Auckland Council
Te Kaunihera o Tāmaki Makaurau

Warren Allen, Chief Executive
External Reporting Board
Email: submissions@xrb.govt.nz

30 June 2016

Dear Warren

Auckland Council submission to ED NZASB 2016-1 to 5 PBE Interests in Other Entities

Thank you for the opportunity to comment on the exposure drafts in relation to PBE Interests in Other Entities.

Auckland Council is Australasia's largest local government entity and is made up of the Council and six substantive council controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations.

We believe that the proposed exposure drafts are generally consistent with NZ IFRS equivalents, thus, limiting consolidation issues arising from "mixed groups".

We have given our responses to the specific questions for the respondents as an attachment to this letter along with our additional comments for the XRB's consideration.

The responses in this letter were also reviewed and agreed with Auckland Transport, one of the council controlled organisations.

Once again, thank you for the opportunity to comment.

Yours sincerely

Kevin Ramsay
General Manager Corporate Finance
and Property
AUCKLAND COUNCIL

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Francis Caetano
Group Financial Controller
AUCKLAND COUNCIL

Attachment – Auckland Council's Responses to Specific Matters for Comment requested for Exposure Drafts PBE Interests in Other Entities

ED NZASB 2016-1 PBE IPSAS 34 *Separate Financial Statements*

1. Do you agree that no substantive changes to IPSAS 34 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

   Auckland Council's response:
   We have the following interpretations of the errors which the XRB has suggested to us to look at:

Paragraph and wording in the ED	Comment
▪ Paragraph 12 The entity shall apply the same accounting for each category of investments.	IPSASB has agreed to delete this sentence because IPSAS 35 will require different accounting treatment for different types of controlled entities. The IPSASB wanted to avoid the possibility that readers would interpret this paragraph as requiring the same accounting for all controlled entities. (*Based on IPSASB minutes of meeting, December 2014 agenda item 3.2*). We note the decision of the XRB to retain this sentence in New Zealand environment. We support the XRB in retaining this sentence if the reason is to promote consistency in how the parent entity accounts for same nature investments, for example, all investments in joint ventures that are accounted using equity method at consolidation, are all accounted for at cost by the parent entity, as a policy choice. This is how we interpret the meaning of the last sentence of paragraph 12.
Paragraph 14 in relation to the 2nd sentence as follows: "If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements."	We note that this appears to be the process for a non-investment parent entity to consolidate a controlled investment entity not to account for the controlled investment entity in the non-investment parent entity's separate financial statements. There is therefore, no guidance on how to account for the controlled investment entity in the separate financial statements of a non-investment parent entity. Please also refer to the basis of conclusion 9, page 18 of PBE IPSAS 34.

Paragraph and wording in the ED	Comment
Paragraph 22 – If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by PBE IPSAS 38.	We believe that this disclosure guidance is for consolidation of a non-investment entity with a controlled investment entity, which is already covered under PBE IPSAS 35. This is not applicable to the requirements of PBE IPSAS 34 as it is irrelevant to the parent accounts, thus, we suggest deleting this. Also, the reference made to paragraph 56 of PBE IPSAS 35 is not related since this paragraph applies to a controlling entity that is an investment entity.

ED NZASB 2016-2 PBE IPSAS 35 *Consolidated Financial Statements*

2. Do you consider that the IPSASB's reasons for retaining investment entity accounting in the financial statements of a non-investment controlling entity are relevant for both public sector and not-for-profit public benefit entities in New Zealand? If you do not agree, please explain why.

   Auckland Council's response:
   Yes, this is still relevant if Auckland Council and/or any of its controlled entities, in future, acquire entities that fall into the definition of "investment entities".

3. Do you agree with how we have proposed to modify IPSAS 35 by including more guidance on predetermination (see paragraphs 21, 29.1, 35.1, AG8.1, AG53 and Example 29A)? If you do not agree, please explain why.

   Auckland Council's response:
   We agree with the decision of the XRB to include more guidance on predetermination. This is helpful especially in determining who controls a charitable trust entity, which is common to the Group.

4. Do you agree with the proposal to include integral application guidance on network and partner agreements in PBE IPSAS 35 (paragraphs AG31.1 to AG31.7)? If you do not agree, please explain why.

   Auckland Council's response:
   Yes, we agree.

5. Do you agree with the other proposed modifications to IPSAS 35 in PBE IPSAS 35? If you disagree, please provide reasons and indicate the nature of any additional modifications that you consider to be appropriate.

   Auckland Council's response
   Yes, we agree. The "mixed groups" guidance is helpful to New Zealand environment because of the multi-standards approach. This specifically impacts Auckland Council Group because Ports of Auckland is a for-profit entity adopting NZ International Financial Reporting Standards.

ED NZASB 2016-3 PBE IPSAS 36 *Investments in Associates and Joint Ventures*

6. Do you agree that no substantive changes to IPSAS 36 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

   Auckland Council's response
   Yes, we agree. We have no further comments and we are supportive of the removal of proportionate consolidation as a policy choice in accounting for joint ventures. Auckland Council Group does not apply this accounting treatment to the joint ventures.

ED NZASB 2016-4 PBE IPSAS 37 *Joint Arrangements*

7. Do you agree with the proposed modifications to IPSAS 37 in PBE IPSAS 37? If you disagree, please provide reasons and indicate that the nature of any additional modifications that you consider to be appropriate.

   Auckland Council's response
   We agree with the XRB in adding additional guidance on *"Accounting for Acquisitions of Interests in Joint Operations"* because this is also applicable to Auckland Council Group.

   We have no further comments as we recognise the consistency between PBE IPSAS 37 and NZ IFRS 11 *Joint Arrangements,* which is applicable to for-profit entities. This will reduce potential issues for mixed groups.

ED NZASB 2016-5 PBE IPSAS 38 *Disclosure of Interests in Other Entities*

8. Do you agree that no substantive changes to IPSAS 38 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

   Auckland Council's response
   Based on our understanding, the new concept of "structured entity" will have limited impact to public benefit entities in New Zealand. However, we can envisage such an entity being established, e.g. captive insurance vehicle.

   We have no further comments on the proposed ED.

General

9. Do you agree with the Reduced Disclosure Regime (RDR) concessions proposed in the EDs? If you disagree, please provide reasons and indicate any additional concessions that you consider would be appropriate.

   Auckland Council's response

   We agree with the RDR concessions because these will benefit those medium sized entities when they adopt the PBE standards and, therefore need only to disclose what is required relative to their size.

10. Do you agree with the proposal that the final PBE Standards should have an effective date of 1 January 2019, with earlier application permitted?

    Auckland Council's response

    We agree with the proposed date with earlier application permitted.

11. Do you have any other comments on the EDs?

    Auckland Council's response

    No further comments.