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Submitted to: www.ifac.org

Dear Andreas

Exposure Draft 56 *The Applicability of IPSASs*

The External Reporting Board (XRB) of New Zealand is pleased to have the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB) ED 56 *The Applicability of IPSASs*.

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing & assurance standards in New Zealand.

Specific Comment

We note the IPSASB is proposing to amend the *Preface to International Public Sector Accounting Standards* (Preface) as a result of this Exposure Draft.

We agree it is helpful for the Preface to be amended to reflect the characteristics of public sector entities to which International Public Sector Accounting Standards (IPSASs) are intended to apply. We support the principle-based approach and the focus on describing the characteristics of entities for which IPSASs are intended. From New Zealand's perspective, this approach is consistent with the manner in which we have adopted and applied IPSASs for our public benefit entities.

However, we recommend a rewording of the proposed paragraph which states:

"The IPSASs are intended to apply to public sector entities that:

- (a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;*
- (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions or debt or fees and do not have capital providers that are seeking a return on their investment or of their investment; and*

(c) *Do not have a primary objective to make profits."*

We recommend the proposed paragraph be reworded to better align with the wording in *The Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework Preface). Paragraph 2 of the Conceptual Framework Preface states that:

"The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors".

We consider the wording in the Conceptual Framework Preface is a more appropriate description of the characteristics of a public sector entity because:

- proposed sub-paragraph (a) in itself does not necessarily distinguish a public sector entity from a for-profit entity, for example, a private for-profit entity may be set up to deliver services on behalf of a public sector entity; and
- proposed sub-paragraph (c) in itself does not necessarily distinguish a public sector entity from a for-profit entity, for example, a loss-making company (that does not have the primary objective to make profits) may be set up within a for-profit group of companies.

We also consider the term "*capital providers*" in the proposed sub-paragraph (b) could be confusing. We recommend that the term "*equity providers*" be used instead of "*capital providers*". Public sector entities that issue debt in the capital markets may have debt capital providers who would be seeking a return on their investment or of their investment. Using equity providers is also consistent with the terminology used in the Conceptual Framework Preface.

To better align the wording of the proposed paragraph with the wording in the Conceptual Framework Preface, we suggest sub-paragraphs (a) and (c) be combined, such that sub-paragraph (a) is stated as a primary objective (rather than as a responsibility) and the entity not having a primary objective to make profits is stated as a contrast to that primary objective.

We recommend that proposed paragraph be reworded to the following:

"The IPSASs are intended to apply to public sector entities that:

- (a) *Have a primary objective to deliver ~~Are responsible for the delivery of~~ services to benefit the public and/or to redistribute income and wealth, rather than to make profits; and*
- (b) *Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions or debt or fees and do not have ~~capital~~ equity providers that are seeking a return on their investment or of their investment; ~~and~~.*
- (c) *~~Do not have a primary objective to make profits."~~*

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely



Graeme R Mitchell
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External Reporting Board