

## **EXPOSURE DRAFT NZASB 2016-7**

### **PBE IFRS 9 FINANCIAL INSTRUMENTS**

#### **(ED NZASB 2016-7)**

## **Invitation to Comment**

June 2016

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New Zealand  
<http://www.xrb.govt.nz>

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# Information for Respondents

## Invitation to Comment

The NZASB<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising a new PBE Standard based on IFRS 9 *Financial Instruments*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

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

Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)  
(please refer to *PBE Financial Instruments* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **30 September 2016**.

## Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://xrb.govt.nz)), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

## List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public Benefit Entity
PBE IFRS	Public Benefit Entity International Financial Reporting Standard
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard

## Questions for Respondents

	Paragraphs
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 <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.	1-17
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	1-21
(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?	
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.	24-33
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.	34-36
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)?	37-39
6. Do you have any other comments on the Exposure Draft?	

# 1. Introduction

## 1.1 Background

### IFRS 9 and mixed group issues

1. The NZASB is proposing to issue a new PBE Standard on the recognition and measurement of financial instruments. The Exposure Draft is based on IFRS 9 *Financial Instruments*, which was issued by the IASB in 2014 as a replacement for its existing standard, IAS 39 *Financial Instruments: Recognition and Measurement*.
2. The current PBE Standard dealing with the recognition and measurement of financial instruments is PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IPSAS 29 is based on a standard issued by the IPSASB, which in turn is based on IAS 39. Hence, the requirements in PBE IPSAS 29 are largely based on IAS 39.
3. Compared with IAS 39, IFRS 9 introduces a number of changes to the recognition and measurement of financial instruments, including new classification and measurement requirements for financial assets, new hedging requirements and new impairment requirements for financial assets. The new requirements in IFRS 9 are expected to lead to higher quality financial reporting and, in some cases, to improve the cost-benefit aspects of accounting for financial instruments. For example, the hedging requirements in IFRS 9 are less restrictive than the requirements in IAS 39 (and PBE IPSAS 29) and allow an entity to better reflect the impact of its hedging activities on its financial performance. The IPSASB intends to develop a new financial instruments' standard based on IFRS 9, but the IPSASB's project is currently at an early stage (as discussed further in paragraph 6 below).
4. IFRS 9 has been incorporated into the for-profit sector standards in New Zealand as NZ IFRS 9 *Financial Instruments*. The effective date of IFRS 9 (and NZ IFRS 9) is annual periods beginning on or after 1 January 2018, with early application permitted. Once NZ IFRS 9 becomes effective, the differences summarised in paragraph 3 above would result in significant differences between NZ IFRS and PBE Standards, unless a similar change is made to PBE Standards.
5. Differences between the two suites of standards can result in additional compliance costs for "mixed groups", in particular, groups that are headed by a PBE that is required to consolidate one or more for-profit entities when preparing its group financial statements.<sup>2</sup> This is a particular concern where those differences primarily result from differences in the timing of when new requirements are introduced into the two suites of standards – rather than differences that are necessary to reflect differences in user information needs or other differences between the PBE and for-profit sectors.
6. The NZASB has been considering the impact of these differences on PBE mixed groups and, in particular, the cost of determining the adjustments required for the preparation of consolidated financial statements. The NZASB has been monitoring this issue for some time, with the hope that the IPSASB would develop an IPSAS based on IFRS 9 in time for the NZASB to incorporate that new IPSAS into PBE Standards before the effective date of NZ IFRS 9. However, the NZASB has observed that although the IPSASB has commenced its Financial Instruments

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<sup>2</sup> Mixed group issues can also arise when there is a PBE within a group headed by a for-profit entity.

Update Project<sup>3</sup>, the IPSASB's expected completion date is after the effective date of NZ IFRS 9 in the for-profit sector.

### The PBE Policy Approach

7. The NZASB applies the *Policy Approach to Developing the Suite of PBE Standards (PBE Policy Approach)*<sup>4</sup> when considering whether a new or amended IFRS should be incorporated in PBE Standards. In most cases, application of the *PBE Policy Approach* results in the NZASB deciding to wait for the IPSASB to consider the new or amended IFRS. This is because PBE Standards are based on IPSASs, in accordance with the XRB's financial reporting strategy. Examples of instances in which the NZASB has agreed to wait for the IPSASB to consider changes in IFRS include:
  - (a) interests in other entities (IFRSs 10–12). The NZASB has recently consulted on proposals to adopt IPSASs 34 to 38 (refer to EDs NZASB 2016 1-5), which are based on IFRSs 10–12; and
  - (b) revenue (IFRS 15). The NZASB is assisting the IPSASB with a project to develop new and amended revenue standards and will consult on any proposals for new and revised revenue standards in due course.
8. However, the *PBE Policy Approach* allows for the possibility that there may be circumstances in which the NZASB needs to take earlier action, instead of its usual process of waiting for the IPSASB. In particular, the NZASB considers whether to take action in the following combination of circumstances:
  - (a) there is a major change to an IFRS for which there is an existing IPSAS on that same topic;
  - (b) from a New Zealand perspective, the IPSASB is unlikely to address that change in an acceptable time frame;
  - (c) the introduction of new PBE requirements based on that new or amended IFRS would lead to higher quality financial reporting in the PBE sector; and
  - (d) the benefits of introducing those new PBE requirements would outweigh the costs, including considering the impact on mixed groups.
9. As noted earlier, the introduction of IFRS 9 into the for-profit sector will result in major changes to the recognition and measurement of financial instruments, and the IPSASB is unlikely to issue an equivalent standard before IFRS 9 becomes effective in the for-profit sector.
10. After considering the above factors, the NZASB has decided to depart from its usual process of waiting for the IPSASB to consider the new IFRS before developing a PBE Standard. The NZASB has therefore decided to issue an exposure draft of a PBE Standard based on IFRS 9, with the intention of being able to make a PBE Standard available for early adoption when NZ IFRS 9 becomes effective for for-profit entities (from 1 January 2018).
11. This decision to develop a PBE Standard in advance of the IPSASB completing its financial instruments project has not been taken lightly. Although the NZASB

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<sup>3</sup> Information on the IPSASB's project is available at <https://www.ipsasb.org/projects/financial-instruments-update-project-0>

<sup>4</sup> The XRB's *PBE Policy Approach* is available at [https://www.xrb.govt.nz/Site/Financial\\_Reporting\\_Strategy/Accounting\\_Standards\\_Framework.aspx](https://www.xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Framework.aspx)



considers that there are advantages of developing a PBE Standard based on IFRS 9, especially for mixed groups, as discussed above, there are also some disadvantages associated with this approach. The NZASB has identified two main concerns with this approach. The first is that the NZASB cannot guarantee that it will make exactly the same modifications to IFRS 9 as the IPSASB (for example, there are a number of terminology differences that need to be addressed and changes required to ensure the coherence of the suite of standards). The second issue is that the IPSASB's project is likely to consider a broader range of topics (for example, it is likely to consider accounting for public sector securitisations, a topic which is not currently addressed in IPSASs).

12. Once the IPSASB issues a new standard, the NZASB will need to consider any such differences and decide whether further changes are required to PBE Standards. This means that PBEs would likely need to consider two sets of changes: the adoption of a PBE Standard incorporating IFRS 9 requirements and, subsequently, the adoption of a revised PBE Standard reflecting additional changes made by the IPSASB.
13. In order to minimise any such differences between the NZASB's standard and a standard subsequently issued by the IPSASB, the NZASB:
  - (a) proposes to incorporate the modifications that the IPSASB made when developing IPSAS 29 in the proposed PBE Standard. There were relatively few such modifications and the NZASB expects that the IPSASB would make the same changes in a new IPSAS;
  - (b) proposes a narrower scope project than the IPSASB's Financial Instruments Update project. The NZASB has focused on the changes to recognition and measurement, which are contained in IFRS 9. It is not proposing to incorporate changes relating to other aspects of accounting for financial instruments, which the IPSASB will consider in its project. For example, the IASB has made changes to its standard dealing with the presentation of financial instruments, IAS 32 *Financial Instruments: Presentation*. These changes to other IFRSs are independent of the changes introduced by IFRS 9 and, therefore, do not need to be incorporated into PBE Standards in order to address the issues created by the introduction of IFRS 9 in the for-profit sector. Hence, the NZASB will wait for the IPSASB to consider these other changes to IFRSs; and
  - (c) will monitor the IPSASB's project, including feedback on the IPSASB's (forthcoming) proposals. In addition, the work done by the NZASB and the feedback from New Zealand constituents may inform the IPSASB's thinking.
14. The NZASB is also proposing to align the effective date of the new PBE Standard with the expected effective date of a new IPSAS. This would mean that PBEs could choose whether to early adopt the new PBE Standard or wait for a revised PBE Standard that is aligned with any new IPSAS. The feasibility of this option depends on when the IPSASB completes its project.
15. The following diagram illustrates how the effective date of NZ IFRS 9 and the likely timing of the IPSASB's project have influenced the NZASB's decision to issue an exposure draft now.

**Diagram 1 Possible timeline for new standards**

Dec 2016	2017	Jan 2018	Mar 2018	Sept 2018	July 2019	Jan 2020/2021
<b>For Profit Standards</b>						
		NZ IFRS 9 effective from 1 January 2018				
<b>PBE Standards</b>						
<b>Scenario A: NZASB develops PBE IFRS 9 now</b>						
		Mixed group issues can be avoided by early adoption of PBE IFRS 9				
NZASB issues PBE IFRS 9	Early adoption of PBE IFRS 9 permitted					Possible effective date of PBE IFRS 9
IPSASB issues ED IPSAS X			IPSASB issues IPSAS X	NZASB considers how best to align PBE IFRS 9 and IPSAS X. This may result in a second ED being issued.		Possible effective date of IPSAS X
<b>Scenario B: NZASB waits for IPSASB</b>						
		Mixed group issues occur			Mixed group issues can be avoided by early adoption of PBE IPSAS X	
IPSASB issues ED IPSAS X			IPSASB issues IPSAS X			Possible effective date of IPSAS X
				NZASB issues ED PBE IPSAS X	NZASB issues PBE IPSAS X with early adoption permitted	Possible effective date of PBE IPSAS X

**Notes:**

1. This diagram is constructed from the best available information at the time of writing. Professional advice should be sought before taking any action based on any of the estimated dates. NZ IFRS 9 is effective for annual periods beginning on or after 1 January 2018. All other dates are subject to change.
2. "IPSAS X" is used to refer to the expected IPSAS based on IFRS 9.

## 1.2 Purpose of this Invitation to Comment

16. The purpose of this Invitation to Comment is to seek comments on the proposal to issue a PBE Standard based on IFRS 9 that would be available for adoption by PBEs at the same time as NZ IFRS 9 becomes effective for for-profit entities (from 1 January 2018). The proposed standard would be applicable to Tier 1 and Tier 2 PBEs.
17. We are not seeking feedback on the underlying requirements of IFRS 9. However, we are interested in your comments on the modifications made to the requirements of IFRS 9 in developing the proposed PBE Standard.

## 1.3 Timeline and next steps

18. Submissions on the Exposure Draft are due by **30 September 2016**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
19. After the consultation period ends, the NZASB will consider both (i) constituents' comments on the Exposure Draft, and (ii) the progress that the IPSASB has made on its project. Taking these matters into account, the NZASB will consider whether to progress the Exposure Draft to a final PBE Standard. This could lead to the issue of a new PBE Standard in December 2016.
20. Alternatively, the NZASB might decide not to progress the Exposure Draft to a final PBE Standard. For example, if the IPSASB's project proceeds more quickly than expected, the NZASB may change its plans and wait for the completion of the IPSASB's project. (At the time of writing, the NZASB does not anticipate that the IPSASB's project will be completed in time to address the issues likely to be faced by New Zealand's mixed groups from 1 January 2018.)
21. If the IPSASB's project proceeds according to the IPSASB's projected timeline and the NZASB decides to finalise and issue PBE IFRS 9, the NZASB will assess the best course of action once a final IPSAS has been issued. This is likely to involve a separate consultation process in New Zealand to consider alignment of PBE IFRS 9 with the IPSASB's final standard.

### Questions for Respondents

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.
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?

## 2. Development of the Exposure Draft

### 2.1 Overview

22. This Invitation to Comment seeks feedback on ED NZASB 2016-7 PBE IFRS 9 *Financial Instruments*.
23. In order to assist constituents in forming an opinion on the proposals, the NZASB has organised the discussion of the Exposure Draft as follows:
- (a) approach taken to developing the Exposure Draft;
  - (b) impact of adopting IFRS 9 requirements;
  - (c) incorporating PBE-specific guidance currently in PBE IPSAS 29;
  - (d) other changes proposed by the NZASB; and
  - (e) proposed RDR concessions.

### 2.2 Approach taken to developing the Exposure Draft

24. In developing the proposed PBE IFRS 9, the NZASB has:
- (a) carried forward the modifications made by the IPSASB when it developed IPSAS 29, to the extent that these continue to be appropriate (see section 2.4 below for more information); and
  - (b) made limited changes to the requirements of IFRS 9 and the consequential amendments arising from IFRS 9, to ensure the coherence of the suite of PBE Standards (see section 2.5 below for more information).
25. These modifications to the requirements of IFRS 9 are limited, given the NZASB's reasons for developing the proposed PBE IFRS 9 (as discussed above). Therefore, the NZASB has not considered other possible modifications that the IPSASB might decide to make, such as:
- (a) additional terminology changes (that is, changes that are additional to existing terminology differences between NZ IFRS and PBE Standards). For example, IFRS 9 uses the term "business model". This term has not previously been used in IPSASs and it is possible that the IPSASB might consider an alternative term to be more appropriate. At this stage the NZASB has elected to retain the IFRS 9 terminology, rather than making a change now that might require further change subsequently, to align with any future IPSAS;
  - (b) additional guidance, which the IPSASB might include to assist application of the standard in the public sector; and
  - (c) related amending standards issued by the IASB but not yet considered by the IPSASB. For example, the Exposure Draft and its consequential amendments do not include the amendments made by *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) and *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7).

26. The NZASB’s proposals would result in substantial alignment between NZ IFRS and PBE Standards on accounting for the recognition and measurement of financial instruments.

## 2.3 Impact of adopting IFRS 9 requirements

27. Most of the differences between the proposed PBE IFRS 9 and PBE IPSAS 29 result from the proposal to develop a PBE Standard based on IFRS 9. The main differences between the requirements in PBE IPSAS 29 and the proposed requirements in PBE IFRS 9 are summarised in Table 1 below.

**Table 1**

<b>PBE IPSAS 29</b>	<b>Proposed PBE IFRS 9</b>
<p><i>Financial asset classifications</i> (classified based on a range of factors)</p> <ul style="list-style-type: none"> <li>• Fair value through surplus or deficit</li> <li>• Held-to-maturity investments</li> <li>• Loans and receivables</li> <li>• Available-for-sale financial assets</li> </ul> <p><i>Financial liability classifications</i></p> <ul style="list-style-type: none"> <li>• Amortised cost</li> <li>• Fair value through surplus or deficit</li> </ul> <p><i>Impairment</i></p> <ul style="list-style-type: none"> <li>• Incurred loss model</li> </ul>	<p><i>Financial asset classifications</i> (classified based on the entity’s business model and nature of the financial instrument’s contractual cash flows)</p> <ul style="list-style-type: none"> <li>• Amortised cost</li> <li>• Fair value through other comprehensive revenue or expense (for certain debt instruments)</li> <li>• Fair value through other comprehensive revenue or expense (for certain equity instruments)</li> <li>• Fair value through surplus or deficit</li> </ul> <p><i>Financial liability classifications</i></p> <ul style="list-style-type: none"> <li>• Same classifications as PBE IPSAS 29</li> <li>• Change in the entity’s own credit risk presented in other comprehensive revenue and expense</li> </ul> <p><i>Impairment</i></p> <ul style="list-style-type: none"> <li>• Expected credit loss model</li> </ul>
<p><i>Hedge accounting</i></p> <ul style="list-style-type: none"> <li>• More restrictive than IFRS 9/NZ IFRS 9</li> <li>• For example, PBE IPSAS 29 allows components of financial items to be hedged, but not components of non-financial items (except for foreign currency risk)</li> </ul>	<p><i>Hedge accounting</i></p> <ul style="list-style-type: none"> <li>• Hedge accounting requirements aligned more closely with risk management</li> <li>• Allows more hedging instruments and hedged items to qualify for hedge accounting</li> </ul>

28. The categories of financial assets in IFRS 9, and the requirements for classifying financial assets into those categories, are different to the categories of financial assets in IAS 39 and PBE IPSAS 29. Entities adopting the proposed PBE IFRS 9 will need to determine the appropriate classification of their financial assets. This could be a significant exercise for some entities.
29. Compared to an incurred loss model, an expected loss model will require entities to exercise more judgement about future events. This may require that entities change their systems and processes. For example, entities would have to make a

provision for potential credit losses over the next 12 months, and where credit risks are deemed to have increased significantly, the entity would have to record the lifetime expected credit loss.

## 2.4 Incorporating PBE-specific guidance currently in PBE IPSAS 29

30. In developing the proposed PBE IFRS 9, the NZASB has incorporated the main public sector modifications made by the IPSASB when it developed IPSAS 29. These modifications and the way in which they have been incorporated in the proposed PBE Standard are set out in Table 2 below.

**Table 2**

<b>IPSAS 29/PBE IPSAS 29 modifications</b>	<b>Impact on proposed PBE IFRS 9</b>
<p><b>Scope modification– Financial guarantee contracts</b></p> <p>IPSAS 28 and IPSAS 29 permit financial guarantee contracts to be accounted for as insurance contracts so long as the issuer elects to do so and uses accounting applicable to insurance contracts (paragraphs 3 and AG5–9). Unlike IFRS 9 and IAS 39, IPSAS 28 and IPSAS 29 do not require an explicit assertion that the financial guarantees are insurance contracts.</p> <p>When the NZASB issued PBE IPSAS 28 and PBE IPSAS 29, it kept the IPSAS 29 election for new transactions, but required entities that had previously made such an election to continue their existing treatment for existing financial guarantee contracts.</p>	<p>The scope of PBE IFRS 9 has been aligned with the scope of PBE IPSAS 29 in respect of financial guarantee contracts.</p>
<p><b>Non-exchange revenue transactions</b></p> <p>PBE IPSAS 29 excludes certain rights and obligations that fall within the scope of PBE IPSAS 23.</p> <p>It requires that financial assets arising from non-exchange revenue transactions be measured at fair value in accordance with the principles in PBE IPSAS 23 and taking account of transaction costs where appropriate (paragraph AG81).</p>	<p>The scope of PBE IFRS 9 has been aligned with the scope of PBE IPSAS 29 in respect of certain rights and obligations that fall within the scope of PBE IPSAS 23.</p> <p>The treatment of financial assets arising from non-exchange revenue transactions has been aligned with PBE IPSAS 29 (for example, see paragraphs B5.1.0 and B5.1.2H–B5.1.2M).</p>

<b>IPSAS 29/PBE IPSAS 29 modifications</b>	<b>Impact on proposed PBE IFRS 9</b>
<p><b>Concessionary loans</b></p> <p>PBE IPSAS 29 contains application guidance on the recognition and measurement of concessionary loans, including how to account for the difference between the fair value of the loan and the transaction price (refer paragraphs AG84–AG91 and IE40–IE41).</p>	<p>PBE IFRS 9 contains equivalent application guidance (refer paragraphs B5.1.2A–B5.1.2G).</p>
<p><b>Financial guarantees</b></p> <p>PBE IPSAS 29 contains application guidance on the recognition and measurement of financial guarantee contracts entered into at no or nominal value (refer paragraphs AG92–AG97).</p>	<p>PBE IFRS 9 contains equivalent application guidance (refer paragraphs B5.1.2H–B5.1.2M).</p>

## 2.5 Other changes proposed by the NZASB

31. In developing the proposed PBE IFRS 9 the NZASB has made changes to the requirements of IFRS 9, and the consequential amendments arising from IFRS 9, to ensure the coherence of the suite of PBE Standards. These changes were based on a consideration of:
- (a) the New Zealand specific changes made by the NZASB when it developed PBE IPSAS 29;
  - (b) the links between the proposed PBE IFRS 9 and those PBE Standards that differ from the for-profit equivalent standard; and
  - (c) other proposals currently subject to due process.
32. These changes are summarised in Table 3 below.

**Table 3**

<p><b><i>Fair value measurement</i></b></p> <p>IFRS 9 does not include guidance on the fair value measurement of financial instruments, because this guidance is now in IFRS 13 <i>Fair Value Measurement</i>. There is no equivalent to IFRS 13 in IPSASs or the suite of PBE Standards. The NZASB has therefore included the fair value measurement guidance currently in PBE IPSAS 29 in the proposed PBE IFRS 9 and deleted references to IFRS 13 (see section 5.1A).</p> <p>The term ‘fair value’ continues to be defined as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”.</p> <p>The IPSASB does not have any plans to develop a standard based on IFRS 13. It intends to consider the impact of its Conceptual Framework on the measurement requirements in standards over the longer term.</p>
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### ***Differences in revenue standards***

The IASB revised its revenue standards and issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. IFRS 15 made a number of changes to IFRS 9.

The IPSASB is currently working on developing new and revised revenue standards and may adopt the requirements in IFRS 15 for some transactions. However, the IPSASB's project is considering a broad range of issues and changes to standards are not expected for some time.

The NZASB has therefore modified some of the requirements in IFRS 9 for impairment of receivables, removed references to contract assets and replaced references to IFRS 15 with references to the current PBE Standards dealing with revenue (for example, see paragraphs 5.5.15 and 5.5.16).

### ***Leases***

IFRS 16 *Leases* amended IFRS 9 (with an effective date of 1 January 2019). The NZASB has not incorporated the IFRS 16 amendments to IFRS 9 in the proposed PBE IFRS 9. The IPSASB has not developed a standard based on IFRS 16. The IPSASB is considering whether to undertake a project to develop a standard based on IFRS 16.

### ***Hedges of a Net Investment in a Foreign Operation***

Although the IASB has a separate Interpretation (IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*) dealing with this topic the requirements in IFRIC 16 were included in PBE IPSAS 29 as integral guidance. Therefore, the NZASB has also incorporated the requirements of IFRIC 16 in the proposed PBE IFRS 9 as integral guidance.

### ***Interests in other entities***

The NZASB has recently consulted on proposals to issue new PBE Standards dealing with interests in other entities (refer to EDs NZASB 2016 1-5). Following consideration of comments from constituents, the NZASB expects to finalise these PBE Standards by the end of 2016. These standards would be available for early adoption, but it is possible that an entity could early apply the proposed PBE IFRS 9 before the mandatory effective date of the proposed new standards on interests with other entities.

The NZASB's approach to this matter has been to replace references to the IASB's standards on interests in other entities with the corresponding proposed PBE Standards and to add footnotes to highlight that entities may need to refer to earlier standards. The NZASB has also:

- (a) added additional guidance to address the likely different requirements in PBE Standards, compared with NZ IFRS, in relation to an entity that controls an investment entity but is not itself an investment entity (see paragraph 6.3.5); and
- (b) included proposed amendments to PBE IPSASs 6 to 8 (see Appendix D of the Exposure Draft).

The impact of this Exposure Draft on the forthcoming PBE IPSASs 34 to 38 will be considered before the NZASB finalises those standards.

33. We are interested in your views on the NZASB's modifications made in developing the proposed PBE IFRS 9. In order to assist you in providing feedback on these modifications we have identified paragraphs that you might be interested in looking at more closely (refer to the Appendix to this Invitation to Comment).



### Question for Respondents

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.

## 2.6 Proposed RDR concessions

34. Although the proposed PBE IFRS 9 deals with recognition and measurement rather than disclosure, it would result in consequential amendments to the disclosure requirements in other standards, mainly PBE IPSAS 30 *Financial Instruments: Disclosures*.
35. The proposed amendments to other standards, including PBE IPSAS 30, are set out in Appendix D to the Exposure Draft. There are a number of new disclosure requirements being proposed in respect of PBE IPSAS 30. The proposed Reduced Disclosure Regime (RDR) concessions for these new disclosure requirements in PBE IPSAS 30 have been aligned with the anticipated for-profit disclosure concessions in respect of these disclosure requirements.<sup>5</sup>

### Question for Respondents

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.

## 2.7 Effective date and other comments

36. The proposed effective date in the Exposure Draft is 1 January 2021, with early adoption permitted. This date is tentative and would be reviewed prior to issuing any standard.
37. This proposed effective date was deliberately set for some time in the future. At this stage it is too early to predict the effective date of a new IPSAS with any certainty. The NZASB's intention is to delay the effective date of a new PBE Standard until the effective date of a new IPSAS. This would allow PBEs not wanting to early adopt the new requirements in PBE IFRS 9 to transition directly from the existing PBE IPSAS 29 to a final PBE Standard converged with the new IPSAS.
38. If the completion date of the IPSASB's project changes, the NZASB would reassess the effective date of the new PBE Standard.
39. The Exposure Draft does not include the non-integral illustrative examples and implementation guidance that accompanies NZ IFRS 9. At this stage the nature and

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<sup>5</sup> There are currently no RDR concessions in NZ IFRS 9 in respect of the additional disclosures added as a consequence of IFRS 9. The NZASB has been working on a joint project with the Australian Accounting Standards Board to review all RDR concessions in NZ IFRS and Australian Accounting Standards. The NZASB plans to issue an exposure draft seeking feedback on changes to for-profit RDR concessions later this year. The proposed RDR concessions for the additional disclosures in PBE IPSAS 30 have been aligned with the expected RDR concessions in the forthcoming for-profit exposure draft. This approach to determining RDR concessions for Tier 2 PBEs is consistent with the approach applied by the NZASB when it developed the PBE Standards. In the longer term, the NZASB intends to review its approach to determining RDR concessions for Tier 2 PBEs.

extent of any modifications that the IPSASB might make to the non-integral guidance to IFRS 9 issued by the IASB are not known. The NZASB therefore considers it prudent to wait until the IPSASB has finalised its financial instruments project, rather than propose modifications now that might require further change subsequently, to align with any future IPSAS.

40. The non-inclusion of non-integral guidance is consistent with the NZASB's approach in developing PBE IFRS 3 *Business Combinations* and PBE IFRS 5 *Non-current Assets Held for Sale and Discounted Operations*.
41. Illustrative examples and implementation guidance on the application of IFRS 9 are available in the additional material for NZ IFRS 9 on the XRB website at [www.xrb.govt.nz](http://www.xrb.govt.nz).

**Questions for Respondents**

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

### 3. Appendix

In order to assist constituents commenting on the proposals in ED NZASB 2016-7, Table 4 identifies those paragraphs that were inserted, deleted or significantly modified compared to the equivalent requirements in IFRS 9.

**Table 4**

Reference	Comments
2.1(e), B2.5(a)	The scope of the proposed PBE IFRS 9 has been aligned with the scope of PBE IPSAS 29 in respect of financial guarantee contracts.
2.1(j), B2.6A	The scope of the proposed PBE IFRS 9 has been aligned with the scope of PBE IPSAS 29 in respect of certain rights and obligations that fall within the scope of PBE IPSAS 23 <i>Revenue from Non-Exchange Transactions</i> .
2.1(k)	The scope of the proposed PBE IFRS 9 has been aligned with the scope of PBE IPSAS 29 in respect of certain rights and obligations under service concession arrangements to which PBE IPSAS 32 <i>Service Concession Arrangements: Grantor</i> applies.
5.1A.1–5.1A.3, B5.1A.1–B5.1A.13	The fair value measurement guidance from PBE IPSAS 29 has been inserted into the proposed PBE IFRS 9.
5.5.15–5.5.16	The simplified approach for receivables and lease receivables in IFRS 9 has been extended to include all receivables within the scope of the proposed PBE IFRS 9, including receivables that result from transactions that are within the scope of PBE IPSAS 23.  IFRS 9 makes a distinction between receivables with or without a significant financing component. The simplified approach <i>must</i> be applied to receivables without a significant financing component under IFRS 9. This distinction (between receivables with or without a significant financing component) comes from IFRS 15, and therefore has been removed from the proposed PBE IFRS 9. The effect of this deletion is that the simplified approach is now an accounting policy choice under PBE IFRS 9 for all receivables.
6.3.5	This is additional guidance to address the likely different requirements in PBE Standards, compared with NZ IFRS, in relation to an entity that controls an investment entity, but is not itself an investment entity.
B5.1.0, B5.1.2H–B5.1.2M	The guidance for financial assets arising from non-exchange revenue transactions from PBE IPSAS 29 has been inserted into the proposed PBE IFRS 9.
B5.1.2A–B5.1.2G	The guidance for concessionary loans from PBE IPSAS 29 has been inserted into the proposed PBE IFRS 9.