

NZASB Exposure Draft 2020-5 PBE Interest Rate Benchmark Reform— Phase 2

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

(NZASB ED 2020-5)

Invitation to Comment

September 2020

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Table of Contents

	Page
Information for respondents	4
List of abbreviations	5
Questions for respondents	5
1. Introduction	6
1.1 Background	6
1.2 Purpose of this Invitation to Comment	7
1.3 Timeline and next steps	7
2. Overview of Invitation to Comment and ED	7
2.1 Amendments to PBE Standards	7
2.2 Effective date	8
Appendix	9
NZASB ED 2020-5 PBE Interest Rate Benchmark Reform—Phase 2	see separate file

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 **26 October 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
IBOR	Interbank offered rate
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? If you disagree, please explain why.	8–10
2 Do you agree with the proposed effective date? If you disagree, please explain why.	11
3 Do you have any other comments on the ED?	–

1. Introduction

1.1 Background

1. In 2014, the Financial Stability Board² recommended the reform of some interest rate benchmarks such as interbank offered rates (IBORs). Since then, many jurisdictions have taken steps to implement interest rate benchmark reform. 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. The New Zealand dollar (NZD) Bank Bill Benchmark Rate (BKBM) has been largely unaffected by the international reforms. However, some New Zealand entities will have loan agreements or derivative contracts that refer to other interest rate benchmarks and may encounter financial reporting issues associated with the reforms.
2. The International Accounting Standards Board (IASB) has issued two sets of amendments to IFRS[®] Standards to address the effects of interest rate benchmark reform on financial reporting.
 - (a) In September 2019 the IASB issued *Interest Rate Benchmark Reform* (also referred to as pre-replacement, or 'Phase 1' amendments), which addressed issues affecting financial reporting in the lead up to the reform of an interest rate benchmark.
 - (b) In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* (also referred to as replacement or 'Phase 2' amendments) which addresses replacement issues that arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates. The objective of Phase 2 is to assist entities in providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the transition to alternative benchmark rates.
3. In keeping with New Zealand's Accounting Standards Framework, the NZASB has incorporated the Phase 1 and Phase 2 amendments in NZ IFRS.
4. 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 considered that the amendments might be urgently required by some PBEs and that there are benefits from keeping the two sets of financial instrument standards closely aligned. In February 2020, the NZASB issued *PBE Interest Rate Benchmark Reform* which incorporated the Phase 1 amendments in PBE Standards. The NZASB is now proposing to incorporate the Phase 2 IBOR amendments in PBE Standards on the grounds that some PBEs could benefit from the targeted relief and clarifications in those amendments.

² The Financial Stability Board is an international body that promotes international financial stability by coordinating the development of regulatory, supervisory and other financial sector policies by national financial authorities and international standard-setting bodies.

1.2 Purpose of this Invitation to Comment

5. This Invitation to Comment and associated Exposure Draft (ED) seek comments on the proposal to incorporate the Phase 2 IBOR amendments into PBE Standards.

1.3 Timeline and next steps

6. Submissions on NZASB ED 2020-5 are due by 26 October 2020. This is a shorter comment period than usual because entities affected by the reforms could have an urgent need for the amendments. Page 4 of this Invitation to Comment explains how to make a submission.
7. 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 before the end of the year.

2. Overview of Invitation to Comment and ED

2.1 Amendments to PBE Standards

8. The ED proposes to amend the following standards:
- (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*.
9. Table 1 below summarises the amendments to NZ IFRS and the proposed amendments to PBE Standards. The Appendix to this Invitation to Comment lists the relevant paragraphs. Readers might also be interested in the IASB's explanation of the amendments.³

Table 1

IBOR Phase 2 amendments NZ IFRS	Proposed amendments to PBE Standards
NZ IFRS 9 Financial Instruments Modifications <ul style="list-style-type: none">• Provides a practical expedient for changes in the contractual cash flows of a financial asset or financial liability, when such changes are directly required by the IBOR reform. Hedge accounting <ul style="list-style-type: none">• Provides relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.	PBE IPSAS 41 Financial Instruments <ul style="list-style-type: none">• Equivalent to the amendments to NZ IFRS 9.• See also the transition requirements.

³ See the IASB project page <https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-2/#about>

IBOR Phase 2 amendments NZ IFRS	Proposed amendments to PBE Standards
<p>NZ IAS 39 Financial Instruments: Recognition and Measurement</p> <p>Hedge accounting</p> <ul style="list-style-type: none"> Provides relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform. 	<p>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</p> <ul style="list-style-type: none"> Equivalent hedge accounting relief to the amendments to NZ IAS 39. In addition, paragraphs AG20A and AG20B have been added. These paragraphs refer entities which measure financial assets or liabilities at amortised cost to the practical expedient available in PBE IPSAS 41 [and PBE IFRS 9], in relation to changes in contractual cash flows as a result of IBOR reform.
<p>NZ IFRS 7 Financial Instruments: Disclosures</p> <ul style="list-style-type: none"> Requires disclosures about the nature and extent of risks arising from IBOR reform, an entity's progress in completing IBOR reform and how it is managing the transition. 	<p>PBE IPSAS 30 Financial Instruments: Disclosures</p> <ul style="list-style-type: none"> Equivalent to the amendments to NZ IFRS 7.
<p>NZ IFRS 4 Insurance Contracts</p> <ul style="list-style-type: none"> Requires insurers that apply the temporary exemption from NZ IFRS 9 to apply amendments equivalent to those made to NZ IFRS 9. 	<ul style="list-style-type: none"> No change to PBE IFRS 4 <i>Insurance Contracts</i>. There is no equivalent temporary exemption in that standard.
<p>NZ IFRS 16 Leases</p> <ul style="list-style-type: none"> Provides a practical expedient for lessees relating to lease modifications brought about by IBOR reform. 	<ul style="list-style-type: none"> No change to PBE IPSAS 13 <i>Leases</i>. Lessee accounting requirements in PBE IPSAS 13 differ from those in NZ IFRS 16.

10. No disclosure concessions are proposed for Tier 2 PBEs. The additional disclosures will be required for a limited period of time.

2.2 Effective date

11. The proposed effective date for the amendments is 1 January 2021, with early adoption permitted.

Questions for respondents

- Do you agree with the proposed amendments? If you disagree, please explain why.
- Do you agree with the proposed effective date? If you disagree, please explain why.
- Do you have any other comments on the ED?

Appendix

IBOR Phase 2 amendments NZ IFRS	Proposed amendments to PBE Standards
IFRS 9 Financial Instruments	PBE IPSAS 41 Financial Instruments
Added paragraphs 5.4.5–5.4.9	Added paragraphs 72.1–72.5
Added paragraph 6.8.13	Added paragraph 155.13
Added paragraphs 6.9.1–6.9.13	Added paragraphs 155.14–155.26
Added paragraph 7.1.9	Added paragraph 156.4
Added paragraphs 7.2.43–7.2.46	Amended paragraphs 157.7–157.8 Added paragraphs 157.12–157.15 Amended paragraph 179 Added paragraph 184A
	Added paragraphs BC15–BC16
IFRS 9 Financial Instruments	PBE IFRS 9 Financial Instruments
Added paragraphs 5.4.5–5.4.9	Added paragraphs 5.4.5–5.4.9
Added paragraph 6.8.13	Added paragraph 6.8.13
Added paragraphs 6.9.1–6.9.13	Added paragraphs 6.9.1–6.9.13
Added paragraph 7.1.9	Added paragraph 7.1.9
Added paragraphs 7.2.43–7.2.46	Added paragraphs 7.2.43–7.2.46
	Added paragraphs BC22–BC23
IAS 39 Financial Instruments: Recognition and Measurement	PBE IPSAS 29 Financial Instruments: Recognition and Measurement
Amended paragraph 102M	Amended paragraph 113M
Added paragraphs 102O–102Z3	Added paragraphs 113O–113Z3
Added paragraphs 108H–108K	Added paragraphs 126.10–126.14
	Added paragraphs AG20A and AG20B
	Added paragraphs BC5–BC6
IFRS 7 Financial Instruments: Disclosures	PBE IPSAS 30 Financial Instruments: Disclosures
Added paragraphs 24I–24J	Added paragraphs 28I–28J
Added paragraphs 44GG–44HH	Added paragraphs 53.11–53.12
	Added paragraphs BC4–BC5
IFRS 4 Insurance Contracts	Not relevant for PBE IFRS 4 <i>Insurance Contracts</i> The amendments to IFRS 4 were used as the basis for PBE IPSAS 29 paragraphs AG20A and AG20B.
IFRS 16 Leases	Not relevant for PBE IPSAS 13 <i>Leases</i>