



TE TAI ŌHANGA  
THE TREASURY

29 November 2019

Chief Executive  
External Reporting Board  
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Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

Dear Warren

**Invitation to Comment: Targeted Review of the New Zealand Accounting Standards Framework**

The New Zealand Treasury welcomes the opportunity to provide comments to the External Reporting Board (XRB) on the Targeted Review. We apologise for this submission being late.

We have limited our responses to Specific Matter for Comment (SMC) 1: *Importance of maintaining close alignment between PBE Standards and IPSAS.*

We do not have any experience or views to offer in relation to SMC 2 (whether the PBE tier size under the framework needs to be reconsidered) nor SMC 3 (the extent of harmonisation with Australia for Tier 2 for-profit disclosure requirements, also known as the reduced disclosure regime). As a result, we have not answered the related questions in the Targeted Review.

We have attached our responses to the specified questions for comment under SMC 1.

Yours sincerely

A handwritten signature in blue ink that reads 'Jayne Winfield'.

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*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?*

No.

**Specific Matters for Comment (SMC) 1: Importance of maintaining close alignment between PBE Standards and IPSAS**

*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?*

We find it difficult to respond categorically to this "either/or" question without knowing the consequences of the answer on specific standard setting projects.

The Targeted Review discusses in detail the challenges of developing the PBE suite of standards in the multi-sector environment and the history behind XRB's policy to setting PBE standards, including the "development principle". We note the development principle requires the XRB to consider a number of factors when considering changes to the PBE Standards suite, such as

- (a) Whether the potential development will lead to higher quality financial reporting by public sector PBEs and NFP PBEs, including public sector PBE groups NFP PBE groups, than would be the case if the development was not made; and
- (b) Whether the benefits of a potential development will outweigh the costs, considering as a minimum:
  - (i) relevance to the PBE sector as a whole: for example, where the potential development arises from the issue of a new or amended IFRS Standard, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;
  - (ii) relevance to the NFP or public sector sub-sectors: whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;
  - (iii) coherence: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);
  - (iv) the impact on mixed groups; and
- (c) In the case of a potential development arising from the issue of a new or amended IFRS Standard, the IPSASB's likely response to the change (e.g. whether the

IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).

We think the development principles in the policy reflect a comprehensive set of appropriate factors that the XRB should consider when amending the PBE standards suite. They could be summarised as a public interest principle, a cost-benefit principle and a risk management principle.

We also note that to apply the development principles, the XRB developed in the PBE policy, a number of rebuttable presumptions as a structured way for the Board to work through the multiple factors requiring consideration.

In response to the challenges identified in the Targeted Review, the XRB has proposed two approaches to using IPSAS that the XRB could take when developing future PBE standards:

**Option 1:** Continuing with the **current policy of maintaining relatively close alignment with IPSAS** (i.e. the “status quo”); or

**Option 2:** A **more flexible approach** to using IPSAS as the base for developing PBE Standards.

It is difficult to understand the difference between “maintaining relatively close alignment with IPSAS” and “using IPSAS as a base”, without seeing the details of the policy under Option 2 and understanding the consequence on specific standard setting projects if Option 2 was applied. Both approaches use IPSAS as a base, so the differences in the options seem subtle to us.

We had assumed the current XRB policy for developing PBE standards was designed to provide both the XRB with a structure to debate the development principle factors, and the flexibility to address domestic issues on a project-by-project basis. This seemed sensible to us, given the XRB’s concerns about adopting “pure IPSAS” and mixed group reporting issues arising (due to unnecessary differences in the suites of standards (temporary or permanent) because of the IASB and the IPSASB different priorities, work programmes and constituencies).

The main tool in the XRB policy is working through a set of rebuttable presumptions for each standard setting project. How much, and how often the XRB rebuts a presumption is the decision of the XRB on a case-by-case basis. To that extent, the rebuttable presumption tool is a self-imposed discipline. The XRB may feel stymied by the way it has “operationalised” the development principle, but we are not sure why it should be. If the XRB can make a credible case to rebut presumptions in considering a project, that case should be made and presented to the New Zealand constituency as the PBE project is being developed. Therefore, we do not necessarily see Option 1 and Option 2 as such distinct alternatives, but rather variations of how to operationalise the same underlying development principles.

We acknowledge that the XRB has a challenging job developing a set of coherent PBE accounting given the multi-sector framework and drawing from the work of two different



international standard setters (IPSASB and IASB) who serve different constituent groups. Since 2011, we observe the XRB has been juggling projects where the IPSAS and IFRS have different international accounting requirements for like transactions and other events in similar circumstances (whether temporarily, due to IPSASB's time lag in convergence projects, or permanently, if the IPSASB and IASB reach different conclusions for similar transactions and events). As the XRB has pointed out, this can give rise to significant mixed-group financial reporting issues in the New Zealand economy. As the preparer of the Financial Statements of the Government, which is a mixed-group, we are also very concerned about the volume of unnecessary differences between the sectors growing.

We looked back at our response to ASRB and MED on the initial *Multi-sector Framework Consultation* in 2009 and have included an extract of our response in *Appendix One* as some of our comments are still relevant to this consultation. In particular, in 2009 we were concerned about whether the IPSASB would have sufficient resources to cope with an ambitious work programme for a broad range of constituents. In our view at the time, without a step change in resourcing, it would be difficult to see how the IPSASB could address both IFRS convergence projects, while addressing significant public-sector specific issues, in a reasonable timeframe. From the discussion in the current Targeted Review, it appears this risk still exists, or may even have increased.

We can see that dealing with an increasing number of mixed group reporting issues in New Zealand, if the differences between IPSAS and IFRS persist, or continue to grow, would have a significant impact on the XRB's resources when developing PBE standards locally, and note that this may not have been anticipated when the multi-sector framework was implemented.

Given this challenging context, we believe that the XRB policy approach should ensure that on a project-by-project basis, there is enough flexibility to determine on balance, whether local considerations are prioritised over the importance of IPSAS alignment.

We do not support locking into the XRB policy a bias one way or another in respect of these two factors.

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

Maintaining close alignment with international best practice is critical in a small economy New Zealand that has limited resources to develop its own independent accounting standards. This means we support a strategy of close alignment as possible with IPSAS and PBE standards, where it is appropriate. However, as we noted above, it may be more appropriate in a specific project to prioritise addressing a mixed-group reporting issue, by using IFRS as the starting point of best practice (reflected in NZ IFRS) in the PBE suite.

If the XRB decide to introduce more flexibility in their policy (Option 2) we encourage the XRB to guard against developing "special" New Zealand financial accounting for the PBE suite that does not align with any international best practice, either IPSAS or IFRS. We find it difficult to envisage any financial transactions or events that would be so unique in the New Zealand public sector, to warrant "special" domestic accounting rules, different to those in international standards. In our view, following international best practice provides additional credibility for the Government's Financial Statements, because those statements cannot be criticised as being prepared with New Zealand special preferences.

*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?*

In considering individual projects, we envisaged that the XRB may consider, on balance, that prioritising local considerations is more important, rather than aligning closely with the IPSAS.

As discussed above, we doubt that the XRB policy needs to change but are open to the XRB being more willing to rebut its own presumptions in the policy, on a case by case basis to achieve those development principles. We think the factors in the development principle are the correct ones to consider, and acknowledge that balancing of them in individual projects, given the international standard setting context, is challenging.

The important output for us as constituents is that when the XRB are consulting on a specific PBE standard project, the XRB is able to clearly articulate the factors in the development principle that were given more weight in developing proposals.

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

No.



## **Appendix One: Extract of the Treasury's 2009 submission**

### **MED/ASRB discussion document 2009: *Proposed application of accounting and assurance standards under the proposed new statutory framework for financial reporting***

... the Treasury supports the adoption of IPSASs for the public sector in New Zealand in principle where we are satisfied with the legitimacy and independence of the IPSASB. However, the Treasury believes there are significant risks with converging with IPSASs, particularly in the short term.

One of the significant questions for the Treasury is whether the IPSASB's conceptual framework would be appropriate for the New Zealand public sector and as a basis for the not-for profit sector in New Zealand. As the IPSASB has not yet developed their conceptual framework, the Treasury strongly encourages the ASRB not to make any decision to adopt IPSASs until the ASRB or the proposed XRB has had an opportunity to assess the suitability of the IPSASB conceptual framework in New Zealand.

The Treasury also believes there are risks around IPSASB's having sufficient resources for the current work programme. We are aware that the current IPSASB programme is shifting focus from the IFRS convergence project to developing a separate conceptual framework and advancing specific public sector issues. At the same time IPSASB will have to deal with the continual stream of IFRSs released by the IASB and juggle between a convergence programme and advancing separate projects. In the Treasury's view, this is an ambitious work programme and the Treasury questions if it can be achieved without significant injection of resources and funds in IPSASB. Even with a step change in resources and funding the IPSASB must serve a broad range of constituents, from those who prepare cash accounts right through to constituents, like Australia and New Zealand who have developed more sophisticated public sector accounting frameworks. The breadth of constituents to serve may also have an impact on IPSASB's priorities and where their resources can be directed.

The Treasury is very encouraged by the shift of work programme in 2010 of the IPSASB in tackling some of the more challenging public sector issues such as long-term sustainability and developing a conceptual framework specifically designed for the public sector. In our view, it's hard to imagine that New Zealand would ever have the resources to tackle these types of projects on its own. It may even be unrealistic to share the costs of such significant public sector projects jointly with Australia.

The Treasury thinks that any move to adopt IPSASs in New Zealand for the public sector must be predicated on satisfactory resolution of governance and funding issues of IPSASB, the development of an appropriate conceptual framework for adoption in New Zealand and how well IPSASB can demonstrate real progress on their ambitious work programme.

