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15 February 2016

## ***Exposure Draft NZASB 2015-7: PBE Conceptual Framework***

Dear Warren

The New Zealand Accounting Standards Board (NZASB or Board) has sought submissions relating to *Exposure Draft NZASB 2015-7: PBE Conceptual Framework* (ED).

PwC New Zealand is pleased to present its submission.

Overall, we are supportive of the NZASB's proposal to incorporate the IPSASB's Conceptual Framework into the suite of PBE Standards to replace the current PBE Framework that is based on the IASB's Framework for for-profit entities. We believe that incorporating the IPSASB's Framework will fill in a gap that existed within the PBE Standards suite while the IPSASB was developing that Framework. We also believe that incorporating the IPSASB's Framework into the PBE Standards suite will bring considerable benefits to preparers and users of financial statements through explanation of concepts and terms used in IPSASs, for example what is meant by 'service potential' or 'service performance'.

Below we have outlined our specific comments to the questions in the Invitation to Comment issued by the NZASB accompanying ED 2015-7.

***Question 1: Do you agree that the proposed PBE Conceptual Framework is suitable for application by all public benefit entities (both public sector and not-for-profit entities) in New Zealand? If you disagree, please provide reasons and indicate the nature of any modifications that you consider to be appropriate. Please organise comments by chapter.***

We agree that the proposed PBE Framework is suitable for application by PBEs in New Zealand. We also support its introduction to replace the current PBE Framework as soon as possible for a number of reasons.

We believe that a significant improvement will be achieved in the quality of the PBE Standards suite by replacing the current PBE Framework that is based on a Framework originally developed by the IASB for for-profit entities with a Framework specifically developed with the public sector in mind. With the NZASB modifications reflecting the characteristics of not-for-profit PBEs, we believe that it is suitable for both the public and not-for-profit sectors in New Zealand.



At the same time we think it is critical that the PBE Framework is as aligned as possible with the IASB's Framework unless the differences between the sectors necessitate differences in the underlying concepts. Therefore an alternative to adopting the IPSASB's Framework now would be to delay its incorporation into the PBE Standards until the IASB finalises its own Conceptual Framework. However, on balance, we believe that it would be beneficial to introduce the new Framework as soon as possible given that any new IPSAS Standards (which form the basis of PBE Standards) issued in the future will be based on the IPSASB's new Framework. Therefore instead of delaying the introduction of the new PBE Framework, we recommend that the Board monitors the development of the IASB's Framework and addresses any differences that may cause concern at the time that Framework is issued.

**Question 2: Do you agree with the NZASB's proposal to retain the IPSASB's reference to other resources and other obligations in Chapter 5, but to carefully consider any requirements to recognise other resources or other obligations in new or revised IPSASs? If you disagree, please explain why and propose an alternative approach.**

On balance, we agree with the proposal to retain the reference to other resources and other obligations until the issues relating to non-exchange transactions have been fully debated as part of the IPSASB's future work plan.

We do not believe that allowing the recognition of economic phenomena that do not meet the definition of an element, as described in p.5.4 is appropriate. Concepts in the Framework should be based on principles that could be applied to a range of transactions and events. Recognising items other than elements defined in the Framework in the Statement of Financial Position can lead to confusion. In particular, the objectives of the Statement of Financial Position and Financial Performance and what information these statements are meant to portray may become unclear not helped by the fact that the resulting 'net financial position' does not equal 'equity' (as discussed in p.5.28).

Notwithstanding the above, we understand that this reference was retained to allow for standards level requirements to address accounting issues associated with multi-year grants as many argue that recognition of revenue when control is obtained does not provide meaningful information about the entity's current performance when the revenue is intended to fund operations in future periods.

We acknowledge that this is an important issue which needs to be resolved and that further conceptual thinking is needed in this area. This is planned as part of the IPSASB's revenue project. To remove the IPSASB's reference to other resources and obligations at this stage would, in our view, pre-empt this debate and result in an arguably premature divergence from underlying IPSAS.

We recommend that:

- As part of its input into the due process, the Board continues to raise alternative solutions to deal with the tension between the definition of elements and portraying a meaningful information about an entity's performance in relation to grants. These may include developing appropriate presentation and disclosure requirements (for example the use of other comprehensive income or the presentation of the statement of financial performance using a columnar format) at standard level which would provide relevant information to the users of the financial statements.
- We also agree with the NZASB carefully considering any future proposals of the IPSASB to require or permit recognition of other resources or other obligations within an IPSAS as the NZASB has noted in its Basis for Conclusions on Chapter 5.



**Question 3: Do you agree with the proposed definition of equity? If you propose any modifications to the definition, please explain why and outline your suggested changes.**

We agree.

We are comfortable with the inclusion of the proposed definition of 'equity' for the reasons given in the NZASB's Basis for Conclusions on Chapter 5.

We also believe that defining 'equity' is useful as a number of PBE Standards use the term 'equity'. For example the term 'equity' is used in the definition of a 'PBE' as defined in XRB A1 and in the definition of 'contributions from owners' in PBE IPSAS 1.

Further, the term 'equity' is used in the definition of 'equity interest' and 'owners' in PBE IFRS 3. These definitions are helpful in determining whether an ownership interest exists (which sometimes may not be clear, for example in relation to Trusts).

The proposed definition is also consistent with the definition of an 'equity instrument' in PBE IPSAS 28 p.9. Defining 'equity' as an element is helpful when determining whether an economic phenomena is a 'financial instrument' and whether a financial instrument is a 'financial liability' or 'equity'.

**Question 4: Do you agree with the NZASB's proposal to retain the IPSASB's references to the statement of financial performance (even though PBE Standards refer to the statement of comprehensive revenue and expense)? If you disagree, please explain why and propose an alternative approach.**

We agree.

We are comfortable with the NZASB's approach of retaining the references to statement of financial performance until the IPSASB reviews IPSAS 1 as outlined in the NZASB's Basis for Conclusions on Chapter 5.

**Question 5: Do you have any other comments on ED NZASB 2015-7?**

*Definition of revenue*

The PBE Framework describes 'revenue' as an element which is consistent with the use of that term throughout the suite of PBE Standards. However, the current for-profit Framework and the IASB's Conceptual Framework ED uses the term 'income' to describe the element. 'Income' includes 'revenue' and other inflows.

Consequently, the term 'revenue' is used differently in the two sets of standards and this has the potential to be confusing. For example, NZ IAS 1 and PBE IPSAS 1 both require an entity to present revenue as a line item in the statement of financial performance/statement of comprehensive revenue and expense. It seems from the above definitions that this would result in other gains and losses being presented in revenue for a PBE and below revenue for a for-profit entity.



We recommend that the NZASB considers whether this difference in the suites of standards can be eliminated.

We also recommend that the NZASB reviews the presentation of gains and losses when the IPSASB updates IPSAS 1.

Should you wish to discuss the above, please do not hesitate to contact Lyn Hunt on (09) 355 8863.

Yours sincerely

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