

12 August 2013

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto  
Ontario M5V 3H2  
CANADA

Submitted to: [www.ifac.org](http://www.ifac.org)

Dear Stephenie

***Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:  
Presentation in General Purpose Financial Reports***

**Introduction**

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the Conceptual Framework Exposure Draft 4, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports* (CF-ED4). CF-ED4 has been issued for comment in New Zealand and as a result you may also have received comments directly from New Zealand constituents.

**General Comments**

The NZASB acknowledges the leadership of the International Public Sector Accounting Standards Board (IPSASB) in seeking to address the topic of presentation within its conceptual framework, thereby creating a foundation for future thinking and work on presentation.

The development of the conceptual framework by the IPSASB is extremely important to New Zealand, given the External Reporting Board's (XRB) decision to base its accounting standards for public benefit entities<sup>1</sup> on International Public Sector Accounting Standards (IPSASs). As such, it is critical to us that the conceptual framework that underlies IPSASs is conceptually robust, coherent and appropriate for public sector entities in New Zealand.

We note that the International Accounting Standards Board (IASB) has recently recommenced its work on a conceptual framework for for-profit entities. We encourage the IPSASB and the IASB to work closely together in developing their conceptual frameworks as the two Boards are likely to be considering similar issues. While the development of the IPSASB's conceptual framework is not an International Financial Reporting Standards (IFRS) convergence project, it is desirable that the concepts and terminology included in the two

---

<sup>1</sup> Public benefit entities comprise public sector and "private" not-for-profit entities.

frameworks are aligned to the extent possible. In our view, most of the concepts underpinning financial reporting are not sector-specific and we are asking both the IPSASB and IASB to attempt to remove any unnecessary differences.

Presentation and disclosure are central to the credibility and perceived value of financial reporting. One of the most common complaints about GPFR relates to disclosure overload and complexity. In its conceptual framework project, the IPSASB has the opportunity to enhance its leadership in this area by ensuring that the concepts and principles underlying presentation and disclosure in the conceptual framework are well-developed and robust, thereby providing a sound conceptual basis for standards-level requirements on presentation and disclosure.

### **Specific Comments**

In general, the NZASB supports the proposed presentation concepts and principles contained in CF-ED4. The NZASB also supports the proposed application of the presentation concepts and principles to both financial statements and other general purpose financial reports (GPFRs). In addition, the NZASB agrees that the aim of presentation is to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics (QCs) while taking into account the constraints.

However, the NZASB is not supportive of the proposed terminology in CF-ED4, in particular, the use of the terms “presentation”, “display” and “disclosure” in the manner proposed. Terms like “presentation” and “disclosure” have traditionally been used more generically and may be associated with different meanings in different jurisdictions. We are concerned that the use of these terms in the manner proposed in CF-ED4 is potentially confusing. Further, it appears that the IASB, in its conceptual framework project, will use the term “disclosure” as an overarching term for the process of providing relevant financial information about the reporting entity to users and “presentation” as the disclosure of financial information on the face of an entity’s primary financial statements. The NZASB considers it critical that both the IPSASB and the IASB work towards aligning the terminology in their respective frameworks.

Further, we consider that the use of the proposed terms “display” and “disclosure” to distinguish what is communicated to users in a GPFR as “key” information from other information continues to imply that displayed information is more important than disclosed information. This is clearly not the case, for example, where information in the notes to the financial statements is important but cannot be included in the primary financial statements because of its narrative nature. We recommend the removal of the proposed terms “display” and “disclosure”. Instead, where appropriate, the words should be used in their generic sense rather than as proposed.

We discuss these in greater detail under Specific Matter for Comment 1 below.

The NZASB considers that, subject to our comments in the Specific Matters for Comment below, the proposals are an appropriate foundation for a chapter on presentation in the conceptual framework. Presentation is an important aspect of GPFRs and the inclusion of a chapter on presentation that is well-developed and robust will enable the IPSASB to issue a coherent conceptual framework that covers all aspects of a GPFR. We strongly encourage, the IPSASB to further develop this chapter of the conceptual framework prior to finalising the conceptual framework.

The above issue and our other comments are discussed more fully in the Appendix to this letter. If you have any queries or require clarification of any matters in this submission, please contact Clive Brodie ([clive.brodie@xrb.govt.nz](mailto:clive.brodie@xrb.govt.nz)) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michele Embling', enclosed within a large, hand-drawn oval.

Michele Embling

**Chairman – New Zealand Accounting Standards Board**

Email: [Michele.Embling@xrb.govt.nz](mailto:Michele.Embling@xrb.govt.nz)

## APPENDIX

### Response to Specific Matters for Comment

#### Specific Matter for Comment 1:

Do you agree with the proposed descriptions of “presentation”, “display”, and “disclosure” and the relationships between them in Section 1? If not, how would you modify them?

The NZASB does not support the proposed descriptions of “presentation”, “display” and “disclosure” and the relationships between them. We consider that presentation is more in the nature of “where” and “how” information is disclosed in a GPFR (i.e., the location, format and organisation of information) whereas disclosure is more in the nature of “what” information to communicate to users (i.e., information selection).

The terms “presentation” and “disclosure” have traditionally been used more generically and, in some jurisdictions, with different meanings. The use of these terms in the manner proposed by the IPSASB may be confusing. In particular, the word “disclosure” is usually associated with a range of meanings, frequently including the selection of information. Further, it appears that the IASB, in its conceptual framework project, will use the term “disclosure” as an overarching term for the process of providing relevant financial information about the reporting entity to users and “presentation” as the disclosure of financial information on the face of an entity’s primary financial statements. The NZASB considers that, regardless of the terminology used, it is critical that both the IPSASB and the IASB work towards aligning the terminology in their respective frameworks.

We note that the use of the proposed terms “display” and “disclosure” to distinguish what is communicated to users in a GPFR as “key” information from what is “disclosed” to users to make the displayed information more useful (paragraphs 1.3 and 1.4 of CF ED-4) continues to imply that displayed information is more important than disclosed information. This is notwithstanding the statement in paragraph BC 9 that the terms “core information” and “supporting information” were removed to avoid the implication that one type of information is more important than the other. We suggest that removing the proposed terms “display” and “disclosure” may address the issue to some extent.

In addition, we consider it may be useful for the conceptual framework to acknowledge that different information may have different levels of materiality and it may be necessary for some information to be disclosed with greater prominence than other information in a GPFR, notwithstanding their “location”. In other words, in making our comments above, we are not disagreeing with the idea that some information represents “key” information, in that it is highly relevant to users of the financial statements – rather, our concern is the inference that information that is “displayed” on the face of the financial statements is more important than information that is “disclosed” in the notes to the financial statements.

Furthermore, while it may be helpful to distinguish between the messages on the face of a particular statement and other information in a GPFR, we do not consider that the use of the terms “display” and “disclosure” as proposed achieves this. We note that CF-ED4 sets out some general criteria for information selection, information location and information organisation in the sections on those components. However, no criteria are set out in relation to display and disclosure decisions. In the absence of such criteria, we consider that the use of the terms display and disclosure will be of limited use to the IPSASB in making standards-level decisions. We are concerned that the “criteria for display and disclosure” set out in paragraph 1.6 will effectively be an ad hoc list of “rules”.

Following on from this comment we consider that one of the most important starting points for guiding a decision on where and how information should be communicated would be whether an

item meets the definition and recognition criteria as an element for a GPFR. We note that paragraphs BC4 and BC5 explain the relationship between presentation concepts and other parts of the Framework. We recommend that the comments underlying paragraphs BC4 and BC5 be repeated in section 1. We consider that applying the element recognition and measurement concepts as set out in the other parts of the Framework may assist IPSASB (and preparers) in determining the “where and how” decisions.

We note the proposal in CF-ED4 to link presentation concepts to the QCs at a high level without more specific criteria. The discussion on information selection, information location and information organisation throughout CF-ED4 sets out important communication principles that effectively require the information communicated to users to be:

- clear, balanced and understandable;
- entity-specific;
- organised in a manner that highlights what is important;
- linked;
- not duplicated; and
- comparable.

The NZASB considers that the succinct expression of these principles in Chapter 1, with a link to the general principles in the later sections on information selection, information location and information organisation, would highlight their importance and be useful in a chapter on presentation.

**Specific Matter for Comment 2:**

Do you agree with the identification of three presentation decisions (selection, location and organization) in Section 1? If not, how would you modify the identification of presentation decisions?

Subject to our comments in Specific Matter for Comment 1, we agree with the identification of the three presentation decisions (selection, location and organisation) in Section 1. This is consistent with our view that presentation deals with what, where and how information is communicated to users in a GPFR.

**Specific Matter for Comment 3:**

Do you agree with the proposed approach to making presentation decisions in Section 1? If not, how would you modify it?

As stated in our comments in Specific Matter for Comment 1, we do not agree that the proposed approach in section 1 will be useful to the IPSASB (and preparers) in making presentation decisions.

The NZASB considers that presentation in a public sector context should focus more specifically on the users of the public sector GPFRs and their information needs. This should determine the types of information that should be communicated to users and the weighting that IPSASB places on the information to be communicated. For example, service recipients are an important group of users in the public sector. Information communicated in a GPFR should take their particular information needs into account. The NZASB observed that the IPSASB, in basing IPSASs on IFRSs, had adopted a number of disclosures that were considered relevant for users of IFRS financial statements but which

may not necessarily be useful for, or give sufficient emphasis to, the information needs of public sector GPFR users. The NZASB considers that being more discerning and focussed on public sector GPFR users may assist in reducing disclosures and in making decisions about the selection, location and organisation of information. It may also lead to the need to disclose other relevant information for users in the public sector, as is seen in the recent development of the draft Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.

In this regard, paragraph 1.8 states that decisions on the selection, location and organisation of information are made “*in response to the needs of users for information about economic or other phenomena*”. They seek to achieve the financial reporting objectives while also applying the QCs and constraints. We note that user needs (as set out in Chapter 2 of the Framework on *Objectives and Users of General Purpose Financial Reporting*) are discussed in Section 2 of CF-ED4 on information selection. We think that it would be useful to also refer to Chapter 2 of the Framework in paragraph 1.8 so that it is clear that presentation decisions are made in response to those users' needs.

The NZASB also suggests that any discussion on the identification of information (in paragraph 1.6 of CF-ED4) and for presentation decisions (in paragraph 1.8) make a clearer distinction between (i) when those decisions are intended to be taken by the IPSASB (when setting presentation requirements at the standards-level), and (ii) when they are to be taken by the entity (when applying the standards to ensure that the information meets the needs of users for information about the entity's economic and other phenomena). This is important given that the Framework is also intended to provide guidance to preparers in the absence of Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs).

**Specific Matter for Comment 4:**

Do you agree with the description of information selection in Section 2:

- (a) In the financial statements; and
- (b) Within other GPFRs?

If not, how would you modify the description(s)?

We support the IPSASB's approach of linking presentation decisions with the objectives of financial reporting, the qualitative characteristics, the constraints of GPFRs and information already reported in GPFRs.

We also agree with the description of information selection in Section 2 in (a) financial statements and (b) within other GPFRs. We consider that these general descriptions explain the underlying principles adequately: there is no need, in our view, to link them to the specific terms, display and disclosure, in the manner proposed.

However, we suggest that the IPSASB considers whether the conceptual framework could further operationalise the qualitative characteristics into more specific criteria to guide both IPSASB and preparers in their information selection decisions at the standards-level. For instance, in applying the QCs to information selection in GPFRs, we have identified two possible criteria that might require information to be selected and communicated to users:

- (a) the information explains the key objectives of the entity; and
- (b) the information explains major changes from the past where previously presented information is not a reliable guide to the future.

Further, we encourage the IPSASB to emphasise that information selection decisions require continuing and critical review. One of the issues noted in recent years is the tendency of preparers

to continually add to the information presented, rather than ensuring that the presentation, taken as a whole, is informative.

**Specific Matter for Comment 5:**

Do you agree with the description of information location in Section 3:

- (a) In the financial statements;
- (b) In other GPFs; and,
- (c) Between different reports within GPFs?

If not, how would you modify the description(s)?

We support the IPSASB's approach of using the term "location" to (a) convey information and its connections with other items of information; (b) convey the nature of information; and (c) link different items of information that combine to meet a particular user need.

However, as stated in our comments above, we do not support the use of "location" (through the use of the terms "display" and "disclosure") to convey the relative importance of information.

**Specific Matter for Comment 6:**

Do you agree with the description of information organization in Section 4:

- (a) In the financial statements; and
- (b) In other GPFs?

If not, how would you modify the description(s)?

We support the IPSASB's approach of using the various means to ensure that information organisation makes clear important relationships between items.

Subject to our comments to Specific Matter for Comment 1, we agree with the description of information organisation in (a) in the financial statements and (b) in other GPFs.

**Specific Matter for Comment 7**

Do you consider that CF-ED4 contains sufficient detail on concepts applicable to presentation in GPFs, including the financial statements, of governments and other public sector entities? If not, how would you extend the proposals?

Subject to our comments above, we consider that CF-ED4 we consider that the IPSASB has created a good foundation for future thinking and work on presentation concepts. However, we strongly encourage the IPSASB to further develop this chapter of the conceptual framework prior to finalising the conceptual framework