

10 December 2012

Tony Dale
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Email: submissions@xrb.govt.nz

Dear Tony,

PBE Accounting Standards Framework and Mixed Groups

The Guardians of New Zealand Superannuation is pleased to respond to the External Reporting Board's (XRB's) package of proposed accounting standards for public benefit entities and its Exposure Draft on PBE Standards – Mixed Groups.

Background

The Guardians of New Zealand Superannuation (Guardians) and the New Zealand Superannuation Fund (Fund) were established by the NZ Superannuation and Retirement Income Act 2001 (the Act) to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation.

The Act established two entities:

- The Fund, a pool of assets consolidated into the Government's balance sheet; and
- The Guardians, a Crown entity, charged with managing and administering the Fund.

The Guardians meets the current criteria as a public benefit entity (PBE) and under the proposals is expected to be categorised as a Tier 1 public sector entity.

The Fund meets the current criteria as a 'for-profit' reporting entity but is also consolidated into the Crown financial statements. As a consequence, the Fund will be required to present individual financial statements as a Tier 1 'for-profit' entity reporting under NZ IFRS and it will also be required to provide information for consolidation by the Government as a Tier 1 PBE under the PBE accounting standards framework.

General Comment

We acknowledge the primary focus of the NZASB in developing the initial suite of accounting standards for public sector PBEs was to have a set of PBE standards that could be applied in a relatively short timeframe and in a way that minimises cost at the point of transition; and that as a consequence, there are some areas that are not adequately covered or are likely to be the subject of further work. We also acknowledge that, despite this approach, the NZASB does not expect the impact of moving from full NZ IFRS to PBE standards to be particularly significant due to the strong degree of convergence between IFRS and IPSAS (and therefore between NZ IFRS and PBE standards). Nevertheless, we note there are instances where there are differing requirements between NZ IFRS and the proposed PBE standards for 'like' transactions. We are concerned at the loss of transaction neutrality between the 'for-profit' and PBE sectors and the prospect of further divergence in accounting treatment over time, especially where there are time delays between the issuance of new or amended standards or guidance by the IASB and the IPSASB, as this will inevitably have an adverse impact for the Fund under a multi-standards approach.

We also acknowledge the NZASB is aware of the concerns raised by constituents about how the multi-standards accounting framework will impact PBE groups that contain 'for-profit' entities and that, in response to these concerns, they have issued for comment the separate Exposure Draft *Framework: PBE Standards - Mixed Groups*. We have included in this submission our responses to this exposure draft (attached as Appendix 3).

We support the NZASB's proposal to develop a strategy for responding to emerging differences between PBE Standards and NZ IFRS. We believe it is imperative the NZASB take a pragmatic approach to avoid unnecessary differences that could undermine the credibility of a multi-standards approach. Engagement with the IPSASB about future convergence with IFRS is vital, as is consultation with New Zealand stakeholders on decisions involving potential divergence between PBE Standards and NZ IFRS's.

We also welcome the additional guidance for mixed groups, but would like to emphasise that whilst this guidance is useful, there will be situations where the requirements under the two accounting frameworks will be different and this may lead to a mandatory restatement of transactions under the PBE framework and therefore a requirement for the Fund to maintain two sets of financial information. This is not ideal; having two sets of financial information increases the Fund's compliance costs, is time consuming and may be confusing for stakeholders.

Other Matters

As the Fund is prohibited from controlling other entities under legislation, the definition of 'control' has significant relevance for the Fund and is an area that creates a great deal of concern, especially as we move towards a multi-standards approach. *NZ IFRS 10 Consolidated Financial Statements* establishes a new control model and includes new guidance for applying the model to specific situations. This standard has a mandatory application date of 1 January 2013 and therefore, as a Tier 1 'for-profit' entity, the Fund's financial statements will be required to comply with this standard for the 30 June 2014 year end. We note that the proposed *ED PBE IPSAS 6 Consolidated and Separate Financial Statements* includes integral Application Guidance on assessing control based on *FRS-37 Consolidating Investments in Subsidiaries* and the impact assessment included at the front of the proposed standard is a result of a comparison with *NZ IAS 27 Consolidated and Separate Financial Statements* not *NZ IFRS 10 Consolidated Financial Statements*. As a consequence, we are concerned there already appears to be a difference in the control definition under the two frameworks.

Our comments in response to the specific questions raised by the XRB in the Exposure Drafts are set out in the attached Appendices as follows:

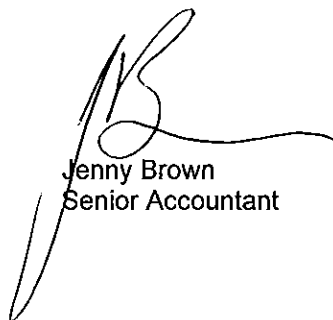
- Appendix 1: Submission on Proposed External Reporting Board Standard A1 Accounting Standards Framework (For-Profit Entities plus Public Sector PBEs Update) (XRB A1 (FP Entities + PS PBEs Update))
- Appendix 2: Submission on PBE Standards for Public Sector PBEs (PBE Standards)
- Appendix 3: Submission on Framework: PBE Standards – Mixed Groups (ED 2012-4)

Should you wish to discuss, or require any clarification, please contact Melanie Beetlestone (mbeetlestone@nzsuperfund.co.nz) or by phone on + 64 9 300 6993.

Yours faithfully



Melanie Beetlestone
Head of Finance



Jenny Brown
Senior Accountant

Appendix 1: Submission on proposed XRB A1 (FP Entities + PS PBEs Update)

1. **Do you agree that if the suite of PBE Standards for Tier 1 and Tier 2 Public Sector PBEs are issued by the end of the second quarter of 2013, it is realistic for the PBE Standards to be applied by Public Sector PBEs for annual reporting periods beginning 1 July 2014 with comparatives for the financial year beginning 1 July 2013? If not, please identify when the standards would have to be issued by to allow them to be applied from the 2014 financial year, and why.**

We believe the timing is realistic for entities previously applying NZ IFRSs based on existing IFRS standards. We are unable to comment on whether the timing is realistic for other entities.

However, we do have some concerns about the timing and consequential impact on mixed groups of new IFRS standards and interpretations that are set to become effective for the first time in 2013 under the 'for-profit' framework (e.g. *NZ IFRS 10 Consolidated Financial Statements*, *NZ IFRS 11 Joint Arrangements*, *NZ IFRS 12 Disclosure of Interests in Other Entities* and *NZ IFRS 13 Fair Value Measurement*) and for which there is either no equivalent PBE standard or an impact assessment of the new standard with the corresponding PBE standard has not been completed due to timing.

2. **Do you agree that the Public Sector PBE tiers should operate in the same way as that proposed for the for-profit tiers, i.e. by establishing Tier 1 as the default tier and then allowing entities to elect to be in a lower tier if they meet the criteria for that tier? If not, what approach would you suggest (please be specific)?**

Yes, we agree with this proposal.

3. **Do you agree that the same (wider) definition of public accountability used in the for-profit Accounting Standards Framework should also be used in the PBE Accounting Standards Framework? If not what approach would you suggest (please be specific)?**

Yes, consistent definitions across the two frameworks are preferable to avoid confusion and variable application across mixed groups.

4. **Do you think that, for the purposes of the tier criteria, the definition of expenses should include or exclude grants made? Please outline the reason for your view.**

As stated in our response to question 3, it's preferable to have consistent definitions across the two frameworks for comparability. We support the view that grants are a significant expense of some entities and to exclude them could understate the "real" size of the entity. We would not support having an exception for grants based on an argument that an entity with large "grant expenses" but small administrative expenses might face disproportionately high reporting costs. The same argument could be applied to other categories of expenditure that are not excluded from the definition of expenses.

5. **Do you agree that:**

- (a) **Entities that have public accountability (as defined) should be required to report in accordance with Tier 1 PBE Accounting Standards in the annual reporting period in which the entity becomes publicly accountable?**

Yes, we agree with this proposal.

- (b) **Entities that meet the criteria for a lower tier may elect to apply the PBE Accounting Standards of that lower tier in the annual reporting period in which they meet those criteria?**

Yes, we agree with this proposal.

- (c) **Entities that are reporting in accordance with Tier 2 PBE Accounting Standards and subsequently become large (as defined) should be able to continue to apply Tier 2 PBE Accounting Standards for the current annual reporting period?**

Yes, we agree with this proposal.

- (d) **Tier 3 or Tier 4 entities that cease to meet the criteria for those tiers should be able to continue to apply their current tier PBE Accounting Standards for the current and next annual reporting period?**

Yes, we agree with this proposal.

6. **Do you agree that the effective date provisions as drafted will result in:**

- (a) **All Public Sector PBEs being required to adopt the PBE Accounting Standards Framework at the same time?**

Yes.

- (b) **For-profit entities and NFP PBEs being unaffected by the application of XRB A1 (FP Entities + PS PBEs Update)?**

Yes.

Appendix 2: Submission on PBE Standards for Public Sector PBEs

- 1. 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.**

We would like to make the general comment that whilst the NZASB does not expect the impact from moving from full NZ IFRS to PBE standards to be particularly significant due to the strong degree of convergence between IFRS and IPSAS (and therefore between NZ IFRS and PBE standards), there are instances where there are differing requirements between NZ IFRS and the proposed PBE standards for 'like' transactions. We are concerned at the loss of transaction neutrality between the 'for-profit' and PBE sectors in the New Zealand environment and the prospect of further divergence in accounting treatment over time, especially where there are time delays between the issuance of new or amended standards or guidance by the IASB and the IPSASB. We encourage the NZASB to weigh up the costs and benefits when adopting any amendments to PBE standards that differ significantly from NZ IFRS.

- 2. 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?**

The standards that have been omitted from the suite of PBE standards are not relevant to the Guardians or the Fund and therefore we are not concerned with their exclusion from the PBE framework.

- 3. 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 measurement requirements as Tier 1 but with disclosure concessions? If not, what alternative would you suggest and why?**

Yes, we support an RDR approach with the same recognition and measurement requirements across the two tiers. This approach eliminates the need for restatement where entities move between the two tiers as a result of the size thresholds, and reduces the cost of reporting under this framework.

In our opinion all entities should have to apply the same recognition and measurement requirements as this enables greater consistency and comparability of financial information. Having consistent recognition and measurement requirements also enables a smoother consolidation process for group entities with fewer adjustments and reduced compliance costs.

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

Under *PBE IPSAS 1 Presentation of Financial Statements* we note there is a concession for the disclosure of audit fees and other services performed by the auditor (paragraph 116.1). We don't believe this is an onerous disclosure and would rather this requirement was maintained for Tier 2 entities.

- 5. 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.**

Yes, our view is that a mandatory change from one basis of accounting to another does not constitute a change in accounting policy.

- 6. 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.**

Yes, this enables greater transparency on transition to PBE standards.

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

We note that paragraph 10 of ED PBE FRS 46 proposes that the same recognition and measurement policies used by a public sector PBE when reporting under NZ IFRS should be applied when preparing the entity's first set of financial statements under PBE standards unless PBE standards require a different accounting treatment. This suggests there are situations where the adoption of specific PBE standards will result in a mandatory change in accounting treatment because certain recognition and measurement accounting policies that currently comply with NZ IFRS will not comply with PBE standards. In principal, we do not support any transitional provisions that result in a mandatory change in recognition and/or measurement policies for 'like' transactions and therefore a mandatory restatement of opening balances on adoption of PBE standards. We do not support any mandatory accounting treatment that creates inconsistencies between the 'for-profit' and public sector entities and results in a requirement for mixed groups to maintain two sets of financial statements.

8. **Is any additional guidance or are any further concessions required in ED PBE 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.**

We have not considered the provisions of this exposure draft in detail and therefore we cannot comment.

9. **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.**

No.

10. **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.**

No comment.

11. **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?**

We don't have a preference per se, although we note the term "capital" is used in NZ IAS 1 and our preference is for consistent terminology between the 'for-profit' and PBE frameworks to avoid confusion or differences in interpretation.

12. **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.**

No comment.

13. **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.**

No comment.

14. **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.**

We think the application guidance should be aligned with *NZ IFRS 10 Consolidated Financial Statements* as the application date of this standard precedes the proposed adoption date of the PBE standards. NZ IFRS 10 establishes a new control model with new guidance for applying the model to specific situations and with a mandatory application date of 1 January 2013, the Fund's financial statements will be required to comply with this standard for its 30 June 2014 year end. As the proposed ED PBE IPSAS 6 includes application guidance based on *FRS-37 Consolidating Investments in Subsidiaries* and not NZIFRS 10, we are concerned there already appears to be a difference in the control definition under the two frameworks.

The control definition and assessment thereof has significant relevance for the Fund and is an area that creates a great deal of concern as we move to a multi-standards approach, as the Fund is prohibited from controlling any other entities under legislation. For this reason, and because the Fund will be required to report under both the 'for-profit' and PBE standards, we are concerned that the definition of control remains consistent under the two frameworks.

- 15. 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?**

As stated in our response to question 14, we believe the application guidance for ED PBE IPSAS 6 should be aligned with *NZ IFRS 10 Consolidated Financial Statements* as this standard supersedes NZ SIC-12 and introduces a new and broader definition of control that may result in changes to a consolidated group under the 'for-profit' framework.

However, if alignment with NZ IFRS 10 is not progressed under the PBE framework, then we believe the guidance included in NZ SIC-12 should not be omitted from ED PBE IPSAS 6. Although the application guidance attached to ED PBE IPSAS 6 is consistent with the contents of NZ SIC-12, NZ SIC-12 is more explicit as regards to the consolidation of special purpose entities.

- 16. 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.

These interpretations are not relevant to the Guardians or the Fund and therefore we have not considered whether their omission is likely to have a material impact.

- 17. 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.**

We agree that the guidance in ED PBE IPSAS 17 is appropriate, but would prefer that the specific provision/s from NZ IAS 16 that clarify the treatment of certain costs, such as borrowing costs were also included in that guidance to avoid potential interpretation issues and valuation differences.

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

Yes, we believe it's appropriate.

- 19. 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?**

We believe the requirements contained in the proposed standard could result in inconsistent accounting treatment depending on whether a 'return obligation' exists or based on an interpretation as to whether such an obligation is a condition or a restriction. We are particularly concerned with the idea that a 'return obligation' (normally considered a condition and requiring the recognition of a liability) may only be considered a restriction under the proposed standard, resulting in different accounting treatment based on past experience rather than legal form. We would welcome further guidance in this area.

- 20. 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.**

No comment.

- 21. 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?**

We have not considered the provisions of this exposure draft in detail and therefore we cannot comment.

- 22. 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.**

Yes, we agree with this proposal.

- 23. 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.**

We have no specific comments about the content of the interim proposed PBE framework except to re-iterate we support alignment with the existing New Zealand Framework. We acknowledge the IPSASB is currently developing a Conceptual Framework to underpin IPSAS and that it’s NZASB’s intention to propose adoption of this framework once it is finalised and issued. We would not support adoption of the IPSASB Framework if it were not suitable for the New Zealand environment and/or there was a fundamental divergence from the framework under which we currently operate in New Zealand.

Appendix 3: Submission on PBE Standards Mixed Groups

1. **In the context of a multi-standards framework with standards for PBEs based on IPSAS and standards for for-profit entities based in IFRS, do you agree with the proposed NZASB strategy to respond to emerging differences between PBE Standards and NZ IFRS, as set out in the Explanatory Guide? If not, what alternative strategy would you recommend? Please give reasons for your view.**

We agree with the NZASB's approach to addressing the mixed group issue by way of a decision framework that considers the benefits, costs and risks of significant differences between the standards applying in the PBE and 'for-profit' sectors.

We also support the NZASB's proposal to develop a strategy for responding to emerging differences between PBE Standards and NZ IFRS. It's imperative the NZASB take a pragmatic approach to minimise unnecessary differences that could undermine the credibility of a multi-standards approach. Engagement with the IPSASB about future convergence with IFRS is vital, as is consultation with New Zealand constituents on decisions involving potential divergence between PBE Standards and NZ IFRS's.

2. **Are there any other actions to respond to emerging differences that the NZASB should consider, in addition to those discussed in the draft Explanatory Guide? Please give reasons for your views.**

Our understanding is the actions set out in the draft Explanatory Guide are designed to minimise differences in accounting treatment between PBE standards and NZ IFRSs and to ensure differences that do arise between the two frameworks are justifiable. As long as the actions are transparent and the consultation process with stakeholders is comprehensive and constructive, then no other actions should be necessary.

3. **In relation to the proposed Appendix to [ED] PBE IPSAS 6 *Consolidated and Separate Financial Statements*:**

- (a) **Do you agree that the NZASB should provide guidance, by way of an appendix to the proposed PBE IPSAS 6, as to the application of the requirement to use uniform accounting policies?**

Yes, we agree with this proposal.

- (b) **If you agree that guidance should be provided, do you consider that the guidance should be mandatory or non-mandatory?**

We believe the guidance should be non-mandatory.

- (c) **If you agree that guidance should be provided, do you agree with the contents of the draft appendix?**

We welcome the additional guidance for mixed groups but would like to emphasise that whilst this guidance is useful, there will be situations where the requirements under the two accounting frameworks will be different and this may lead to a mandatory restatement of transactions under the PBE framework and therefore a requirement for some mixed groups to maintain two sets of financial information. This is not an ideal outcome as having two sets of financial information increases compliance costs, is time consuming and may be confusing for stakeholders.

We are also concerned at the potential for interpretation issues and inconsistencies as a result of the provisions that deal with the requirement for consolidation adjustments. In particular, the guidance suggests that consolidation adjustments will not be necessary where the accounting policies of a 'for-profit' entity are '*substantially the same*' as the accounting policies of the PBE group (paragraph A11(b)). What is meant by '*substantially the same*' and how similar do the accounting policies need to be for them to be '*substantially the same*'? This phrase is open to interpretation.

The guidance also suggests that consolidation adjustments will not be required if the transactions of a 'for-profit' entity relate to '*different circumstances*' (paragraph A11(d)).

Based on the example provided, this exemption would appear to contradict the overriding objective of the guidance that a reporting entity must determine whether it is a PBE entity or a 'for-profit entity' and report transactions and balances from that perspective (paragraph A8). We believe the example would be extremely difficult to argue in practice.

However, we would support the publication and maintenance of an up to date list of recognition and measurement differences between PBE standards and the NZ IFRSs on the XRB website.