

AC-4-5-12

7 April 2017

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

Dear Warren

**ED NZASB 2016-11 – IPSAS 39 EMPLOYEE BENEFITS**

Thank you for the opportunity to comment on ED 2016-11 IPSAS 39 *Employee Benefits*.

The new requirements proposed will have a significant impact on the way we present the revaluation of the Government Superannuation Fund (GSF) in the Financial Statements of the Government. GSF is one of the largest employee defined benefit plans in New Zealand. As at 30 June 2016 the present value of the unfunded defined benefit obligation was NZD12.4 billion.

Under the new the requirements we would expect the majority of annual actuarial gains and losses to be presented in other comprehensive revenue and expenses (the PBE's equivalent of "OCI"), rather than being incorporated in the Government's operating balance. To provide some context for this change, under the current accounting standard actuarial re-measurements recorded in the operating balance over the last five years have been:

Year	Gain/(Loss) billions
2016	(2.00)
2015	(0.30)
2014	0.60
2013	1.30
2012	(3.60)

In our view, any re-estimation movements that are not including in the operating balance, but included in the PBE equivalent of OCI will inevitably get less visibility in relation to an entity's performance, because OCI movements may be interpreted by users as movements in "reserves" rather than portraying relevant information on operations.

Our concern with the proposal in the ED is that it will result in an inconsistent treatment between the actuarial re-estimation of defined benefit schemes and long-term insurance schemes such as ACC Insurance which leads to a communication challenge to be able to explain this to users.

We see economic similarities between the Government underwriting long-term insurance claims and underwriting an employee defined benefit pension scheme; consequently, both result in actuarial re-measurements at each reporting date. For example, both schemes are very sensitive to a change in discount rate when calculating long term future cash flows into present day dollars at each reporting date. Even if there is no change in the re-estimation of future cash flows, the change in discount rate alone by 1% can impact the GSF and ACC actuarial valuations by several billion dollars.

From a user's perspective, having the actuarial re-measurements of these two schemes presented inconsistently in the financial statements is likely to be confusing. We are not clear what the conceptual basis is for this inconsistent treatment in the accounting standards.

Our preference is that actuarial re-measurements of both schemes are presented consistently in the Financial Statements of Government. If the treatment is inconsistent, an explanation is needed to ensure the important credibility of both fiscal reporting and of the standards that underpin it are maintained. We therefore request the board to provide an explanation on why the accounting treatment differs between similar actuarial re-measurements (i.e. between pension accounting and long-term insurance).

The Treasury is pleased to submit its response to NZASB's specific questions below.

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.

The Treasury agrees that no substantive changes to IPSAS 39 are required to make it suitable for application by PBEs in New Zealand.

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

We have no experience in applying RDR concessions for the Financial Statements of the Government but the RDR proposals appear reasonable to us.

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

Yes.

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

No, other than our concern about the inconsistency of treatment of actuarial gains and losses when re-estimating an obligation related to the underwriting of a defined benefit scheme and the underwriting of an insurance scheme.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Warren', with a large, stylized initial 'K'.

Ken Warren  
Chief Accounting Advisor

