS 3 *Accounting Policies, Changes in Accounting Estimates.* No further concerns noted.
NZ IFRS 8	Operating Segments	Further consideration should be given to its inclusion. **Discussion:** We note NZ IFRS 8 is only applicable to reporting entities under the For-Profit Framework that have issued (or are in the process of issuing) debt or equity instruments in a public

NZ IFRS omitted from PBE Standards		Comments on non-inclusion
		market. The non-inclusion of this standard within the proposed PBE Standards gives the impression that all Public Sector PBEs are exempt from the requirement to disclose operating segments. Although rare there are public sector PBEs that have issued debt or equity instruments in a public market (e.g. Canterbury University have issued publicly traded bonds). We are unclear whether it was the XRB's intention to exempt these entities from their current requirement (under NZ IFRS 8) to disclose operating segment information.
NZ IAS 26	Accounting and Reporting by Retirement Benefit Plans	We agree this standard would be rarely applicable to a Public Sector PBE. Where applicable the NZ IFRS standard would be required to consideration in accordance with PBE IPAS 3 *Accounting Policies, Changes in Accounting Estimates.* No further concerns noted.
NZ IAS 33	Earnings per Share	We agree this standard would be rarely applicable (if ever) to a Public Sector PBE. Where applicable the NZ IFRS standard would be required to consideration in accordance with PBE IPAS 3 *Accounting Policies, Changes in Accounting Estimates.* No further concerns noted.

Question Three

Do you agree that the accounting standards applying to Tier 2 public sector PBEs should be an RDR approach, consisting of the same recognition and measurements requirements as those for Tier 1 public sector PBEs but with disclosure concessions? If not, what alternative would you suggest and why?

Response

We **agree** for the time being that the accounting standards applying to Tier 2 public sectors PBEs should be an RDR approach.

We see the merits of having a consistent recognition and measurement framework across all entities within the Public Sector preparing general purpose financial statements. The RDR approach avoids any re-measurement of assets or liabilities when Tier 2 entities are required to move into Tier 1 or when a Tier 2 entity requires

consolidation into a Tier 1 Group. We encourage the XRB to continue to monitor international developments to reduce the volume of disclosures in annual financial statements and introduce additional RDR concessions as deemed appropriate.

Question Four
Do you agree with the disclosure concessions identified by an asterisk (*) in the proposed PBE Standards accompanying this Invitation to Comment? If not, which specific concessions would you add or delete and why?

Response

Standard (PBE ED)		Comments on disclosure concessions
IPSAS 1	Presentation of Financial Statements	**Concession we suggest be deleted:** (i.e. disclosures should be required under both Tier 1 and 2.) (a) Paragraphs 116.1 and 116.2 in relation to fees paid to auditors for various services We consider it important for all users of public sector financial statements (regardless of size) to have an understanding of the fees paid to the audit firm to confirm assurance services provided are not conflicted by other services.
IPSAS 2	Cash Flow Statements	No additional concessions are recommended. **General comments:** We are pleased to note all reporting entities in both Tier 1 and Tier 2 will be required to prepare a cash flow statement. The cash flow statement provides arguably the most useful information in the financial statements due to being relatively unbiased, free from estimation and uncertainty and understandable.
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	No concerns noted in relation to proposed concessions.

Standard (PBE ED)		Comments on disclosure concessions
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	No concerns noted in relation to proposed concessions.
IPSAS 5	Borrowing Costs	No concerns noted in relation to proposed concessions.
IPSAS 6	Consolidated and Separate Financial Statements	No concerns noted in relation to proposed concessions.
IPSAS 7	Investments in Associates	**Concession we suggest be deleted:** (i.e. disclosures should be required under both Tier 1 and 2.) PBE IPSAS 7 paragraph: **43 (c)**: The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence; **43 (d)**: The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence; **43 (h):** The fact that an associate is not accounted for using the equity method in accordance with paragraph 19; We feel that it is important to the users of the financial statements in Tier 1 and Tier 2 to have an understanding of why certain entities have been treated as an associate investment or not.
IPSAS 8	Interests in Joint Ventures	**Concession we suggest be deleted:** (i.e. disclosures should be required under both Tier 1 and 2.) No disclosure concession be provided for part of PBE IPSAS 8.63, i.e. the following requirement should have no RDR concession:

Standard (PBE ED)	Comments on disclosure concessions
	"A venture shall disclose a listing and description of interests in significant ventures and the proportion of ownership interest held in jointly controlled entities". We feel that it is important to the users of the financial statements in Tier 1 and Tier 2 have an understanding of the venture arrangements a reporting entity has entered into and their ownership interests.
IPSAS 9 Revenue from Exchange Transactions	No concerns noted in relation to proposed concessions.
IPSAS 10 Financial Reporting in Hyperinflationary Economies	No concerns noted in relation to proposed concessions.
IPSAS 11 Construction Contracts	No concerns noted in relation to proposed concessions.
IPSAS 12 Inventories	No concerns noted in relation to proposed concessions.
IPSAS 13 Leases	No concerns noted in relation to proposed concessions.
IPSAS 14 Events After the Reporting Date	No concerns noted in relation to proposed concessions.
IPSAS 16 Investment Property	**Additional concessions suggested:** PBE IPSAS 16.87 (a), (b), (c), (d), (f) and (g) PBE IPSAS 16.90 (d) Consistent with the current Differential Reporting Framework we recommend only the gross carrying amount and accumulated depreciation of investment property assets at the beginning and end of the period require disclosure. We recommend disclosure concessions are provided in relation to the requirement to disclose a reconciliation of movements between the opening and closing balances (i.e. additions, disposals).
IPSAS 17 Property, Plant and Equipment	**Additional concessions suggested:** PBE IPSAS 17 (c)

Standard (PBE ED)		Comments on disclosure concessions
		Consistent with the current Differential Reporting Framework we recommend only the gross carrying amount and accumulated depreciation of each class of property, plant and equipment at the beginning and end of the period require disclosure. We recommend disclosure concessions are provided in relation the requirement to disclose a reconciliation of movements between the opening and closing balances (i.e. additions, disposals).
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	No concerns noted in relation to proposed concessions.
IPSAS 20	Related Party Disclosures	No concerns noted in relation to proposed concessions.
IPSAS 21	Impairment of Non-Cash-Generating Assets	**Concession we suggest be deleted:** (i.e. disclosures should be required under both Tier 1 and 2.) PBE IPSAS 21.78. Proposed RDR concessions within the impairment standard require a Tier 2 entity to disclose impairment expenses (and impairments reversed) in the reporting period, however no disclosure of the main events and circumstances that led to the recognition of an impairment expense (or reversal) is required. We feel that both Tier 1 and Tier 2 users of financial statements have a need to consider the reasons for impairment losses being incurred. This information is needed to evaluate whether impairment losses are due to market movements or to poor management of assets. Efficient operations and use of assets is key performance indicator for the Public Sector.
IPSAS 22	Disclosure of Information About the General Government Sector	No concerns noted in relation to proposed concessions.
IPSAS 23	Revenue from Non-Exchange Transactions	**Additional concessions suggested:** PBE IPSAS 23.106 (b), (c) and (e). We consider the separate disclosure of non-exchange transaction receivable, liability and

Standard (PBE ED)	Comments on disclosure concessions
	advance receipts balances adds minimal value to Tier 2 entities reporting under RDR. The remaining requirement to disclose of the nature and amount of non-exchange transactions required is adequate for Tier 2 entities.
IPSAS 25 Employee Benefits	No concerns noted in relation to proposed requirements.
IPSAS 26 Impairment of Cash-Generating Assets	**Concession we suggest be deleted:** (i.e. disclosures should be required under both Tier 1 and 2.) PBE IPSAS 26.121. The proposed RDR concessions within the impairment standard require Tier 2 entities to disclose impairment expenses (and impairments reversed) in the reporting period, however, as currently drafted no disclosure of the main events and circumstances that led to the recognition of an impairment expense (or reversal) is required. We feel that both Tier 1 and Tier 2 users of financial statements have a need not only to consider the amounts of impairment losses being incurred, but also to explain them. This information is needed by the readers of financial statements to evaluate whether impairment losses are due to market movements or other factors (e.g. poor management of assets). Our view is that efficient operations and optimal use of assets is a key performance indicator for almost every entity in the Public Sector.
IPSAS 27 Agriculture	**Additional concessions suggested:** PBE IPSAS 27.47 Consistent with the current Differential Reporting Framework we recommend only the gross carrying amount and accumulated depreciation (where applicable) of each class of agricultural assets at the beginning and end of the period requires disclosure. We also recommend disclosure concession be provided in relation to disclosing a reconciliation of movements between the opening and closing balances (i.e. additions, disposals).

Standard (PBE ED)		Comments on disclosure concessions
IPSAS 28	Financial Instruments: Presentation	No concerns noted in relation to proposed concessions.
IPSAS 29	Financial Instruments: Recognition and Measurement	No concerns noted in relation to proposed concessions.
IPSAS 30	Financial Instruments: Disclosures	No concerns noted in relation to proposed concessions.
IPSAS 31	Intangible Assets	**Additional concessions suggested:** PBE IPSAS 31.117 (e) Consistent with the current Differential Reporting Framework we recommend only the gross carrying amount and accumulated amortisation of each class of intangible assets at the beginning and end of the period require disclosure. We also recommend disclosure concessions are provided in relation the requirement to disclose a reconciliation of movements between the opening and closing balances (i.e. additions, disposals).
IPSAS 32	Service Concession Arrangements: Grantor	No concerns noted in relation to proposed concessions.
IFRS 3	Business Combinations	No concerns noted in relation to proposed concessions.
IFRS 4	Insurance Contracts	No concerns noted in relation to proposed concessions.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	No concerns noted in relation to proposed concessions.
IAS 12	Income Taxes	No concerns noted in relation to proposed concessions.
IAS 34	Interim Financial Reporting	No concerns noted in relation to proposed concessions.
FRS 42	Prospective Financial Statements	No concerns noted in relation to proposed concessions.
FRS 43	Summary Financial Statements	No concerns noted in relation to proposed concessions.

Standard (PBE ED)		Comments on disclosure concessions
FRS 45	Service Concession Arrangements: Operator	No concerns noted in relation to proposed concessions.
FRS 46	First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs	No concerns noted in relation to proposed concessions.
FRS 47	First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs	No concerns noted in relation to proposed concessions.

Question Five

Do you agree that a change from one basis of accounting (NZ IFRS) to another basis of accounting (PBE Standards) should be addressed by a transition standard rather than as a change in accounting policy? If not, please outline your reasons.

Response

We **agree** that a change from one basis of accounting to another basis of accounting should be addressed by a transition standard rather than a change in accounting policy.

General comments:
The transition standard allows for detailed guidance to be provided for the preparation of the opening statement of financial position at the date of the transition. The transition standard provides a framework for the reporting entity to determine its new set of accounting policies under the PBE Framework. A reporting entity would only have the ability to changes accounting policies after the transition date if the conditions of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* are met.

Question Six

Do you agree that the transitional provisions should limit (at the point of transition) the ability of entities transitioning from NZ IFRS to change an option they have selected when applying NZ IFRS? If not please outline your reasons.

Response

We **do not agree** that transitional provisions should limit the ability to change accounting policies selected when applying NZ IFRS.

The PBE IPSAS Framework has been adopted because the XRB has concluded it is the most appropriate source of generally accepted accounting practice for public benefit entities in the public sector. The development of NZ IFRS to meet the user needs of large for-profit multi-national companies proved difficult to implement for the PBE sector. Given this conclusion it would seem appropriate that reporting entities have the flexibility to consider all options available the PBE IPSAS Framework upon first-time adoption, this may well result in the entity choosing a different option than was applied under NZ IFRS.

The flexibility to choose options available under PBE IPSAS would be one off (i.e. only available at the transition date), any subsequent changes to accounting policies would be limited by the provisions of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Suggested alternative:
Reporting entities in the Public Sector should have the option of reassessing accounting policy choices made previously under NZ IFRS and changing accounting policies if an alternative policy is available under PBE IPSAS if the change results in an accounting treatment that is more appropriate.

Question Seven

Do you have any comments on the specific transitional provisions contained in ED PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*?

Response

We feel more research is potentially required into the impact of Public Sector PBE entities accounting for deferred tax (where applicable) for the first time. Components of the deferred tax calculation will include accumulated differences between the tax base of an asset or liability and the accounting base. For an entity not currently accounting for deferred tax, these differences may have never been tracked and so the cost of calculating the opening deferred tax balance upon first-time adoption may exceed the benefit.

As an outcome of additional research into the accounting for deferred tax for the first-time by PBE Public Sector Entities by the XRB, additional transitional provision or application guidance may be deemed necessary.

Question Eight

Is any additional guidance or are any further concessions required in ED PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRSs*? Please explain your reasons for proposing any additional material.

Response

We have not highlighted any additional guidance or further concessions, other than comments in relation to deferred tax (refer to responses to question 7).

General comments:
While the Office of the Auditor-General New Zealand (OAG) has encouraged the adoption of NZ IFRS as best practice, there are entities within the PBE Public Sector that fall out of this net and have continued to prepare financial statements in accordance with "old NZ GAAP". Just as there was a transitional standard for moving from "old NZ GAAP" to NZ IFRS, we believe there is justification for also having a transitional standard for moving from "old NZ GAAP" to PBE Standards (based on IPSAS) and this standard will also be especially important for the PBE NFP Framework.

Question Nine

Are you aware of any Public Sector PBEs transitioning to Tier 1 and Tier 2 PBE Standards that are not currently applying NZ IFRS? If yes, please identify the types of entities concerned and the standards they are applying.

Response

It is fair to conclude the majority of Public Sector PBEs are currently reporting in accordance with NZ IFRS, either due to legislative requirements or perceived best practice.

However there are Public Sector PBEs who continue to prepare financial statements in accordance with Financial Reporting Standards and Statements of Standard Accounting Practice (now commonly referred to as "old NZ GAAP"). These entities are typically small trust's that are defined as public sector entities through legislation; one example is Trust Funds established by the Defence Act 1990.

Question Ten

Do you agree that the capital management disclosures required by paragraphs 148A to 148C of ED PBE IPSAS 1 *Presentation of Financial Statements* provide useful information to users of the financial statements? If not, please outline your reasons.

Response

We agree the capital management discloses are useful, but only where **applicable** to the reporting entity i.e. the reporting entity has externally imposed capital requirements in the form of borrowings or other long term liabilities.

In many cases we would not expect these disclosures to be applicable to Public Sector PBEs, given many of these reporting entities are generally prohibited from entering into external borrowing arrangements. We are therefore pleased to see that the Capital Management disclosures are only mandatory for Tier 1 reporting entities.

We would encourage the retention of these disclosures to promote consistency with the For-Profit Framework. However, during the implementation of PBE IPSAS we suggest the XRB carefully highlights disclosures is only required where applicable to the financial reporting entity. XRB should be seen to be actively discouraging any "ticking the box" approach to ensuring full IPSAS compliance. Instead it should be encouraging entities to only provide the required disclosures where those disclose relate to material operations and risks of the reporting entity.

Question Eleven

Do you think the term "capital" or "equity" should be used in the proposed PBE IPSAS 1 in referring to what the entity considers to be capital?

Response

We suggest "equity" be used consistently throughout all the PBE standards as the term describing the net assets of the reporting entity. "Capital" is generally interpreted as the balance of funds invested by shareholders (or owners), who have an expectation on receiving a return on their invested capital. To us the not-for-profit nature of PBEs deems the use of the term "capital" inappropriate.

We are pleased to note PBE IPSAS 1 is consistent with NZ IFRS 1 in that it allows an entity to amend the descriptions of financial statement elements as disclosed on the face of the financial statements, according to the nature of the entity and its transactions

Reporting entities under the PBE Framework should continue to have the flexibility to choose terminology in the presentation of their financial statement to ensure information is disclosed that is relevant to an understanding of the entity's financial position.

Question Twelve

Do you have any comments on the guidance on statements of service performance, having regard to this guidance being an interim measure which is not intended to change current practice? If yes, please outline the changes you would propose, and your reasons.

Response

We **agree** current service performance standards provided under NZ IFRS and Technical Practice Aids issued by the New Zealand Institute of Chartered Accountants (NZICA) should continue to used and incorporated within the PBE Standards.

Other comments:

(a) We note IASPB Work Plan 2013-2014 includes a *Reporting Service Performance* Project, and an ED is planned for the first half of 2013. We suggest the merits of adopting the IPSAS Service Performance Standard also be considered by the XRB when issued.

(b) Under the proposed approach of no changes to current practice in regards to statement of service performance, we anticipate best practice guidance material issued by the Office of the Auditor-General New Zealand (OAG) will still remain applicable under the PBE Framework. The policy concern we have is whether moving forward, should the XRB or the OAG be viewed as having the primary responsibility for issuing implementation guidance? If responsibilities are not clarified at an early stage (i.e. now) we can see there is potential for some tension and confusion in the market.

While we acknowledge there will always be collaboration between these two independent crown entities, we think the XRB rather than the OAG should have the primary responsibility for issuing strategically significant implementation and best practice guidance to Public Sector reporting entities.

Question Thirteen

Should the NZASB consider, as a separate project, any further scope exemptions from ED PBE IPSAS 3 *Business Combinations*? If yes, please explain the types of combinations that should be exempted and the reasons for your views.

Response

We agree a future project is warranted to consider further scope exemptions from ED PBE IPSAS 3 *Business Combinations*. Where certain transactions are not defined as "business combinations" alternative accounting treatments should be provided.

The accounting issues arising from the creation of the Auckland "Super City" Council were many and varied. From our perspective NZ IFRS for the most part generated sensible and reasonable outcomes. To us it is clear that further amalgamations of Public Sector PBEs will continue and the acquisition method of accounting may not always be the most appropriate basis of accounting. Therefore we do support further research being done in this area.

Question Fourteen

Do you agree with the NZASB's proposal to include in the proposed PBE IPSAS 6 *Consolidated and Separate Financial Statements* integral application guidance on assessing control derived from FRS-37 *Consolidating Investments in Subsidiaries*? If not, please explain your view.

Response

We consider IFRS 10 *Consolidated Financial Statements* issued by the IASB in May 2011 is now internationally accepted as the authoritative support for defining a controlling relationship. The re-defined definition of control and extensive guidance on applying the new definition within IFRS 10 should be used as the basis for application guidance included with PBE IPSAS 6.

Any specific paragraphs contained within FRS 37 that are applicable from a New Zealand Public Sector context (and not addressed by IFRS 10) should also be included in PBE IPSAS 6 application guidance.

Commentary:
While FRS 37 was developed in New Zealand for New Zealand circumstances, we believe the definition of control within IFRS 10 is now superior in a number of dimensions. That said, IFRS 10 would need to be modified appropriately to recognise the operating and policy objectives of PBE public sector entities before being

incorporated within PBE IPSAS 6. Our primary concern with FRS 37 is that it is now more than 15 years old and the public sector operating conditions and environment have moved on. Any new accounting standards issued need to reflect the current environment, which demands an assessment of control that now looks way past ownership of voting interest as the primary indicator.

Question Fifteen

Will the omission of NZ SIC-12 *Consolidation—Special Purpose Entities* from ED PBE IPSAS 6 change current practice regarding the consolidation of special purpose entities? If so, how will current practice be changed?

Response

Discussion

The requirement to consolidate special purpose entities (SPE) remains the same between PBE IPSAS 6 and NZ SIC-12, and so in principle we would expect the same entities to be consolidated under both Frameworks.

Under NZ SIC 12 an SPE is defined as an entity created to accomplish a narrow and well-defined objective. SPEs are often characterised as entities established by legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing body. Typically the original operating policies of the SPE cannot be modified, other than by the creator, who as a result is defined as the controlling entity.

Entities with SPE characteristics are caught by the application guidance provided within PBE IPSAS 6, which details a controlling relationship can still exist where voting rights or similar rights are not the dominant factor in deciding who controls the entity. Guidance for considering whether a controlling relationship exists for these types of entities is specifically provided by paragraphs AG16 and AG 17 of PBE IPSAS 6. The term SPEs is not used in PBE IPSAS 6; instead the standard discusses the treatment of entities subject to "autopilot" arrangements.

Our concern:

We are comfortable the consolidation of currently identified SPE arrangements (or "autopilot" entities) under PBE IPSAS 6 will remain consistent with the current application of NZ SIC 12. However we are concerned that it will be difficult to identify SPE entities in the first instance from the limited guidance provided by PBE IPSAS 6. NZ SIC 12 provides a list of indicators to assist in the identification of SPE arrangements; this useful list is not provided in PBE IPSAS 6 or the accompanying Application Guidance.

Suggested alternative:

Similar to the current approach of including application guidance in PBE IPSAS 6 based on FRS 37 *Consolidating Investments in Subsidiaries*, we suggest consideration be given to adding the indicators of a SPE arrangements as provided in NZ SIC 12 to the PBE IPSAS 6 Application Guidance.

Additional guidance could be provided as follows (sourced from NZ SIC 12):

"A controlling relationship may still exist when an entity owns one half of less of the voting power of another entity and may still exist even in cases where an entity owns little of none of another entity's voting power. One circumstance in which a controlling interest may arise in this situation is where a controlling entity has predetermined the activities of another entity to meet its wider operating objectives. These are commonly referred to as "autopilot" arrangements. The following circumstances, for example, may indicate a relationship where an entity has a non-controlling voting power, but is still deemed to control the other entity and required to consolidate:

(a) in substance, the activities of the other entity are being conducted on behalf of the reporting entity according to its specific operating objectives, so that the reporting entity obtains benefits from the other entity's operations.

(b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the other entity or, by setting up an "autopilot" mechanism, the entity has delegated these decision making powers;

(c) in substance, the entity has the right to obtain the majority of the benefits of the other entity and therefore may be exposed to risks incident to the activities of the other entity; or

(d) in substance, the entity retains the majority of the residual or ownership risks related to the other entity or its assets in order to obtain benefits from its activities."

Question Sixteen

The following interpretations which form part of NZ IFRS have not been incorporated in the proposed PBE Standards because of the low incidence of these types of transactions in the public sector:

- NZ IFRIC 13 *Customer Loyalty Programmes*;
- NZ IFRIC 15 *Agreements for the Construction of Real Estate;*
- NZ IFRIC 18 *Transfers of Assets from Customers*; and
- NZ SIC-31 *Revenue—Barter Transactions Involving Advertising Services.*

Is the omission of the above interpretations likely to have any material impact? If yes, please outline the expected change(s) in practice.

Response
We **agree** with the XRB position not to incorporate the interpretations listed above into the proposed PBE standards because there is a low incidence of these types of transactions in the public sector. Furthermore we do not consider the omission of these interpretations from the PBE standards will lead to differences to current practice under NZ IFRS. These interpretations provide additional guidance in the application of the general revenue recognition requirements of NZ IAS 18 *Revenue* (which in the most part are consistent with PBE IPSAS 9 *Revenue from Exchange Transactions).* We note that a PBE entity involved in a transaction addressed by a NZ IFRIC would likely use the interpretation as the best course of authoritative support (in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors)*, even when the PBE equivalent interpretations is not included with the suite of PBE standards.

Question Seventeen
ED PBE IPSAS 17 *Property, Plant and Equipment* contains integral application guidance on using depreciated replacement cost to estimate the fair value of property, plant and equipment under the revaluation model. This guidance is not as specific as NZ IAS 16 *Property, Plant and Equipment* regarding the treatment of certain costs, such as borrowing costs. Do you agree that the guidance in ED PBE IPSAS 17 is appropriate? If not, please explain how this guidance should be amended, and give reasons why.

Response
We are comfortable the estimation of fair value of property, plant and equipment using a depreciated replacement cost (DRC) model is an approach that is currently available under both ED PBE IPSAS 17 and NZ IAS 16. We are pleased to note additional guidance on the use of the DRC model is provided under the PBE standard and appears applicable to the public sector. We have no further concerns to highlight.

Question Eighteen

Is ED PBE IPSAS 20 *Related Party Disclosures* appropriate in the New Zealand environment? If not, why not?

Response

General comments:

We note PBE IPSAS 20 *Related Party Disclosures* takes a significantly different approach from NZ IAS 24 *Related Party Disclosures* (2004 & 2009). Related party disclosure is consistently highlighted by regulators as an area of improvement. Following the GFC and the subsequent criticism of financial reporting disclosures a "more is better" attitude has been taken in regards to related party disclosures.

Our view is that the impact of applying PBE IPSAS 20 creates the potential for less disclosure than is currently required and deemed best practice under NZ IFRS. We take the view that given related party disclosures under NZ IFRS have recently been subject to review and amendment, it would seem appropriate for PBE standards to incorporate the latest requirements of NZ IFRS into PBE IPSAS 20.

Additional requirements recommended:

(a) Transactions with government-related entities and other related parties

PBE IPSAS 20 exempts all transactions between related parties that would occur on an arm's length basis.

In the New Zealand environment we have an expectation that entities will report all transactions with related parties, regardless of whether they have been provided on favourable terms or not. This disclosure provides the reader with the information to make an assessment of the nature of transactions occurring between related parties.

Suggested alternative

We suggest PBE IPSAS 20 require the disclosure of the nature and amount of all related party transactions where either individually or collectively significant (similar to current NZ IFRS requirements).

Related parties would include transactions with **all** Ministers, and close members of those Ministers' Family

Tier 2 exemptions are provided with concessions limiting disclosure to only related party transactions that have not occurred on an arm's length basis.

(b) Disclosure of related party commitments

PBE IPSAS 20 includes no specific mention of a requirement to disclose commitments between related parties. To allow the readers to assess the relationship of an entity's governing body and other related parties with the operations of the reporting entity, we feel information regarding future commitments is important.

Suggested alternative:

We suggest PBE IPSAS 20 require the disclosure of commitments between related party including terms and conditions (similar to current NZ IFRS requirements).

Tier 2 exemptions are provided with concessions limiting disclosure to only related party commitments that have not been entered into on an arm's length basis.

(c) Key management personnel disclosures

We note PBE IPSAS 20 provides more detail in the definition of key management personnel, which may lead to a wider interpretation of key management personnel than current practice. In addition the disclosure requirements are more specific and detailed than NZ IAS 24. We have reviewed the proposed disclosure requirements of PBE IPSAS 20 in relation to key management personnel and deem them appropriate given the publicly accountable nature of the public sector.

Question Nineteen

Are the requirements in ED PBE IPSAS 23 *Revenue from Non-Exchange Transactions* appropriate in the New Zealand environment? Is further guidance (which would form part of a future project) needed in respect of any of the requirements and, if so, which requirements need further guidance?

Response

We have no immediate concerns with the proposed requirements of PBE IPSAS 23. This standard has been developed specifically for the Public Sector and there are no obvious alternatives. However this is a new standard introducing some new concepts, so we suggest the XRB be prepared to issue further implementation guidance as operational issues arise.

We note implementation of the new standard is likely to result in an increased requirement for measurement of non-exchange transactions at fair value. Given non-exchange transactions relate to services and assets that are often not actively traded in a public market, we believe this is a key area where further implementation guidance on ascertaining fair value may be needed.

Question Twenty
Should the “corridor” approach to measuring a defined benefit liability in respect of a defined benefit plan be removed from the proposed PBE IPSAS *25 Employee Benefits*? Please provide reasons for your view.

Response
The option to apply the “corridor” approach when measuring a defined benefit liability should be removed from the proposed PBE IPSAS 25, to ensure an accounting treatment is applied in the PBE Public Sector that is consistent with international best practice. **Discussion** The removal of the corridor method will eliminate the ability for entities to defer recognition of actual gains and losses. After continued criticism of the method the option was removed from IAS 19 *Employee Benefits* in 2011 by the IASB. While it could be concluded the option is rarely used in New Zealand at present, we believe it would be appropriate for the option to be completely removed from the new suite of PBE standards.

Question Twenty one
Are the requirements in ED PBE IPSAS 32 *Service Concession Arrangements: Grantor* appropriate in the New Zealand environment? Is further guidance (which would form part of a future project) needed in respect of any of the requirements and, if so, which requirements need further guidance?

Response
We note the XRB commented that “there has been relatively few service concession arrangements to date in New Zealand”. This may well be the case; however given the significant amount of capital typically involved in these types of transactions (e.g. construction of toll roads) we feel that the inclusion of the standard within the PBE Standards is important to ensure assets do not end up being double counted. We suggest further implementation guidance be issued to accompany the final standard. Given an equivalent standard does not exist under NZ IFRS (or old NZ GAAP) from the perspective of accounting for transactions by the grantor, further guidance should be focused on clarifying the scope of the standard to assist in the determination of its applicability. It would useful for examples of service concession arrangements to be provided from a New Zealand Public Sector context.

Question Twenty two

Do you agree that Part B of the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting should be carried forward as the PBE Framework pending finalisation of the IPSASB's Conceptual Framework? If not, please outline your reasons. Please be specific.

Response

We **agree** that the PBE Framework based on the IASB Conceptual Framework for Financial Reporting is appropriate at this time, pending the development and insurance of a conceptual framework for public benefit entities by IPSASB. We are pleased to note the development of a public sector conceptual framework is currently (as per the IPSASB Work Program 2013-2014) "IPSASB's most important project until its completion". We encourage the XRB to actively support the completion of the IPSASB Conceptual Framework.

Other comments

Our view is that a Conceptual Framework is of more use to the standard setter (i.e. the XRB) that it is to preparers of financial statements. However, a well-constructed conceptual framework will ensure consistency between standards that are issued by the XRB over an extended period of time. It would be naive to suggest that a conceptual framework alone without rules and specific requirements in the individual standards will produce a high level of consistent financial statements. Consistency in financial reporting in the public sector is, in our opinion, absolutely essential when there are competing needs for taxation dollar.

Question Twenty three

In light of the NZASB's intention to propose the adoption of the forthcoming IPSASB Conceptual Framework when it is finalised, are there any comments you wish to make about the content of the interim proposed PBE Framework? Please be specific.

Response

There should be a smooth transition between the interim PBE NZ Framework based the IASB Conceptual Framework and the adoption of the IPSASB Conceptual Framework when finalised.

We note the following ED's have been recently issued by the IPSASB:

- *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*, comment period closes 30 April 2013.

- Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements, comments period closes 30 April 2013.

Before the finalisation of the interim PBE Standards Conceptual Framework we encourage the XRB to consider carefully the proposals in the IPSAB Conceptual Framework EDs to:

- Ensure there is nothing in the proposed interim PBE Standards Conceptual Framework that conflicts with the broad direction being pursued by the IPSASB, amendments should be made to prevent entrenched practices being established upon adoption of IPSAS by the New Zealand PBE Public Sector.
- Consider whether any paragraphs in the IPSASB Conceptual Framework ED's are practically relevant to the PBE Public Sector and should be incorporated with the PBE Standards Conceptual Framework when finalised.