EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

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Submitted to: www.ifac.org

Dear Stephanie

Consultation Paper: The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities

The External Reporting Board (XRB) of New Zealand welcomes the release of the Consultation Paper and thanks the International Public Sector Accounting Standards Board (IPSASB) for the opportunity to comment.

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand.

Background

The XRB has recently established a new Accounting Standards Framework based on a multi-sector, multi-standards approach. For-profit entities in New Zealand have, since 2005-2007, been using standards that are effectively International Financial Reporting Standards (IFRS). Public benefit entities[1] (PBEs) now report using PBE Standards which are based on International Public Sector Accounting Standards (IPSAS).

In adopting IPSASs for PBEs, the XRB did not adopt the IPSASB's definition of Government Business Enterprises (GBE) to determine which entity should apply PBE Standards mainly because of the types of issues with the GBE definition that have been highlighted in the Consultation Paper. The XRB did not consider that the definition appropriately identified the entities that should apply PBE Standards.

Under the Accounting Standards Framework in New Zealand, entities designate themselves as either for-profit entities or PBEs. In New Zealand, PBEs are reporting entities whose primary

[1] Public benefit entities comprise public sector entities and not-for-profit entities. Public sector public benefit entities will apply PBE Standards from 1 July 2014, and not-for-profit public benefit entities will apply these standards from 1 July 2015.

objective is to provide goods and services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. Appendix A *When is an Entity a Public Benefit Entity* to Standard XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities plus Not-for-profit Entities Update)*[2] provides the necessary guidance to assist the entities to make this designation. Whether an entity is a PBE is determined by the primary objective of the entity. The guidance provides a series of indicators (and examples) that focus on the substance of an entity's purpose and which an entity should consider in determining whether it is a PBE. These indicators are:

- The entity's founding documents;
- The nature of the benefits;
- The quantum of expected financial surplus;
- The nature of the equity interest; and the nature of an entity's funding.

The guidance acknowledges that, in some instances, there may be conflicting indicators and professional judgement is required.

The New Zealand approach is similar in principle to that proposed by the IPSASB as Option 1a. Accordingly, the XRB strongly supports this option because it is appropriate that regulators and other relevant authorities should determine which entities should apply IPSASs within individual jurisdictions.

Specific Matters for Comment

Specific Matters for Comment 1
Do you agree with the IPSASB's PV? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.

The XRB supports the IPSASB's preferred approach (Option 1a within Approach 1) which proposes to describe the characteristics of public sector entities for which IPSASs are intended without formally defining the term GBE.

We also agree with IPSASB's proposed description of the characteristics of public sector entities and that IPSASs are designed to apply to entities that:

a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth; and

b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.

[2] Standard XRB A1 is accessible on: http://xrb.govt.nz/includes/download.aspx?ID=133368

We support this option on the basis that it rightly focuses on describing the characteristics of entities for which IPSASs are intended to apply and reflecting the concepts and descriptions in the Conceptual Framework. We support its principle-based approach and the acknowledgement of the role of regulators and other relevant authorities in determining which entities should apply IPSASs within individual jurisdictions.

From New Zealand's perspective, this is consistent with the manner in which we have adopted and applied IPSASs for our PBEs. The option is also consistent with our guidance on how an entity determines if it is a PBE. Option 1a is also consistent with the approach adopted by the IASB and, in this respect, the XRB supports having a consistent and coherent approach across both the for-profit and PBE sectors.

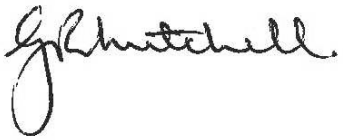
We do not support Option 1b as GFS concepts are not concepts that are commonly used for financial reporting purposes in New Zealand. Moreover, it is our view that the GFS concepts are not sufficiently clear-cut and are too rules-based. We are not in favour of the possibility that the approach may require the introduction of terms and explanations from the GFS literature into the IPSASB literature. We think this may be confusing, especially if the terms are inconsistent with concepts used for financial reporting purposes, for example, the concepts of control and consolidation.

Specific Matters for Comment 2
If you do not agree with the IPSASB's PV, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.

The XRB does not support Approach 2 because we do not consider that it will resolve all the issues with the current definition of GBE. Moreover, not being principle-based, the modified definition is likely to become dated quickly.

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



Graeme Mitchell
Chairman
External Reporting Board