

NATIONAL OFFICE
 LEVEL 2, CIGNA HOUSE, 40 MERCER STREET, PO BOX 11 342, WELLINGTON, NEW ZEALAND
 TELEPHONE: +64-4-474 7840, FACSIMILE: +64-4-499 8033
 WEBSITE: www.nzica.com

NEW ZEALAND
 INSTITUTE OF
 CHARTERED
 ACCOUNTANTS

31 March 2009

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

Email: edcomments@ifac.org

Dear Stephenie

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:
The Objectives of Financial Reporting
The Scope of Financial Reporting
The Qualitative Characteristics of Information Included in General Purpose Financial Reports
The Reporting Entity

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the Conceptual Framework Consultation Paper.

The FRSB commends the International Public Sector Accounting Standards Board (IPSASB) on its work so far in developing an authoritative and comprehensive set of standards for public sector entities. The development of a conceptual framework is another significant step in the direction of a single set of high quality standards for the public sector.

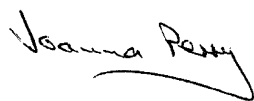
The FRSB has developed a conceptual framework that is sector-neutral in concept and expression and has found that approach to be both workable and useful in avoiding different classes of entity accounting differently for essentially similar transactions, events and circumstances. In view of that experience, the FRSB recommends that the IPSASB should endeavour to develop a conceptual framework that only differs from the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) conceptual framework to the extent necessary to address issues that are specific to the public sector. In that regard, the FRSB makes the following recommendations:

- We recommend that the IPSASB applies its 'Rules of the Road' to identify and justify any departure from the IASB-FASB conceptual framework for issues specific to the public sector. These 'Rules of the Road' are being applied at a standards level to determine whether departures from the requirements of IASB standards are warranted for the public sector. The conceptual framework underpins the standards and therefore, it is even more crucial that the 'Rules of the Road' are applied in developing the conceptual framework.

- We recommend that the IPSASB's subsequent exposure draft identifies clearly the nature of, and reasons for, any differences from the draft IASB-FASB conceptual framework. This would be particularly useful to constituents in jurisdictions that have adopted or are adopting International Financial Reporting Standards (IFRSs) when evaluating the IPSASB's proposals and considering the use of International Public Sector Accounting Standards (IPSASs) by their public sector entities.
- We recommend that the IPSASB work with the IASB and FASB in developing a common set of concepts for not-for-profit entities.

The FRSB's comments on the preliminary views outlined in the IPSASB's Conceptual Framework Consultation Paper are attached to this letter as Appendix A. If you have any queries or require clarification of any matters in this submission, please contact Clive Brodie (clive.brodie@nzica.com) in the first instance, or me.

Yours sincerely



Joanna Perry
Chairman – Financial Reporting Standards Board
Email: joannaperry@xtra.co.nz

Appendix A – FRSB comments on preliminary views outlined in the Consultation Paper

IPSASB Preliminary View 1 - The Authority of the IPSASB Framework (following paragraph 1.7)

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the Framework.

1. The FRSB agrees with this preliminary view.
2. IPSASs are inevitably more specific than the IPSASB conceptual framework (the Framework) would be. It would be undesirable to allow the Framework to be used as authority to depart from an IPSAS. Whilst the IPSASB should be alert for inconsistencies that arise between the IPSASB's conceptual framework project and existing IPSASs, it would be unreasonable to expect the IPSASB to immediately address all inconsistencies.

IPSASB Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

3. The FRSB agrees with this preliminary view.
4. We agree that General Purpose Financial Reports (GPFRs) should seek to meet the information needs of users who are unable to demand the preparation of financial reports. In addition, the differentiation between GPFRs and specialised reports may be useful, for example, in circumstances where financial reports are prepared for an entity that is not a reporting entity as described in preliminary view 8.

IPSASB Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

5. The IASB and FASB in their conceptual framework project identified a primary user group. We believe that the IPSASB should provide justification for any departure from this approach on the basis of the IPSASB's 'Rules of the Road'. Given the IPSASB's present project of converging IPSASs with IFRSs, the FRSB would be concerned if the frameworks were not converged because the standards depend on the concepts in the framework.
6. The FRSB recommends that 'resource providers' be identified as a primary user group. Identifying a primary user group would provide a helpful focus for standard setting and for the future evolution of the Framework. It is appropriate to identify 'resources providers' as the primary user group for the following reasons:
 - i. Public sector entities almost always are accountable to their resource providers for the resources entrusted to them but are not necessarily accountable to actual and potential service recipients.

- ii. There is frequently a disconnect between resource providers, such as taxpayers who contribute to the consolidated revenue of a state, and the recipients of specific services from a service provider. Focusing on the service recipient at the expense of the resource provider would potentially narrow the focus of a GPFR to one part of an entity's activities.
 - iii. A resource provider who is also a potential recipient of services is most likely to be interested in an entity's GPFRs in their capacity as a resource provider rather than in any other capacity. For example, an individual that is both a resource provider and a potential recipient of services is concerned more about an entity's position because of how the individual's future contributions to that entity might be affected than because the individual is concerned about the particular level of service the individual might expect to receive from that entity. Only in the event that the individual resource provider is also a recipient of a significant amount of service will the individual be particularly interested in the exact level of service the individual might receive.
 - iv. Information provided to satisfy the needs of resource providers often will also satisfy the information needs of other user groups. For example, resource providers are interested in the service capacity of an entity to which they provide resources because the success or failure of that entity may affect the amount the resource provider is required to contribute to that entity. Such information will also satisfy the information needs of recipients of services concerned with the entity's ability to continue providing a desired level of service.
 - v. Recipients of services are not always entitled to information about the entity providing the services they receive. As an extreme example, a recipient of disaster relief is not necessarily entitled to, or able to use, the GPFRs of the entity volunteering the disaster relief service (nor is the recipient likely to be concerned about the service provider's GPFRs).
7. The proposed 'other parties' category of user group results in a range of potential users that is too broad, potentially unlimited. We acknowledge that there is a wide range of potential users of GPFRs. However, attempting to provide for the information needs of all potential users could result in the GPFRs lacking focus and could result in the information that is provided in GPFRs being too diluted to be of any real value.
8. We agree that, in practice, the legislature is a major user of GPFRs even though it may have the authority to demand certain information. However, we do not consider that the legislature's interests should override consideration of the needs of other user groups. A user that could demand information to meet their own information needs but, for convenience or efficiency, chooses to make use of GPFRs is not necessarily a 'user' for the purposes of the conceptual framework. The legislature should only be considered a 'user' for the purposes of the conceptual framework to the extent that it is unable to demand the preparation of financial reports tailored to meet its specific information needs. Note that we have taken 'the legislature' to mean the legislature as a whole rather than the individual members of the legislature. It would be useful if 'the legislature' were defined.
9. We hope that the reference to 'common information needs' in the preliminary view is not intended to imply that information that is required by some, but not all, users need not be provided.

IPSASB Preliminary View 4 - The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- for making resource allocation, political and social decisions.

10. The FRSB is of the view that information for accountability purposes is not stand alone but is a component of decision-useful information. The overarching objective of financial reporting should be to provide the primary users of financial reports with decision-useful information comprising both:
- i. information regarding the stewardship of an entity's management to hold management accountable; and

- ii. information for making resource allocation decisions.

This is not to say that information for accountability purposes is not important. We agree that information for accountability purposes is an important component of the information that should be provided in financial reports. However, there is no point in reporting information to discharge accountability if that information is not also decision-useful. Information for accountability must lead to some form of decision if it is to be useful in any way.

11. It may be more appropriate to include 'information for making political and social decisions' as a component of 'information for accountability purposes'. Political and social decisions are more likely to result from information provided for accountability purposes. By way of example, many users of GPFRs are not typically able to influence directly the reporting entity's resource allocation decisions. Such users instead exert influence over the reporting entity by supporting protest activity or by exercising their right to vote for or against incumbent leaders based on information provided for accountability purposes.
12. To avoid implying a limit on the possible decisions users may make on the basis of GPFRs we suggest that the objective should be broadened slightly. The objective could be broadened as follows:
- "...for making a broad range of decisions, including resource allocation, political and social decisions."
13. We are concerned at the level of detailed information suggested as possible content of GPFRs. In paragraph 2.15 for example, it is suggested that users will require information about the volume, types and costs of services provided to constituents and whether this was as prescribed by approved budgets or other authoritative agreements relating to service delivery. Suggesting this level of detail as content for GPFRs at a conceptual level sets a dangerous precedent. Individual standards typically deal with information required in GPFRs at a more detailed level than would be considered at a conceptual level. If, at a conceptual level, users are already warming to the idea of such detailed information being provided in GPFRs, what level of detail might they expect to be addressed and prescribed at a standards level?

IPSASB Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

14. The FRSB is concerned that the proposed scope of financial reporting is too broad. We agree that, in order to assist users of financial statements in making economic decisions and forming assessments of an entity's accountability, a range of non-financial and supplementary information may be provided within financial reports. However, some information can and should be obtained through other means. Therefore, we recommend that the scope of financial reporting should be limited to include only information that is best communicated through GPFRs. In particular, we recommend that:
- i. the amount of non-financial and prospective information be limited to information that is central to assessing the entity's future objectives and service delivery activities as well as the resources necessary to support those activities; and
 - ii. information regarding compliance be limited to restrictions placed on a reporting entity's ability to obtain and use resources.
15. We recommend that information regarding compliance specifically include information regarding breaches of externally-imposed requirements that may affect a user's assessment of the reporting entity's financial position and performance. This information is necessary to meet the objectives of GPFRs. For example, if an entity breaches a particular requirement and this is likely to result in a financial penalty being imposed, information about that breach would be relevant to users of the entity's GPFRs.
16. The phrase "... and claims to those resources" is not clear because claims are usually specific only to the entity and do not necessarily relate to a specific resource. We suggest that the wording be clarified as follows:
- "...economic and other resources of the reporting entity at the reporting date and claims to those against the resources of the entity..."

IPSASB Preliminary View 6 - Evolution of the Scope of Financial Reporting (following paragraph 3.22)

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

17. The FRSB agrees with this preliminary view.

IPSASB Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs (following paragraph 4.40)

The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral and, free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

18. The FRSB agrees with the qualitative characteristics as identified by the IPSASB. However, the IPSASB has not ranked the qualitative characteristics as 'fundamental' or 'enhancing' as did the IASB and FASB in their conceptual framework project. Given the IPSASB's plans to issue standards based on IFRSs with appropriate modifications for the public sector, the FRSB considers that the over arching framework should be based on the IASB's framework. The FRSB recommends that the IPSASB provide justification of its decision to take a different approach on the basis of the IPSASB's 'Rules of the Road'.

19. The qualitative characteristics proposed by the IPSASB are the same as those proposed by the IASB and FASB in their conceptual framework project. To explain these characteristics, the IPSASB should add to its conceptual framework the same additional guidance provided by the IASB and FASB to further explain these characteristics.
20. We believe that it would be useful for the IPSASB's conceptual framework to provide additional emphasis on the significance of materiality based on the context and nature of an item because this is likely to be of particular importance for public sector entities.

IPSAB Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

21. We agree that the Framework should broadly describe a reporting entity but should not define a reporting entity. An international standard setter cannot precisely define within its standards which types of entities should apply the standards. The final responsibility for determining which organisations are reporting entities and whether or not they are required to apply a particular set of accounting standards rests with individual jurisdictions. The international standard setter can identify the bases on which it intends that its standards should be applied: an individual jurisdiction can use this basis to assist in determining the mandated application by, for example, considering the needs of stakeholders of the organisations within their jurisdiction.
22. We agree that what constitutes a reporting entity should not be limited to activities that are structured as legal entities. In addition, neither should the constituent parts of a reporting entity be limited to legal entities. Whether an entity is a legal entity depends on legislation in particular jurisdictions. Limiting the reporting entity to legal entities would place undue emphasis on legal form, could result in financial reporting failing to reflect economic substance and, accordingly, could result in inconsistent reporting between jurisdictions simply by virtue of legislative differences.
23. The proposal that a reporting entity be identified by the existence of users that are dependent upon its GPFRs seems to imply that the 'entity perspective' (rather than the 'proprietary perspective') is the preferred approach for the presentation of GPFRs. The entity perspective:
 - i. almost certainly is more appropriate for public sector entities than the proprietary perspective because a proprietary interest often would have no practical meaning for many public sector entities being characterised by the absence of defined ownership interests; and
 - ii. is the most effective approach for achieving that objective of GPFRs of providing for the information needs of a wide range of users.

The approach adopted has follow on effects throughout the standards. Therefore, it would be useful for the Framework to identify the preferred approach upfront.

Preliminary View 9 – Composition of a Group Reporting Entity (following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

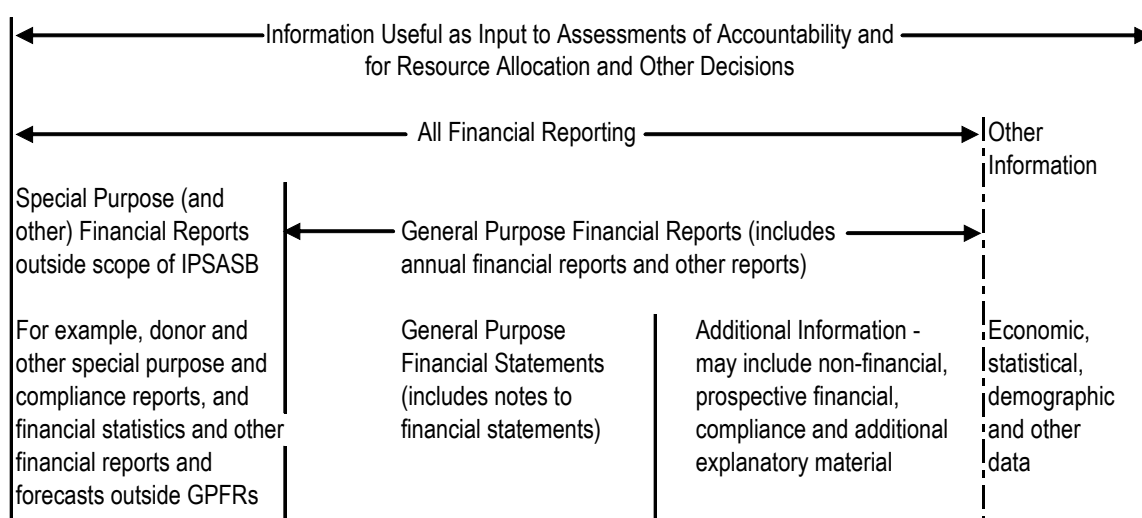
- has the power to govern the strategic financing and operating policies of the other entities (a "power criterion"); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or to maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a "benefit or financial burden/loss" criterion).

24. Defining the criteria for inclusion of a reporting entity within a group reporting entity at the conceptual level will ensure that the criteria are applied consistently across all standards. We therefore agree that the criteria should be defined at a conceptual level. However, we believe that much of the discussion of the criteria within the Consultation Paper is too narrow and specific to be dealt with at conceptual level. The application of the criteria should be addressed at a standards level.
25. Identifying which entities fall within a group reporting entity is a significant and complex issue given the wide range of circumstances that can arise. This is particularly so for the public sector. We strongly recommend that the application of the 'power' and 'benefit or financial burden/loss' criteria be dealt with at standards level only as the IPSASB considers in detail the harmonisation of IPSASs with the IASB's new versions of IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*. This will allow more time for full debate of the issues faced in the public sector and will avoid the need for ongoing changes to the conceptual framework as the detailed application of the criteria evolve with debate.
26. Given the significance of group reporting issues faced in the public sector and the number of application issues that need to be addressed, it may be appropriate to exclude from the conceptual framework the discussion of a group reporting entity. Instead, an all-encompassing concept of a reporting entity that applies equally to individual and group reporting entities should be developed as a separate project.
27. Whilst we recommend defining the 'power' and 'benefit or financial burden/loss' criteria at a conceptual level but leaving the detailed application of the criteria to be dealt with at a standards level, included in Appendix B are our views on some of the detailed application issues that need to be addressed.

Other comments

28. In regards to figure 1 on page 16 of the Consultation Paper it may be more apt for the column dealing with Special Purpose Financial Reports to be the first column in the table as illustrated below (suggested amended Figure 1: Information needs of users). This is because there is an overlap between 'additional information' and 'other information'. For example, prospective financial information included within the 'additional information' column may contain elements of economic and statistical data included within the 'other information' column which is shown outside the scope of 'all financial reporting'. The resulting boundary between 'additional information' and 'other information' falling within the scope of 'all financial reporting' (broken line in the illustration below) will change as public sector financial reporting develops over time.

Suggested amended Figure 1: Information needs of users



Appendix B – Issues to be addressed in detailed application of the ‘power’ and ‘benefit or financial burden/loss’ criteria

29. We agree that:
- i. The composition of a group reporting entity should be based on the ‘power’ and ‘benefit or financial burden/loss’ criteria identified in the Consultation Paper.
 - ii. The ‘power’ and ‘benefit or financial burden/loss’ criteria should be used as the primary basis for determining the composition of a group reporting entity. This approach is the most effective approach for achieving the objective of GPFRs.
 - iii. Both the ‘power’ and the ‘benefit or financial burden/loss’ criteria need to be present to justify the inclusion of a separate entity within a group reporting entity. Power is of little use without the ability to benefit through the use of that power. If one entity has power over another but not the ability to benefit from that power, it is unlikely that the two entities represent a reporting entity of interest to users of GPFRs. Further, combining ‘power and ‘benefit or financial burden/loss’ more readily limits the identification of the ultimate reporting or ‘parent’ entity within the group reporting entity to a single party.
30. We agree that the inclusion of a reporting entity within a group reporting entity should not be limited to circumstances in which the entity has sufficient voting or other legal rights to direct the financing and operating policies of another entity. The ‘power’ and ‘benefit or financial burden/loss’ criteria must be broad enough to capture economically similar circumstances such as entities established for special purposes. The ‘power’ and ‘benefit or financial burden/loss’ criteria appropriately capture the consideration of exposure to risks and benefits.
31. All facts and circumstances should be assessed before determining whether or not a reporting entity should be included within a group reporting entity. We recommend that, in its discussion of the criteria for inclusion of a reporting entity within the whole of government group reporting entity, the IPSASB clarify that:
- i. Establishing whether a reporting entity should be included within a group reporting entity involves assessing all the existing facts and circumstances;
 - ii. There are no single facts or circumstances that, in all cases, evidence the satisfaction of the “power” and “benefit or financial burden/loss” criteria.
 - iii. That no particular fact or circumstance should be a necessary condition for satisfaction of the “power” and “benefit or financial burden/loss” criteria.
32. We agree that assessment of whether the ‘power’ criterion is satisfied should be based on current legislation. However, the IPSASB should also address potential circumstances where the ‘power’ and ‘benefit and financial burden/loss’ criteria might be satisfied even though the power to govern the strategic financing and operating policies of an entity is not currently exercisable. This could arise where a Public Sector Entity holds options over shareholding or other equity interests in an entity that adopts a corporate structure such as a Government Business Enterprise (GBE). We are of the view that a reporting entity holding sufficient, currently exercisable options over the majority of the shareholding or other equity interests in an entity to ensure the holder can exert ‘active’ control over an entity is sufficient to demonstrate the satisfaction of the ‘power’ and ‘benefit or financial burden/loss’ criteria: the holder of the options can, at any time, unilaterally and without the consent of any other party, impose any decision on the potential subsidiary that it chooses merely by exercising its options. We view this to be substantively very similar to the situation where a controlling party has delegated decision making to another party, or has chosen a passive role. In both these circumstances the controlling party has the choice (option), at any time, to assume direct or active control. In addition, in the experience of members of the FRSB, in circumstances where the number of options held is sufficient to bring this question into consideration, the invariable and sole reason for the existence of the options is to ensure that the holder has control over the subsidiary. We therefore believe that where an entity (entity A) holds enough options over voting rights of another entity (entity B) that, if and when exercised, would give entity A control over entity B, there should be a presumption that entity A has control over entity B unless it can clearly be demonstrated that this is not the case.

33. We believe that the issue of 'regulatory power/control' needs to be addressed as part of any project to develop the concept of a reporting entity. The existence of regulatory power does not necessarily result in the satisfaction of the criteria for inclusion of an entity within a reporting entity. For example, a government authority may have regulatory power to direct that a number of separate local authorities that are independent of each other combine into a single entity (in order to achieve economies of scale and other benefits). This regulatory power does not necessarily justify the inclusion of the local authorities within the group reporting entity of the government authority. To do so may not provide users of the government authority's GPFs with useful information. To avoid confusion regulatory power needs to be distinguished from the criteria for inclusion of an entity within a reporting entity.
34. We recommend that the criteria for inclusion of a reporting entity within a group reporting entity encompass situations in which the satisfaction of the criteria might be temporary. While we acknowledge that constituents are likely to seek some form of exemption from consolidation where the criteria are satisfied only temporarily, we would not support such an exemption.