



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

2 August 2011

Mr Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: strategyreview-comm@ifrs.org

Dear Tom

Report of the Trustees' Strategy Review: *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*

Introduction

The External Reporting Board (XRB) is pleased to submit its comments on the Report of the Trustees' Strategy Review.

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. The XRB came into being on 1 July 2011 when the Accounting Standards Review Board (ASRB) was reconstituted as the XRB with a broadened set of functions and responsibilities.

General Comments

New Zealand, as an early adopter of International Financial Reporting Standards (IFRS), strongly supports the work of the IFRS Foundation and that of the International Accounting Standards Board (IASB). As such, we support the Trustees' Strategy Review and the efforts to improve matters relating to the Foundation's mission, operations and activities and the IASB's due process and financing.

We are generally supportive of the recommendations of the Trustees for the Foundation's and the IASB's second decade. The comments below are provided on an exceptions basis. Our support for matters covered in the Review Report but not mentioned below can be assumed.

The comments in this letter are supplementary to those contained in our letter to the Foundation on the Trustees' Strategy Review dated 14 February 2011. In that regard we are pleased to note the commitment of the Trustees to co-ordinating the conclusion of their review with the Monitoring Board in order to arrive at an integrated set of proposals.

WELLINGTON OFFICE Level 7, 50 Manners St, Wellington • **AUCKLAND OFFICE** Level 12, 55 Shortland St, Auckland
POSTAL PO Box 11250, Manners St Central Wellington 6142, New Zealand • PH +64 9 000 0000 • FAX +64 9 000 000

WWW.XRB.GOV.T.NZ

Public Interest

Public sector and IPSASB

We acknowledge the Trustees' decision that due to limited resources, the IASB will continue to focus on developing standards for private sector entities in the near term.

This is notwithstanding the Trustees' acknowledgement of the demand for internationally consistent standards for the public sector and not-for-profit sector and the Trustees' strong support for the need for transparent financial reporting requirements for not-for-profit and public sector bodies.

By its narrow focus, IFRSs are limited to only one sector of the global economy – effectively, the large for-profit entity that is publicly traded. Such entities make up only a small proportion of entities preparing general purpose financial statements. In our view, it is time for the Foundation to formally recognise the role that is played by the International Public Sector Accounting Standards Board (IPSASB) in setting standards for public sector entities. One part of the IPSASB's strategy is to converge International Public Sector Accounting Standards (IPSASs) with IFRSs and make them applicable and relevant to public sector entities. We consider that the Foundation should, at this time, agree to work collegially and formally with IPSASB.

Notwithstanding the Trustees' belief that they should consider the expansion of the Foundation's mandate at some point in the future to include the public and not-for-profit sectors, we consider that significant changes will be required in the standard-setting and governance structures before this can take place. Our long term wish is, of course, the coming together of the IASB and the IPSASB within one organisation.

For your information, it is for this reason that the ASRB (as endorsed by the XRB on 1 July 2011) determined that a multi-standards approach should be adopted as the basis for general purpose financial reporting in New Zealand. It is proposed that this will involve the adoption of IFRSs for entities with public accountability¹ in the for-profit sector and the adoption of standards based on IPSASs for public sector and not-for-profit entities in the public benefit entity sector.

Non-large capital market entities

As we mentioned above, IFRSs are limited to only one sector of the global economy – the large for-profit entity that is publicly traded. IFRSs not only ignore the public and not-for-profit sectors but they are also not well-suited to the needs of non-large capital market entities.

We consider that the IASB needs to put more effort into recognising the needs of non-large capital market entities and their users. We consider it important that complexity (both of the standards and of the required disclosures) is reduced to ease understanding by users of financial information of those entities.

The bulk of entities in New Zealand fall within the non-large sector with no public accountability, for which IFRSs are too complicated to apply and the resulting information too complex for their users. Notwithstanding that the information needs of users may differ, we consider that a common recognition and measurement framework should apply to entities with public accountability and those in the non-large sector. In assessing the standards that such entities should apply, the ASRB (and endorsed by the XRB) is proposing to adopt a reduced disclosure requirements (RDR) approach with common recognition and measurement criteria with IFRSs,

¹ Effectively as defined in IASB's *IFRS for SMEs*.

rather than the IASB's IFRS for SMEs. It is proposed that the RDR will have reduced disclosures only.

We consider that the IASB's IFRS for SMEs with its different recognition and measurement criteria is inconsistent with the Foundation's objective to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards. We consider having different recognition and measurement frameworks between IFRSs and IFRSs for SMEs is inconsistent with the need for standards to ensure that high quality, transparent and comparable information is presented in financial statements. We consider that the IASB may have inadvertently created a structure that encourages standards arbitrage. Different recognition and measurement frameworks also make it difficult for entities to transition from one framework to another as circumstances change. The resulting information from applying different frameworks is not comparable and therefore not helpful to market participants and other users in their decision-making.

We urge the IFRS Foundation and the IASB to reconsider the approach taken to standards for SMEs having regard to the experience and differing circumstances of various jurisdictions as well as the different entities to which such standards may apply in different jurisdictions.

Updating IASs

We consider that, in the public interest, the IASB needs to expend some resources, as a priority, to update the International Accounting Standards (IASs) that it inherited from the International Accounting Standards Committee (IASC).

It is important to long term users like New Zealand to be able to apply a set of high quality standards rather than one that contains standards that are dated and of variable quality.

Governance

In general, we agree with the current model of governance and with Trustees' recommendations to maintain and enhance the governance arrangements to strengthen public accountability and independence.

However, we consider that any enhancements should be kept to a minimum and at a low cost. Given the various boards and committees that are now involved in the governance structure, we consider it important that the role that each board/committee plays in the structure be made clear to avoid overlaps in functions.

Furthermore, we do not consider the Monitoring Board comprises the top tier in a three tier governance structure. Rather that board has an oversight, and therefore complementary, role to the two-tier structure comprising the Trustees and the IASB.

High quality standards

As an adopter of IFRS, high quality standards remain the paramount issue for New Zealand. We do not consider this to be just a matter of due process (although due process is important). As we mentioned earlier, high quality standards is also about improving the older standards and ensuring that the whole suite of IFRS represents a coherent and consistent set of standards. To this end, we consider that the IASB should, as a matter of priority, put effort into finalising a robust conceptual framework from which coherent and consistent standards can develop.

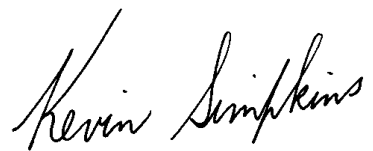
Funding

New Zealand has been a long-term, “no strings attached” funder and this is the model we continue to support. In principle, we consider that each jurisdiction applying IFRSs should share in the cost of promulgating IFRS.

We thank you for the opportunity to make this further submission on the Trustees’ Strategy Review.

If you have any queries or require clarification of any matters in this submission, please contact me at kevin.simpkins@xrb.govt.nz or Tony Dale, Chief Executive, External Reporting Board, at tony.dale@xrb.govt.nz.

Yours sincerely

A handwritten signature in black ink that reads "Kevin Simpkins". The signature is written in a cursive, flowing style.

Kevin Simpkins
Chairman
External Reporting Board

cc. Financial Reporting Council