NZ ACCOUNTING
STANDARDS
BOARD

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Submitted to: www.ifac.org

Dear Andreas

Consultation on IPSASB Work Program 2012-2014

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the Consultation Paper *Consultation on IPSASB Work Program 2013-2014* (CP). The CP has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

We strongly support the International Public Sector Accounting Standards Board's (IPSASB) objective of setting high quality principle-based standards. We have a particular interest in the widespread adoption of high quality International Public Sector Accounting Standards (IPSASs). Our recent decision to adopt a multi-standards approach means that the PBE Standards applied by public benefit entities[1] (PBEs) in New Zealand are based substantially on IPSASs. For-profit entities will continue to apply New Zealand Equivalents to International Financial Reporting Standards[2] (NZ IFRSs).

As we have previously alerted you in our letter dated 6 June 2012, one of the issues that has arisen as a result of our multi-standards approach relates to the application of IPSAS 6 *Consolidated and Separate Financial Statements* when the entity preparing the consolidated financial statements is a PBE that controls entities reporting under a different suite of accounting standards, for example, International Financial Reporting Standards (IFRSs) (the mixed group issue).

We consider that there is a risk to the adoption of IPSASs and the integrity of reporting by entities if IPSASs and IFRSs diverge unnecessarily and create significant compliance costs. That is, if divergence arises for reasons other than differences between the constituencies serviced by the IPSASB and the International Accounting Standards Board (IASB). These differences may arise in standards addressing transactions that many would regard as sector neutral because of the different timing of the two Boards' agendas, differences in the

[1] PBEs are not-for-profit public and private sector entities.
[2] NZ IFRSs are word-for-word the same as IFRSs.

respective developing conceptual frameworks and/or different accounting recognition and measurement approaches being developed. We urge the IPSASB and the IASB to work together to minimise differences between the two suites of standards that are not due to sectoral differences. The mixed group issue will assume greater significance as more jurisdictions adopt both IPSASs and IFRSs and, particularly, as requirements in these sets of standards diverge in their treatment of transactions where there are no apparent sector-specific differences.

The NZASB recently issued a consultation paper[3] for a proposed Explanatory Guide explaining its policy on how it will consider the implication for PBEs of new or amended standards issued by the IASB. However, we urge the IPSASB to consider, with urgency, what it can do to prevent unnecessary differences arising between the two suites of standards. If the IPSASB does not address the issue then there is a risk to the integrity and adoption of IPSAS as, in order to ease the compliance burden, individual jurisdictions may:

a. create "IPSAS-like" versions of any new or amended IFRSs; or
b. provide exemptions from uniform accounting policies in specific standards; or
c. permit the separate presentation of information on certain elements.

We consider that guidance from the IPSASB on the mixed group issue will go a long way to facilitate the adoption of IPSASs.

Current work program

In terms of the projects on the IPSASB's current work program, we strongly support the IPSASB continuing to make the development of the public sector conceptual framework its highest priority. The completion of the conceptual framework is critical as it will provide a conceptually sound basis for all IPSASs.

In terms of the other projects on the current work program, we recommend that the IPSASB gives the next highest priority to the financial instruments projects: Public Sector Financial Instruments and Amendments to IPSASs 28-30. Aspects of financial instruments are found in all financial statements and the sovereign debt crisis highlights the importance of accounting appropriately for financial instruments.

In our view, accounting for the majority of financial instruments should be sector-neutral. The IASB appears to be in an advanced stage in its development of IFRS 9 *Financial Instruments*, and we anticipate that public sector entities will be interested in the IPSASB's view of the suitability of these developments for the public sector. We recommend that the IPSASB commences a project on updating IPSASs 28-30 as soon as the IASB's decisions are clear rather than awaiting the issuance of the final version of IFRS 9. In our view, waiting for the completion of IFRS 9 before the IPSASB undertakes any work will add an unnecessary delay to the issue of revised IPSASs 28-30.

We also support the IPSASB's biennial improvements project which should include updating the various standards set out in the additional potential projects list (for example, borrowing costs, presentation of financial statements and related party transactions). We consider it

[3] http://xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/Current_Exposure_Drafts.aspx

important that IPSASs are kept up to date and improved, as necessary. We consider a biennial approach to be appropriate in terms of timing.

Additional potential projects

In relation to the items on the additional potential projects list, we consider that IPSASB should accord a high priority to considering the appropriateness for the public sector of the current projects on leases and revenue recognition that are being undertaken by the IASB. Both of these projects address transactions that are commonly found in the public sector and, in our view, should, in general, be sector-neutral.

Given that there are a limited number of projects that could be added to the IPSASB work program for 2013-2014, we recommend that in addition to leases and revenue recognition, the IPSASB should pursue a project addressing emissions trading schemes. Their use is increasing globally, and appropriate accounting by both operators of these schemes and emitters subject to the schemes is becoming increasingly urgent. We understand that there is diversity in practice with divergent treatments by entities of seemingly similar schemes. Additionally, accounting for emissions trading schemes will become increasingly important for many governments.

We note the comments in the CP on the environment facing the public sector and IPSASB. In relation to communication and promoting the adoption and implementation of IPSASs, we strongly encourage the IPSASB to continue in its efforts to promote IPSASs: we consider it important that the IPSASB sets as a priority the promotion of IPSASs as a set of high quality standards that are appropriate and relevant for the public sector in the way that IFRSs issued by the IASB are seen as being appropriate for the for-profit sector. While we acknowledge the work of individual IPSASB Board members in actively promoting the use of IPSASs, we consider that, to increase its effectiveness, this activity needs to be structured and included in the IPSASB's work program.

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely

Michele Embling
Chairman