

NZASB Exposure Draft 2019-5 PBE Interest Rate Benchmark Reform

**Proposed amendments to
PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30**

(NZASB ED 2019-5)

Invitation to Comment

November 2019

© External Reporting Board 2019
PO Box 11250
Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

Permission to reproduce: The copyright owner authorises reproduction of this work, in whole or in part, so long as no charge is made for the supply of copies, and the integrity and attribution of the work as a publication of the External Reporting Board is not interfered with in any way.

Disclaimer: Readers are advised to seek specific advice from an appropriately qualified professional before undertaking any action relying on the contents of this document. The External Reporting Board does not accept any responsibility whether in contract, tort, equity or otherwise for any action taken, or reliance placed on, any part, or all, of the information in this document, or for any error or omission from this document.

Table of Contents

	Page
Information for respondents	4
List of abbreviations.....	5
Questions for respondents	6
1. Introduction	7
1.1 Background.....	7
1.2 Purpose of this Invitation to Comment	7
1.3 Timeline and next steps.....	7
2. Overview of Invitation to Comment and ED.....	8
2.1 Amendments to PBE Standards.....	8
2.2 Effective date and other comments.....	9
NZASB ED 2019-5 PBE Interest Rate Benchmark Reform	

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposed amendments.

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 comment on only those questions, or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page at: <https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/>.

Please indicate whether the comments are made on your own behalf, on behalf of a group of people, or on behalf of an entity.

The closing date for submissions is **14 January 2020**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (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).

¹ 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
IASB	International Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE Standards	Public Benefit Entity Standards

Questions for respondents

	Paragraphs
1 Do you agree with the proposed amendments to: (a) PBE IPSAS 41 <i>Financial Instruments</i> ; (b) PBE IFRS 9 <i>Financial Instruments</i> ; (c) PBE IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> ; and (d) PBE IPSAS 30 <i>Financial Instruments: Disclosures</i> ? If you disagree, please explain why.	10–13
2 Do you agree with the proposed effective date of 1 January 2020? If you disagree, please explain why.	14
3 Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. The NZASB has recently approved amendments, referred to as *Interest Rate Benchmark Reform*, to the financial instruments standards within NZ IFRS. It is now proposing equivalent amendments to the financial instrument standards within PBE Standards.
2. World-wide there are a number of changes to interbank offer rates (referred to as IBOR reform) in order to meet new regulatory requirements. Some interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) are being phased out, alternative risk free rates are being established, and other benchmarks are being strengthened. Interest rate benchmarks are referred to in loan agreements and derivative contracts and many entities have had to update agreements to refer to new replacement rates.
3. The New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) is based on transaction data, rather than interbank offers, and is largely unaffected by the international reforms.
4. The amendments to NZ IFRS acknowledge that, in the period leading up to the replacement of certain benchmarks, such as LIBOR, some for-profit entities might have hedging relationships that are directly affected by uncertainties due to IBOR reform. The objective of the amendments to NZ IFRS is to avoid the discontinuation of hedge accounting due to such uncertainties.
5. It is not expected that many PBEs that apply hedge accounting will have hedging relationships that are directly affected by IBOR reform, but for those that do, the uncertainties related to the replacement of interbank offer rates and, in particular, the inability to meet specific forward-looking hedge accounting requirements could result in the discontinuation of hedging relationships.
6. Generally the NZASB waits for the International Public Sector Accounting Standards Board (IPSASB) to consider changes to IFRS® Standards before proposing amendments to PBE Standards. In this case, the NZASB decided not to wait for the IPSASB on the grounds that the amendments could be urgently required by affected entities.

1.2 Purpose of this Invitation to Comment

7. The purpose of this Invitation to Comment and associated Exposure Draft (ED) is to seek comments on the proposals to amend a number of PBE Standards dealing with financial instruments to avoid the situation where hedge accounting would be discontinued solely due to uncertainty associated with IBOR reform. The standards being amended are:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*.

1.3 Timeline and next steps

8. Submissions on NZASB ED 2019-5 are due by 14 January 2020. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

9. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise the amendments.

2. Overview of Invitation to Comment and ED

2.1 Amendments to PBE Standards

10. As noted in the Introduction, most PBEs applying hedge accounting will not have hedging relationships that are directly affected by IBOR reform and the proposed amendments will not be relevant for them.
11. The proposed amendments are based on the amendments initially developed and issued by the International Accounting Standards Board (IASB). The IASB's project summary contains a good explanation of the amendments.² Because the PBE Standards dealing with financial instruments are so closely aligned with NZ IFRS, the IASB's project summary is also useful for any PBEs that think they might be affected by the proposals. The main difference is that PBEs could be applying the hedge accounting requirements in three standards, rather than two.
12. The proposed amendments provide relief from the highly probable and prospective assessments required by PBE IPSAS 41, PBE IFRS 9 and PBE IPSAS 29 insofar as these tests relate to hedging relationships that are affected by the uncertainties of the IBOR reform. They also provide relief from the retrospective assessment under PBE IPSAS 29. The exceptions described in the amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-currency interest rate swaps (for the interest component affected). The exceptions are mandatory for the period that the uncertainty exists. Entities that apply the exceptions are required to disclose information about this.
13. No disclosure concessions are proposed for Tier 2 PBEs.

Question for respondents

1. Do you agree with the proposed amendments to:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*?If you disagree, please explain why.

² The IASB's project summary is available at <https://www.ifrs.org/-/media/project/ibor-reform/interest-rate-benchmark-reform-project-summary.pdf?la=en>

2.2 Effective date and other comments

14. The proposed effective date for the amendments is 1 January 2020, with early adoption permitted.

Questions for respondents

2. Do you agree with the proposed effective date of 1 January 2020? If you disagree, please explain why.
3. Do you have any other comments on the ED?