

30 September 2016

Warren Allen
Chief Executive
External Reporting Board
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Via email: submissions@xrb.govt.nz

Dear Warren

EXPOSURE DRAFT NZASB 2016-7: PBE IFRS 9 *FINANCIAL INSTRUMENTS*

Introduction

1. The purpose of this submission is to provide the New Zealand Accounting Standards Board (“NZASB”) with BDO’s comments on Exposure Draft NZASB 2016-7: PBE IFRS 9 *Financial Instruments* (“the Exposure Draft”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on the Exposure Draft.
2. We acknowledge that this submission will be made publicly available.

General comments

3. BDO considers that high quality financial reporting standards are important to public benefit entities (“PBEs”). For that reason, BDO supports New Zealand’s adoption of International Public Sector Accounting Standards (“IPSAS”) and agrees that PBE Standards should be aligned with IPSAS to the greatest extent possible.
4. Nevertheless, BDO acknowledges that there are limited circumstances in which it is necessary for PBE Standards to deviate from IPSAS. We consider that such circumstances are usually limited to instances in which:
 - a) New Zealand’s legislative requirements are not reflected in, or conflict with the requirements of, IPSAS
 - b) A specific matter is not addressed in IPSAS
 - c) It is considered appropriate to align the requirements for PBEs with those for for-profit entities and the guidance provided in IPSAS does not allow that to occur.
5. BDO notes that the accounting requirements for financial instruments are complex and that the changes required by the introduction of IFRS 9 / NZ IFRS 9 *Financial Instruments* (“IFRS 9”, “NZ IFRS 9”) are likely to necessitate changes to preparers’ accounting systems, as well as to their financial statements. Where a group consists of

both for-profit entities and PBEs, BDO considers that the preparation of group financial statements would become considerably more difficult if for-profit entities and PBEs accounted for financial instruments under different requirements. For that reason, BDO supports the NZASB's development of a PBE Standard based on IFRS 9.

6. In addition, BDO supports the NZASB's approach of making only limited changes to IFRS 9 when preparing the Exposure Draft and of aligning Reduced Disclosure Regime disclosure concessions with those that the NZASB anticipates will be provided to for-profit entities.
7. BDO also notes, and supports, the NZASB's intention to:
 - a) Issue a final standard based on the Exposure Draft late in 2016
 - b) Issue the final standard with an effective date of 1 January 2021, with early adoption permitted
 - c) When the International Public Sector Accounting Standards Board ("IPSASB") has developed an IPSAS based on IFRS 9, develop a PBE Standard based on that IPSAS
 - d) Defer the effective date of PBE IFRS 9 until a future IPSAS based on IFRS 9 is effective.

Responses to questions posed in the Exposure Draft

8. Our response to each of the questions posed in the Exposure Draft is provided in Appendix B to this letter.

Conclusion

9. We support the issue of a final standard based on the Exposure Draft, in the timeframes, and with the effective date, proposed by the NZASB.
10. We support the NZASB's intention to develop a PBE Standard from a future IPSAS based on IFRS 9.
11. If you require further information, or would like to discuss any aspect of our submission further, please do not hesitate to contact Mike Rondel or, in his absence, Jackie Russell-Green.

Yours sincerely
BDO New Zealand



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**APPENDIX A:
INFORMATION ON BDO**

1. BDO is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 91 partners and over 750 staff.
4. BDO firms throughout New Zealand have a significant number of PBE clients.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and fourteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with almost 60,000 people in 1,328 offices across over 152 territories.

**APPENDIX B:
RESPONSES TO QUESTIONS POSED IN THE EXPOSURE DRAFT**

1. Our response to each of the questions posed in the Exposure Draft is provided in the table below:

Question	BDO response
<p><i>Question 1:</i></p> <p>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 <i>PBE Policy Approach</i>? If not, please explain why not and indicate any alternative course of action that you think would be more appropriate.</p>	<p>As outlined in our general comments, we consider that PBE Standards should be aligned with IPSAS to the greatest extent possible. However, we consider that, where a group consists of both for-profit entities and PBEs, the preparation of group financial statements would become considerably more difficult if for-profit entities and PBEs accounted for financial instruments under different requirements. For that reason, we support the NZASB’s development of a PBE Standard based on IFRS 9.</p>
<p><i>Question 2:</i></p> <p>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:</p> <p>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</p> <p>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?</p>	<p>We are not a member of a mixed group, but have some clients that are. Based on our knowledge of these clients we consider that:</p> <ul style="list-style-type: none"> • It is likely that some will early adopt a final standard based on the Exposure Draft, to minimise the adjustments required when preparing group financial statements • An issue date of late 2016 for a final standard based on the Exposure Draft would provide sufficient time for the preparation necessary to adopt the final standard at the same time that NZ IFRS 9 becomes effective.

Question	BDO response
<p>Question 3:</p> <p>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.</p>	<p>We agree with the NZASB making the following limited changes to IFRS 9 when developing PBE IFRS 9:</p> <ul style="list-style-type: none"> • Changes to mirror the modifications that the IPSASB made to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> when it developed IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> • Changes to ensure the coherence of the suite of PBE Standards.
<p>Question 4:</p> <p>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.</p>	<p>We agree with the:</p> <ul style="list-style-type: none"> • Proposed disclosure concessions • NZASB's intention to align disclosure concessions for for-profit entities and PBEs and note that this will be particularly important to mixed groups.
<p>Question 5:</p> <p>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)?</p>	<p>We agree that, in relation to a standard based on the Exposure Draft:</p> <ul style="list-style-type: none"> • Early adoption should be permitted • The initial effective date should be 1 January 2021 • The effective date should be deferred until a future IPSAS based on IFRS 9 is effective.
<p>Question 6:</p> <p>Do you have any other comments on the Exposure Draft?</p>	<p>We do not have any additional comments.</p>