



30 March 2017

Warren Allen
Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Dear Warren

Exposure Draft NZASB 2016-11 PBE IPSAS 39 Employee Benefits

We appreciate the opportunity to comment on Exposure Draft NZASB 2016-11 PBE IPSAS 39 Employee Benefits (the exposure draft).

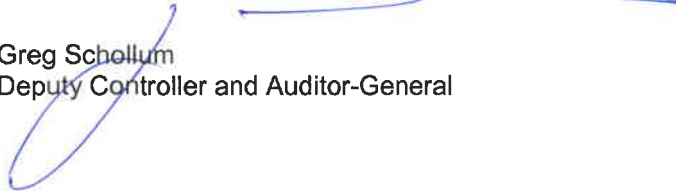
In our view, there are no significant requirements in the exposure draft that would be inappropriate in the New Zealand environment.

Our responses to the Questions for Respondents outlined in the *Invitation to Comment* are attached. Please note that our comments relate primarily to PBEs in the public sector.

Our comments on the exposure draft are a result of collaboration between staff at Audit New Zealand and the Office of the Auditor-General.

If you have any questions about our submission, please phone Todd Beardsworth on 021 244 0727 or email him at todd.beardsworth@oag.govt.nz.

Yours sincerely


Greg Schollum
Deputy Controller and Auditor-General

Our responses to the questions in the Invitation to Comment

- 1 **Do you agree that no substantive changes to IPSAS 39 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.**

Yes, we agree.

- 2 **Do you agree with the proposed RDR concessions in ED PBE IPSAS 39? If you disagree, please provide reasons and indicate what concessions you consider to be appropriate.**

Yes. We did not identify any issues with RDR concessions in the exposure draft.

- 3 **Do you agree with the proposed effective date of 1 January 2019, with early adoption permitted? If you disagree, please provide reasons.**

Yes, we agree.

- 4 **Do you have any other comments on ED PBE IPSAS 39?**

Yes. Although there are no significant requirements in the exposure draft that would be inappropriate in New Zealand, we make the following comments which could improve the exposure draft.

Clarify Composite Social Security Programs

We are not aware of Composite Social Security Programs in the New Zealand public sector, and we expect that most preparers do not know what Composite Social Security Programs are. We also note the IPSASB's comments in paragraphs BC5 and BC6 of the exposure draft which essentially says that these programs are very uncommon.

We recommend that the NZASB either removes all references to Composite Social Security Programs from the exposure draft, or makes it clear what they are, perhaps by defining them, and noting that the NZASB is aware of such programmes in New Zealand.

Provide guidance on 'extrapolating market rates along the yield curve'

When determining the discount rate to apply to payments with very long maturities, paragraph 88 of the exposure draft notes that an entity may need to estimate the discount rate by extrapolating current market rates along the yield curve. From our experience, determining the yield curve beyond 10 to 12 years can be very subjective and it can have a significant effect on the discount rates applied and the size of the resulting liabilities.

The New Zealand market does not tend to have bonds with maturity dates much beyond 10 to 12 years. However, a number of public sector PBEs have employee benefits, and similar long term obligations, where payments are made during a much longer period, some of them more than 40 years.

In our view, guidance would help provide clarity about how to extrapolate market rates along the yield curve.

The definition of short-term employee benefits

The definition of short-term employee benefits in paragraph 8 of the exposure draft (based on when benefits are due) appears to incorrectly include wording from the previous definition contained in PBE IPSAS 25 (which is based on an older version of IAS 19).

The definition of short-term employee benefits needs updating to align with the wording used in paragraphs 5, 9 and 10 (based on when benefits are expected to be settled), which will in turn ensure it aligns with the definition in NZ IAS 19 (Revised).

We note the definition in paragraph 8 of the exposure draft is the same as that in paragraph 8 of IPSAS 39, so it appears the IPSASB in developing IPSAS 39 has inadvertently not fully updated the short-term employee definition to refer to "expected to be settled".