

14 November 2019

April MacKenzie
Chief Executive
External Reporting Board
PO Box 11250
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Wellington 6142

Dear April

Auckland Council's submission to Targeted Review of New Zealand Accounting Standards Framework

Thank you for the opportunity to comment on the discussion paper on the Targeted Review of New Zealand Accounting Standards Framework.

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 have provided our responses to the specific questions for the respondents in Appendix 1 to this letter, along with our additional comments for the XRB's consideration.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang using the details provided below.

Yours sincerely



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Section A: Questions for Respondents

General Comments

1. Are you aware of any developments in the financial reporting environment (in addition to the ones described in the Discussion Paper) or any unintended consequences that would require refinements to the Accounting Standards Framework?

We are not aware of any additional developments in the financial reporting environment or any unintended consequences requiring refinements to the Accounting Standards Framework.

2. Do you have any other comments about the Accounting Standards Framework?

We do not have any other comments about the Accounting Standards Framework.

Specific Matters for Comment (SMCs)

SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS

Question 3: Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?

Please provide reasons for your response.

From Auckland Council Group's point of view, we are in favour of prioritising local consideration to ensure that PBE Standards are "fit for purpose" for the New Zealand environment. This is because Auckland Council Group is a mixed group with a subsidiary reporting under IFRS and debt instruments listed in New Zealand, Singapore and Switzerland. We believe it is important for the accounting of transactions of the same substance for there to be close alignment between PBE standards and NZ IFRS (transaction neutrality); unless the NZASB believe there is a clear public sector reason to deviate. This eliminates the need to account for differences between NZ IFRS and PBE IPSAS upon consolidation while providing investors with financial information prepared using accounting standards that are not significantly different from IFRS.

Compliance costs are also a factor in considering whether a PBE standard is “fit for purpose”. Public benefit entities, including not-for-profit entities are mainly funded by monies collected from taxpayers, ratepayers and donors. This places a duty on these organisations to ensure prudent management of public funds, with minimal waste or unnecessary costs. When considering whether to require a change in accounting treatment the benefits to public sector stakeholders must outweigh the cost of implementation.

Where a new IPSAS proposes an accounting treatment which differs from an existing IFRS standard, the benefits to the user must outweigh the costs of deviating. A current example is the proposed fair valuation of concessionary leases under ED64, where the compliance costs to implement the standard will be significant, with little benefit to users. Alternative narrative disclosures may provide useful information to users in a cost-effective way, ensuring better use of public funding. Compliance costs should always be considered where the “theoretical” approach on paper may not be the most suitable approach in practice.

We note IPSAS are developed to suit a wide range of jurisdictions around the world, and as such is not at the stage where all local considerations can be considered. New Zealand PBEs are relatively advanced compared to many other constituents in IPSASB, for example the preparation of New Zealand general purpose financial reports (GPFR) on an accrual basis. There is a risk that IPSASB may develop standards which are not suitable for the advanced minority such as New Zealand. “Fit for purpose” should be a key indicator of whether an IPSAS standard, or parts of, should be adopted. As adoption of IPSAS increases, the risk of IPSAS not being relevant for New Zealand decreases, because more of the standard setters will be the standard users.

Question 4: If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?

We do not think that close alignment is more important than prioritising local considerations.

Question 5: If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards, as suggested under [Option 2 in Chapter 4 of the Discussion Paper](#)?

Flexibility to consider whether to incorporate IPSAS into PBE Standards rather than maintaining close alignment with IPSAS

We agree with the proposed Option 2 in Chapter 4 of the Discussion Paper. In this situation, the NZASB will be the PBE standard setters, and the key considerations when setting PBE standards will be what works for New Zealand, rather than what modifications should be made to IPSAS to fit New Zealand.

Where a new IPSAS is issued, NZASB has the option to incorporate as much of IPSAS as possible, where the outcomes benefit NZ PBEs, such as improving the quality of financial reporting. Key situations which can be avoided are:

- 1) incurring costs to comply with IPSAS without any financial reporting benefit to users of NZ PBEs
- 2) NZ PBEs fundamentally disagreeing with accounting treatments proposed by IPSAS
- 3) newly issued IPSAS which are not relevant to the NZ Public Benefit Entity.

Developing IFRS equivalent standard for PBE sector ahead of IPSAS rather than waiting for IPSASB to complete an alignment project

We agree with this suggestion as this helps to eliminate the need of preparing consolidation adjustments to account for difference between IFRS and IPSAS for a mixed-group entity like Auckland Council.

With IPSASB lagging in this aspect, New Zealand can contribute by taking a proactive role in developing an IFRS equivalent standard to address public sector needs. Should IPSASB decide to develop a similar standard in future, New Zealand would be in a good position to provide useful recommendation to refine the requirement of standard after going through the thought process and implementation stage.

Question 6: Do you have any other comments on the way IPSAS are used as the base for PBE Standards?

We do not have further comments.

SMC 2: Importance of retaining harmonisation with Australia for Tier 2 for-profit disclosures

Question 7: How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?

Question 8: If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?

Please provide reasons for your response.

Australia is one of New Zealand's largest trading partner. We believe aligning New Zealand's accounting standards with Australia is very important for comparability purposes.

More than 90% of New Zealand companies are small medium enterprises and there are companies that report using Tier-2 for-profit regime with operations in both Australia and New Zealand. These entities would benefit from retaining harmonisation with Australia.

Question 9: Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?

We do not have further comments.

SMC 3: Do the PBE tier size criteria need to be revisited?

Question 10: Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?

We are not aware of any.

Question 11: If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?

Please provide reasons for your response, and any suggestions you may have for what the thresholds should be.

We believe the current PBE tier size is still fit for purpose.

Question 12: Do you have any other comments on the tier size criteria for PBEs?

We do not have further comments.

Text to be input into online submission form.

Approved by:



Nicola Mills
GM Financial and Business Performance

Date: 13 /11/2019



Matthew Walker
Group Chief Financial Officer

Date: 13 /11/2019