

16 December 2013

Tony Dale
Chief Executive
External Reporting Board
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Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz

Dear Tony,

ED 49 Consolidated Financial Statements

The Guardians of New Zealand Superannuation is pleased to submit its comments regarding the specific matters raised in *ED 49 Consolidated Financial Statements*.

Background

The Guardians of New Zealand Superannuation (Guardians) and the New Zealand Superannuation Fund (Fund) were established by the NZ Superannuation and Retirement Income Act 2001 (the Act) to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation.

The Act established two entities:

- The Fund, a pool of assets consolidated into the Government's balance sheet; and
- The Guardians, a Crown entity, charged with managing and administering the Fund.

The Guardians meets the criteria as a public benefit entity (PBE) and under the proposals will be categorised as a Tier 1 public sector entity.

The Fund, on the other hand, meets the criteria as a 'for-profit' reporting entity but is also consolidated into the Crown financial statements. As a consequence, the Fund will be required to present individual financial statements as a Tier 1 'for-profit' entity reporting under NZ IFRS but it will also be required to provide information for consolidation by the Government as a Tier 1 PBE under the PBE accounting standards framework.

General Comments

As a member of a 'mixed group', we are particularly concerned with transaction neutrality under a multi-standards approach. We have expressed our concerns in prior submissions at the time and cost of maintaining two sets of financial information when required to report under two frameworks where the accounting requirements differ. Whilst we acknowledge there will be time delays between the issuance of new or amended standards or guidance by the IASB and the IPSASB, we believe it is imperative to avoid unnecessary divergence in accounting treatment over the long term that may cause unnecessary confusion for stakeholders and undermine the credibility of a multi-standards approach.

As the Fund is prohibited from controlling other entities under legislation, the definition of 'control' has significant relevance for the Fund and is an area that creates a great deal of concern under a multi-standards approach. *NZ IFRS 10 Consolidated Financial Statements* establishes a new control model with a mandatory application date of 1 January 2013 and therefore, as a Tier 1 'for-profit' entity, the Fund's financial statements will be required to comply with this standard for the 30 June 2014 year end. We note the definition of control incorporated in *ED 49 Consolidated Financial Statements* is aligned with the definition included in *NZ IFRS 10 Consolidated Financial Statements* and therefore we fully support the approach taken under *ED 49 Consolidated Financial Statements*.

We also welcome alignment of the provisions relating to investment entities under the two frameworks. We have previously submitted in support of the IASB's approach that investment entities measure all investments at fair value. It is our view that fair value measurement provides the most relevant and useful information to users of an investment entity's financial statements. The Fund

meets the investment entity criteria contained in *NZ IFRS 10 Consolidated Financial Statements* and will be exempted from presenting consolidated financial statements under the 'for-profit' framework. We fully support having the same exemption available under the PBE framework.

Finally, we welcome and fully support the proposition that a non-investment entity parent should measure the investments of a controlled investment entity at fair value. In our view, fair value accounting continues to be relevant at the non-investment entity parent level, the cost savings and benefits of more relevant reporting would be lost if fair value accounting was not retained and the retention of fair value is consistent with the accounting treatment for non-investment entity parents' interests in associates and joint ventures. It is a pragmatic approach that provides significant cost relief for the Fund.

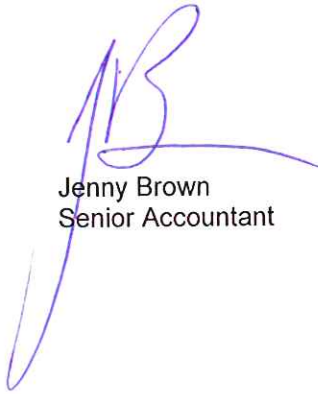
Our comments in response to the specific questions raised in the exposure draft are set out in the attached appendix.

Should you wish to discuss, or require any clarification, please contact Melanie Beetlestone (mbeetlestone@nzsuperfund.co.nz) or by phone on + 64 9 300 6993.

Yours faithfully



Melanie Beetlestone
Head of Finance



Jenny Brown
Senior Accountant

Appendix: Submission on IPSASB ED 49 Consolidated Financial Statements

1. Do you agree with the proposed definition of control? If not, how would you change the definition?

Yes, we agree with the proposed definition as it is aligned with the definition of control under *NZ IFRS 10 Consolidated Financial Statements*.

The definition of control has significant relevance for the Fund and is an area that creates a great deal of concern as the Fund is prohibited from controlling other entities under legislation. For this reason, and because the Fund will be required to report under both the 'for-profit' and PBE accounting standards, it is imperative that the definition of control is consistent across the 'for-profit' and PBE frameworks to avoid unnecessary differences.

2. Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

Yes, we support the consolidation requirements being consistent with those under *NZ IFRS 10 Consolidated Financial Statements*. In particular, we agree with the exemption for investment entities being available under both the 'for-profit' and PBE frameworks.

3. Do you agree with the proposal to withdraw the exemption in IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities? If you agree with the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).

We agree with the proposal to withdraw the exemption in *IPSAS 6 Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities. This exemption is not available under *NZ IFRS 10 Consolidated Financial Statements* and *NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* would be applied where control of an entity was intended to be temporary. We support having consistent requirements across the two frameworks to avoid confusion and variable application.

4. Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

We support the requirement for investment entities to account for its investments at fair value through surplus or deficit as this is consistent with the provisions of *NZ IFRS 10 Consolidated Financial Statements*. We believe fair value measurement provides the most relevant and useful information for these types of entities. Alignment of the investment entity provisions under the 'for-profit' and PBE frameworks enables comparability and eliminates the requirement for two sets of financial information to be maintained by the Fund due to differing accounting requirements under the two frameworks.

5. Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled entity at fair value through surplus or deficit in accordance with IPSAS 29 *Financial Instruments: Recognition and Measurement*, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?

Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?

We agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity, should measure the investments of the controlled entity at fair value through surplus or deficit in accordance with *IPSAS 29 Financial Instruments: Recognition and*

Measurement. In our view, fair value accounting continues to be relevant at the non-investment parent level and the cost savings and benefits achieved from the more relevant reporting would be lost if fair value accounting was not retained at the non-investment entity parent level.

It is also our view that the retention of fair value accounting by a non-investment entity parent is consistent with *ED 50 Investments in Associates and Joint Ventures* which allows a parent that indirectly holds an investment in an associate or joint venture through a venture capital organisation, mutual fund, unit trust or similar entity to measure that investment at fair value through profit or loss.

We acknowledge that when the IASB were considering whether to retain investment entity accounting in the financial statements of a non-investment entity parent under *NZ IFRS 10 Consolidated Financial Statements*, they had concerns about the potential for a non-investment entity parent to achieve different accounting outcomes by holding subsidiaries directly or indirectly through a controlled investment entity. However, we believe this issue is of less concern in the public sector context.

In our opinion, the proposed approach is both appropriate and practicable and provides significant cost relief for the Fund. Without this exemption the Fund would be required to re-measure and consolidate certain investments for the mere purpose of satisfying Crown consolidation and reporting requirements. This requires significant effort for no real benefit.

6. **The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?**

No comment.