

31 May 2012

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Submitted to: www.ifac.org

Dear Stephenie

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

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*.

The NZASB congratulates the IPSASB on tackling this exceedingly difficult topic ahead of other international standard setters. In particular, we strongly support the emphasis on all information areas within a general purpose financial report – both non-financial and financial – in developing the Consultation Paper. However, our consideration of the Consultation Paper has led us to the view that further development work is required.

We have included detailed comments in respect of our views and have responded to the specific questions posed in the Exposure Draft in the appendix to this letter.

If you have any queries or require clarification of any matters in this submission, please contact Patricia McBride (patricia.mcbride@xrb.govt.nz) or me.

Yours sincerely



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NZASB Comments on Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*

General comments

The IPSASB has taken on the development of a difficult part of the Conceptual Framework ahead of the rest of the world. We congratulate the IPSASB on tackling this task and opening up presentation in respect of both non-financial and financial information areas for debate. In our opinion the conceptual basis for presentation in general purpose financial reporting (GPFR) is a topic where views will evolve over time, with this Consultation Paper (CP) being an important first step.

This ground breaking work has naturally built on existing work and thinking regarding the presentation of financial statements and service delivery achievements. In considering the CP, we came to the conclusion that under existing thinking, presentation and disclosure issues are considered later than is optimal in the process of developing a conceptual framework.

We would expect a Conceptual Framework to start, as it does today, with the objective of GPFRs. However, rather than then moving into financial statement elements and measurement, we consider that a Conceptual Framework should:

- Take the objective (in this case, meeting the needs of users) and consider what information that belongs in a GPFR is necessary to meet that objective;
- Identify the various ways in which that information could be presented – options include in financial statements, notes, statements of service performance, integrated reporting; and
- Identify how that information is to be defined, categorised, collated, measured and disclosed.

The approach taken in developing this CP sits somewhere between the traditional model (where presentation and disclosure is considered towards the end of the standard-setting process, and focuses on specific disclosure requirements) and the approach identified above. For example, the CP is designed to develop a presentation framework for all potential components of GPFRs, not just financial statements, but it then appears to have different views as to exactly what is meant by presentation. Sometimes presentation appears to be the end point of a process of collating information (such as in paragraph 2.7) and sometimes it appears to be the objective of an information area (such as in paragraph 4.4). Therefore, the underlying concept of what is meant by “presentation” seems to fluctuate between a broader and narrower meaning.

We recommend that, for consistency with the rest of the draft Conceptual Framework which is developed on the “traditional model”, the IPSASB consider presentation as the end point of the process and develop another term such as “reporting objective” to drive the development of the objective of including an information area in a GPFR (our later comments expand on this point). We would not wish to see the IPSASB delay the completion of its Conceptual Framework by unnecessarily reopening earlier Phases. This would also enable a coherent and consistent approach to developing presentation concepts, rather than mixing a much broader concept of “presentation” with the usual (and narrower) meaning.

We hope that when the IPSASB comes to review its Conceptual Framework (say in 5 – 10 years), it will have the confidence to build on the knowledge it has gained in developing this first Conceptual Framework. We anticipate that could lead to restructuring the development process as well as the content of a revised Conceptual Framework. In an ideal world, we consider that a Conceptual Framework would take more of a top down view of a GPFR than any of the current frameworks, i.e. focus on what GPFR ideally should comprise rather than building concepts to support the current state of GPFR.

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Our answers to the Specific Matters for comment address the issues from this standpoint.

Specific Matter for Comment 1

With respect to the descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information”, and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?
- (b) Do you agree that identification of core and supporting information for GPFRs should be made at a standards level rather than as part of the Conceptual Framework?

We commend the IPSASB for developing terminology that can be applied to information areas within a GPFR.

We are aware that some of the terminology that the IPSASB is developing is inconsistent with past usage in respect of the financial statements. However, given that this area has not been developed by other standard setters, the IPSASB is breaking new ground and needs to develop a coherent set of definitions and descriptions.

Our understanding of the proposed presentation hierarchy is that:

- (a) **presentation** is the overarching term used to describe the selection, location and organisation of information in the GPFR;
- (b) **display** refers to information provided on the face of the individual statements within the GPFR and all core information should be “displayed”; and
- (c) **disclosure** refers to information that is disclosed in the notes to the statements and is supporting information (that is, it elaborates on core information or provides other types of supporting information).

The Consultation Paper notes that there is an alternative view. Those holding that alternative view do not believe that display is synonymous with core information or that disclosure is synonymous with supporting information. We support the development of a proposed presentation hierarchy, but we are more supportive of the alternative view than the view expressed in the body of the CP. For example, we take the view that information about contingent liabilities, commitments and related party transactions is core information although it cannot be “displayed” on the face of the individual statements.

As a result, we are not sure that the terms “display” and “disclosure” as defined are useful. We recommend that the IPSASB develop a concept that would help to identify and distinguish between core information and supporting information. For example, core information could be information that is essential to an understanding of the entity’s performance and position, while supporting information could be information that is useful, but not necessarily essential, to that understanding. Such a concept could help address the issue of ‘disclosure overload’ that is a major problem of financial reporting today. The face of the statements (in information areas where statements are appropriate) should be limited to core information, and the notes can contain both core and

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supporting information. The term “display” could then be used to address issues such as layout of information – for example, the ordering of items within the statement of financial position or within the notes (presentation decision 3 in paragraph 6.1).

We agree that the identification of specific items of core and supporting information should be made at the standards level whereas the Conceptual Framework should contain the underlying concepts. It would be worth mentioning in the Conceptual Framework that, for each information area, presentation (or what we suggest is referred to as the reporting objective) is a unifying concept rather than being readily disaggregated into individual standards. We would support a move away from the present practice of concentrating on recognition and measurement within a standard and then considering disclosures, almost as an afterthought.

Accordingly, we recommend that for, each information area, the IPSASB develops an overarching Presentation Standard to identify the relevant disclosures and ensure that the package of information contained in the GPFR meets the qualitative characteristics. For example, there would be separate Presentation Standards on financial statements and service performance. Disclosure requirements could then be included in the Presentation Standard or in individual standards.

We would hope that the IPSASB could develop such Presentation Standards sooner rather than later, and would anticipate that this would address issues such as:

- the objective of providing the information included in that information area, including a consideration of the qualitative characteristics;
- the content that meets that objective;
- which items are likely to be core and which are likely to be supporting; and
- how the information should be structured, including consideration of “statements” and “notes” and the interaction with other information areas.

IPSAS 1 *Presentation of Financial Statements* goes some way towards achieving this in terms of disclosure requirements (our fourth dot point), but not in linking back to the reporting objective. Without some such mechanism, the IPSASB Conceptual Framework could carry forward the same complexity and disclosure overload issues that are being grappled with by other standard setters.

Specific Matter for Comment 2

With respect to the IPSASB’s approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFRs including, but not restricted to, financial statements?
- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?

We support the development of overarching presentation concepts that can be adopted for the more comprehensive scope of GPFRs (which presently encompasses financial statement information, service performance information and Information on the long-term sustainability of finances). Our vision is in that, in the long term, the GPFR (even if issued in more than one document) presents a comprehensive package of information. Further, we would expect that the

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improvements that result from addressing the development of presentation concepts from the perspectives of all information areas will outweigh the difficulties of developing such concepts.

In our view, developing concepts addressing the presentation of information requires the IPSASB to focus on all three identified aspects of the approach (being user needs, application of the qualitative characteristics and presentation concepts). Our concern with the CP is that it could be interpreted to suggest that only one of these aspects might be used in developing an approach to the presentation of information.

Specific Matter for Comment 3

This CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

The NZASB agrees that presentation objectives need to be developed. However, we have a number of concerns with the proposals as they currently stand:

- (a) the proposed presentation objectives are more in the nature of reporting objectives for an information area (i.e. they address matters that are much broader than presentation, as explained further below); and
- (b) the presentation objectives that are specified at standards level need to be limited to the scope of the standard.

We consider that the Conceptual Framework should identify the major information areas (and possibly sub-areas) and the reporting objectives to be met by those information areas. That is, a reporting objective would operationalise the objective of GPFRs in respect of a particular information area. Such material would expand the discussion in paragraphs 2.14-2.26 of CF-ED1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (Information Provided by General Purpose Financial Reports).

Presentation objectives such as those used as examples in paragraph 4.4 are more of the nature of “reporting objectives” encompassing the selection of inputs and how they are to be measured as well as the final presentation. Once the reporting objective is determined, standards would develop specific requirements related to the acquisition of necessary information to meet the purpose of the information area or sub-area that it is addressing, leading to the disclosure of core and supporting information in respect of that information area or sub-area.

In conclusion, we consider that reporting objectives should be developed. Each information area or sub-area specifically identified in the Conceptual Framework would have a “reporting objective”. We then envisage that a Presentation Standard should be developed for each information area, with the specific presentation and disclosure requirements contained in that Standard or in other standards relating to the information area. The individual disclosure objectives at the standards level should be linked back to the Presentation Standard and the reporting objective for the

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information area to ensure that the GPFR is a well-co-ordinated collection of information rather than a set of disclosures about individual items.

However, as discussed in our general comments earlier, this approach could lead to the re-opening of earlier phases of the conceptual framework project, as it deals with matters that are not limited to presentation.

Specific Matter for Comment 4

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, indicate how.

Specific Matter for Comment 5

In addition to the three concepts proposed in Section 6, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

This response sets out our views on Specific Matters for Comment 4 and 5.

The three “presentation concepts” proposed are:

1. select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely;
2. locate information to meet user needs; and
3. organise information to make important relationships clear and support comparability.

As we have noted above, we consider that the first concept is an integral part of the identification of the reporting objectives for an information area and hence deals with broader matters than presentation. For example, in the case of the financial statements information area, many of the decisions relative to that concept are determined by the definition of the elements.

Further, we consider that the component of the Conceptual Framework addressing the selection of information should emphasise the need to ensure that excessive disclosures do not obscure the information that is included in the GPFR. We would expect the Conceptual Framework to emphasise that:

- (a) for both the IPSASB and users of IPSASs (including preparers, auditors and regulators), materiality is a critical element in the selection of information to be disclosed, and its presentation; and

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- (b) for the IPSASB, each item of data that is specifically required to be disclosed at the standards level should be carefully tested for its relevance to the reporting objectives of the information area under consideration.

We consider that the second and third concepts are more disclosure principles than presentation concepts.

Overall, the proposed concepts appear to be more of a rephrasing of particular aspects of the objectives of financial reporting and the qualitative characteristics, rather than presentation concepts that build upon those objectives and qualitative characteristics.

As an aside, we note that Table 1 states “relevance is important when distinguishing between core and supporting information.” We assume that all information disclosed in the GPFR is relevant, and we note that CF-ED 1 does not identify different levels of relevance. We recommend that this comment be clarified. This also links back to our earlier comments on developing a concept for distinguishing between core and supporting information.

Specific Matter for Comment 6

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and
- (b) Any suggestions you have for developing these techniques.

The IPSASB may find it useful to develop a non-binding supporting document which includes criteria such as those in paragraphs 6.12, 6.17, 6.24 and 6.27. In our view, the content of these paragraphs is operational in nature and will change as alternative presentation tools are developed. We do not support their inclusion in the Conceptual Framework. In particular, decisions about line items, the use of tables and graphs belong either at the standards level or with the entity preparing the GPFR.

The proposal that does belong within the Conceptual Framework is the development of criteria to assist in distinguishing between core and supporting information within a particular GPFR information area (paragraph 6.17(a)) as this distinction is core to many of the proposals in the CP.