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Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Dear Sir

NZASB Invitation to Comment on Exposure Draft NZASB 2016-7

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *Exposure Drafts NZASB 2016-7: PBE IFRS 9 Financial Instruments (EDs 2016-7).* We are encouraged by the NZASB's work to align Public Benefit Entity (PBE) Standards to the latest standards issued by the NZASB in the for-profit sector on financial instruments, namely NZ IFRS 9 *Financial Instruments* and the consequential amendments made to NZ IFRS 7 *Financial Instruments: Disclosures* and other standards.

We believe that the proposed new standard will provide the same benefits for public benefit entities as NZ IFRS 9 will do in the for-profit sector, specifically improved quality and cost efficiency of accounting and financial reporting for financial instruments. We also believe there is a significant benefit to aligning financial reporting for PBEs and for-profit entities when there is no clear reason for differences to exist.

We have responded to your specific questions in the appendix attached.

Please do not hesitate to contact us should you have any queries. We also would be happy to meet with you to discuss our comments further.

Yours faithfully
Ernst & Young Limited

Simon O'Connor
Managing Partner

Appendix A – Response to specific ITC questions

1. Do you support the NZASB's proposal to issue a PBE Standard based on IFRS 9 in advance of the IPSASB completing its project on financial instruments, taking into account the factors discussed in the PBE Policy Approach? If not, please explain why not and indicate any alternative course of action that you think would be more appropriate.

Yes, we are supportive of the NZASB's proposal to issue a PBE Standard based on IFRS 9 in advance of IPSASB issuing such a standard. NZ IFRS 9 has been issued and will become effective for for-profit entities in periods beginning 1 January 2018, with early application permitted.

NZ IFRS 9 introduces significant changes to the accounting for and reporting of financial instruments in the for-profit sector around financial asset classification, impairment and hedging. These changes were introduced in the for-profit sector with a view to improve the quality and cost-effectiveness of financial reporting for financial instruments, and it stands to reason to allow PBEs to enjoy the same benefit.

We see no specific reason for a difference between for-profit and PBE standards for financial instrument accounting. The majority of the specific changes introduced by NZ IFRS 9 (except for those relating to NZ IFRS 15, etc.), the rationale for and nature of the changes are such that they would also apply in the PBE context. For example, the new hedge accounting requirements in NZ IFRS 9 aim to better reflect the risk management activities of an entity. In the PBE context, the same rationale can be applied to introduce a similar change, as the alignment of hedge accounting with actual risk management activities would be beneficial for PBEs and the readers of their accounts.

Similarly, the new "expected credit loss" impairment model introduced by NZ IFRS 9 does not reflect any circumstances or transactions that are specific to the for-profit sector, and the rationale for applying this model in the for-profit sector would be equally applicable in the PBE context. Thus at the moment, PBE Standards do not currently reflect the most recent thinking on financial instruments and do not allow PBEs and the users of their financial statements to enjoy the same benefits as for-profit entities that apply (or will soon apply) NZ IFRS 9.

In addition, the difference between the accounting and reporting requirements introduced by NZ IFRS 9 will make it more difficult and costly for such mixed groups to prepare financial statements, unless similar changes are introduced to PBE Standards. Therefore we support the proposals outlined in ED 2016-7.

We think it is important to not wait for the IPSASB to issue its own standard. Although IPSASB is undertaking a project on financial instruments, it is not clear whether or when this project will result in the issuing of a new or updated IPSAS. Issuing a PBE Standard based on NZ IFRS 9 ahead of IPSASB completing its project will ensure that the abovementioned issues are addressed sooner than if the NZASB waits for IPSASB to complete its project.

We also support the approach taken by the NZASB to issue ED 2016-7 with minimal amendments and by simply adding in the current PBE adjustments, such as off market loans. Doing this ensures the status quo is maintained for such specific PBE issues and the standard can be amended in the future once the IPSASB has considered these specific issues. This will ensure less effort for PBEs transitioning to the new standard vs what is required by PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

2. If a PBE Standard based on IFRS 9 were to be issued by the end of 2016, and you are the head of a mixed group or a member of a mixed group:

- **(a) Do you think it is likely that you or any PBEs within the mixed group would wish to early-adopt PBE IFRS 9; and**
- **(b) If so, do you think that the expected issue date of late 2016 would provide sufficient lead-in time for a PBE within a mixed group to voluntarily adopt the proposed PBE Standard?**

N/A - we are not the head of a mixed group. However, we suggest that the NZASB liaise with the Crown/Treasury in order to get a better understanding of whether public sector entities will be required to early-adopt the new standard. By contrast, we consider that not-for-profit PBEs are less likely to be impacted significantly by the new hedge accounting and impairment requirements introduced by PBE IFRS 9.

3. Do you agree with the modifications made by the NZASB in developing the proposed PBE Standard? If not, please explain why not and identify what you think would be more appropriate. Respondents may find it helpful to consider the matters outlined in Tables 2-4.

Yes, we agree with the modifications made by NZASB in developing the proposed PBE IFRS 9. These amendments retain the specific guidance that is currently included in PBE IPSAS 29 around transactions and circumstances that are specific to (or at least more prevalent in) the PBE sector. In particular, we consider that retaining the specific guidance around concessionary loans and other financial instruments arising from non-exchange transactions, which is not provided in NZ IFRS 9, to be especially useful to PBEs.

As noted above, we believe this is the right approach and do not believe the NZASB should attempt to deal with any additional issues the IPSASB may be considering during its project. We believe it is best to wait until the IPSASB has concluded on additional specific public sector issues and then the NZASB can consider any potential amendments to PBE IFRS 9.

4. Do you agree with the proposed RDR concessions in relation to PBE IPSAS 30 (refer Appendix D of the Exposure Draft)? If you disagree, please provide reasons and indicate what concessions you consider would be appropriate.

Yes, we agree with the proposed RDR concessions, provided that they are consistent with the RDR concessions that will be duly introduced to NZ IFRS 9. We note that Appendix D of PBE IFRS 9 ED (paragraph D39) contains proposed RDR concessions around credit risk disclosures (paragraphs 42A-43 of PBE IPSAS 30, as amended by PBE IFRS 9 ED) and around initial application disclosures (paragraphs 49I-49S of PBE IPSAS 30, as amended by PBE IFRS 9 ED). However, equivalent RDR concessions are not currently provided for for-profit entities in Appendix C of NZ IFRS 9 (2014). That is, there are no RDR concessions around credit risk disclosures in paragraphs 35A-42C of NZ IFRS 7 as amended by NZ IFRS 9 (2014), or around initial application disclosures in paragraphs 42I-42S of NZ IFRS 7 as amended by NZ IFRS 9 (2014). Presumably the reason for this difference is that Appendix C of NZ IFRS 9 is yet to be fully updated for RDR concessions. If this is not the case, we are unsure as to the rationale for having different RDR concessions in the proposed PBE IFRS 9 as compared to NZ IFRS 9.

5. Do you agree with the proposal that the effective date of the proposed PBE IFRS 9 be 1 January 2021, with early adoption permitted (bearing in mind the NZASB's intention to defer the effective date of PBE IFRS 9 until a future IPSAS based on IFRS 9 is effective)?

Yes, we are supportive of this proposal. On one hand it allows PBE parents of mixed groups and other PBEs that are part of a mixed group to apply PBE IFRS 9 at the same time as for-profit members of the group apply NZ IFRS 9. On the other hand, it also allows PBEs that are not part of a mixed group, if they wish, to defer the application of the standard until the IPSASB completes its project on financial instruments and thus avoid the impact of subsequent changes to PBE IFRS 9, if any, resulting from the IPSASB's project.

6. Do you have any other comments on the Exposure Draft?

We do not have any further comments.