

Public Late Papers for NZASB meeting, 4 November 2020

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* These IPSASB amending standards were approved, but not yet issued at the date of distribution of these agenda papers. Once issued, they will be available on the IPSASB website.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 23 October 2020
To: NZASB Members
From: Joanne Scott
Subject: PBE IBOR Phase 2

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue *PBE Interest Rate Benchmark Reform—Phase 2*; and
 - (b) APPROVES the signing memorandum from the Acting Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *PBE Interest Rate Benchmark Reform—Phase 2*.

Background

2. At its September meeting the NZASB (i) approved *Interest Rate Benchmark Reform—Phase 2* which amended a number of NZ IFRSs and (ii) approved an ED and ITC proposing equivalent amendments to PBE Standards. We issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* shortly after that meeting, with comments due by 26 October (a 45-day comment period). The short comment period was due to the urgency of the amendments and a desire to align the effective dates of the for-profit and PBE amendments.

Reasons for amendments

3. The main reason is to avoid entities having to derecognise financial instruments or discontinue hedging relationships solely due to the effects of IBOR reform. The reasons were discussed more fully when the Board approved the for-profit amendments in September.
4. The NZASB is amending PBE Standards now, rather than waiting for the IPSASB to consider the amendments because (i) some PBEs could urgently require the practical expedients and exceptions introduced by the amendments; (ii) the amendments could help avoid mixed group issues; and (iii) there are benefits from keeping the two sets of financial instrument standards closely aligned. The IPSASB is expected to consider these amendments at some point in the future.

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5. The amending standard amends the following PBE 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*.

RDR concessions

6. The amending standard establishes some new disclosure requirements to enable users to understand the nature and extent of risks arising from interest rate benchmark reform and how those risks are managed. The additional disclosures also provide information about an entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates and how it is managing the transition.
7. We do not propose any RDR concessions in respect of the new disclosure requirements. There is no RDR concession in NZ IFRS for this new requirement.

Due process

8. The signing memorandum contains a fuller description of the due process underpinning these amendments. The IASB considered its due process in relation to its Phase 2 amendments in July 2020.² The NZASB considered its due process for the Phase 2 amendments to NZ IFRS in September 2020.
9. We alerted constituents about the proposals via NZASB Updates. We also contacted some key stakeholders to let them know that we were seeking feedback on the proposals and alerted the TRG to the proposals.
10. We received no submissions on the proposals. This was also the case with the Phase 1 amendments.
11. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
12. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard/amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Attachments

Agenda item 3.2: *PBE Interest Rate Benchmark Reform—Phase 2*

Agenda item 3.3: Signing memorandum *PBE Interest Rate Benchmark Reform—Phase 2*

² A summary of the IASB's July 2020 IBOR deliberations is available at: [IASB Update July 2020](#).



PBE Interest Rate Benchmark Reform—Phase 2

Issued November 2020

This Standard was issued on 12 November 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 10 December 2020.

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Accounting Standards Board to address the effects of interest rate benchmark reform on an entity's financial statements that arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). It follows *PBE Interest Rate Benchmark Reform*, issued in February 2020, which addressed issues affecting financial reporting in the period before the reform of an interest rate benchmark.

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ISBN: 978-0-947505-98-1

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PBE INTEREST RATE BENCHMARK REFORM—PHASE 2

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Part A – Introduction

This Standard sets out amendments to PBE Standards to address the effects of interest rate benchmark reform on an entity's financial statements. These issues arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments

Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 72.1–72.5, paragraphs 155.13, 155.14–155.26, paragraphs 156.4, 157.12–157.15 and 184A are added. Paragraphs 157.7, 157.8 and 179 are amended. A heading is added before paragraph 155.14 and subheadings are added before paragraphs 72.1, 155.20, 155.22, 155.24, 157.12 and 184A. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9. References to [PBE IFRS 9] will be omitted when PBE IPSAS 41 is compiled.

Amortised Cost Measurement

...

Changes in the Basis for Determining the Contractual Cash Flows as a Result of Interest Rate Benchmark Reform

- 72.1 An entity shall apply paragraphs 72.2–72.5 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 155.2.
- 72.2 The basis for determining the contractual cash flows of a financial asset or financial liability can change:
- (a) By amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);
 - (b) In a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or
 - (c) Because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).
- 72.3 As a practical expedient, an entity shall apply paragraph AG160 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 72.5). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

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- (a) The change is necessary as a direct consequence of interest rate benchmark reform; and
 - (b) The new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately preceding the change).
- 72.4 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e., the basis immediately preceding the change) are:
- (a) The replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;
 - (b) Changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and
 - (c) The addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.
- 72.5 If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 72.3 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial liability, the entity shall apply paragraph 71 or paragraph AG161, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

...

Temporary Exceptions from Applying Specific Hedge Accounting Requirements***End of Application***

...

- 155.13 An entity shall prospectively cease applying paragraphs 155.6 and 155.8 at the earlier of:
- (a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 155.14; or
 - (b) When the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

- 155.14 As and when the requirements in paragraphs 155.4–155.8 cease to apply to a hedging relationship (see paragraphs 155.9–155.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72.2–72.4. In this context, the hedge designation shall be amended only to make one or more of these changes:
- (a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
 - (b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
 - (c) Amending the description of the hedging instrument.
- 155.15 An entity also shall apply the requirement in paragraph 155.14(c) if these three conditions are met:
- (a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72.2);
 - (b) The original hedging instrument is not derecognised; and

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- (c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72.3 and 72.4).
- 155.16 The requirements in paragraphs 155.4–155.8 may cease to apply at different times. Therefore, in applying paragraph 155.14, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 155.20–155.25 as applicable. An entity also shall apply paragraph 137 (for a fair value hedge) or paragraph 140 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.
- 155.17 An entity shall amend a hedging relationship as required in paragraph 155.14 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.
- 155.18 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72.2–72.4) or to the designation of the hedging relationship (as required by paragraph 155.14), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 155.14.
- 155.19 Paragraphs 155.20–155.26 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 129, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships**Cash Flow Hedges**

- 155.20 For the purpose of applying paragraph 140, at the point when an entity amends the description of a hedged item as required in paragraph 155.14(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- 155.21 For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

- 155.22 When an entity applies paragraph 155.14 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 155.14, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.
- 155.23 An entity shall assess separately whether each subgroup meets the requirements in paragraph 146 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 146, the entity shall

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discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 137 and 140 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of Risk Components

- 155.24 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 128(a) and AG257) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (i.e., the 24-month period applies on a rate-by-rate basis).
- 155.25 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 155.24 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a noncontractually specified risk component.
- 155.26 In addition to those hedging relationships specified in paragraph 155.14, an entity shall apply the requirements in paragraphs 155.24 and 155.25 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 128(a) and AG257) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

Effective Date

...

- 156.4 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in November 2020, added paragraphs 72.1–72.5, 155.13, 155.14–155.26 and 157.12–157.15 and amended paragraphs 157.7, 157.8 and 179. If an entity has early adopted PBE IPSAS 41 it shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. If an entity has not early adopted PBE IPSAS 41, it shall apply these amendments when it first applies PBE IPSAS 41.

Transition

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Entities Transitioning from PBE IFRS 9

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Hedge Accounting

- 157.7 When an entity that has previously applied the hedge accounting requirements of PBE IFRS 9 first applies this Standard it shall apply the requirements in paragraphs 113–~~155.12~~155.26 of this Standard. On first time application of this Standard it shall apply hedge accounting to the existing hedging relationships to which it applied hedge accounting under PBE IFRS 9.
- 157.8 When an entity that has previously applied PBE IFRS 9 continued to apply the hedge accounting requirements of PBE IPSAS 29 it may continue to apply those requirements. Alternatively, an entity may elect, on adoption of this Standard, to apply the requirements in paragraphs 113–~~155.12~~155.26 of this Standard in accordance with paragraphs 179–184~~A~~ of this Standard.

...

Transition for PBE Interest Rate Benchmark Reform—Phase 2

- 157.12 An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 157.13–157.15.

PBE INTEREST RATE BENCHMARK REFORM—PHASE 2

- 157.13 An entity shall designate a new hedging relationship (for example, as described in paragraph 155.26) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:
- (a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and
 - (b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).
- 157.14 If, in applying paragraph 157.13, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 155.24 and 155.25 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).
- 157.15 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Entities Transitioning from PBE IPSAS 29

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Transition for Hedge Accounting

179. When an entity first applies this Standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of PBE IPSAS 29 instead of the requirements in paragraphs 113–~~155.12~~155.26 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Appendix C of PBE IPSAS 29.

...

Transition for PBE Interest Rate Benchmark Reform—Phase 2

- 184A An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 157.13–157.15.

In the Basis for Conclusions, paragraphs BC15 and BC16 are added.

Interest Rate Benchmark Reform—Phase 2

- BC15. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided a practical expedient for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform. As a consequence of the amendments, entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect

PBE INTEREST RATE BENCHMARK REFORM—PHASE 2

the change to the alternative benchmark rate. The amendments also provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.

- BC16. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks could also urgently require these amendments and proposed equivalent amendments to PBE Standards. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020 and finalised the amendments in November 2020.

Amendments to PBE IFRS 9 *Financial Instruments*

Paragraphs 5.4.5–5.4.9, paragraphs 6.8.13, 6.9.1–6.9.13, paragraphs 7.1.9–7.1.10 and 7.2.43–7.2.46 are added. A heading is added before paragraph 6.9.1 and subheadings are added before paragraphs 5.4.5, 6.9.7, 6.9.9, 6.9.11 and 7.2.43. For ease of reading these paragraphs have not been underlined.

5.4 Amortised cost measurement

...

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

- 5.4.5 An entity shall apply paragraphs 5.4.6–5.4.9 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2.
- 5.4.6 The basis for determining the contractual cash flows of a financial asset or financial liability can change:
- (a) by amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);
 - (b) in a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or
 - (c) because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).
- 5.4.7 As a practical expedient, an entity shall apply paragraph B5.4.5 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 5.4.9). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:
- (a) the change is necessary as a direct consequence of interest rate benchmark reform; and
 - (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately preceding the change).
- 5.4.8 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e., the basis immediately preceding the change) are:
- (a) the replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or financial liability with an alternative benchmark rate—or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark—with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;
 - (b) changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and
 - (c) the addition of a fallback provision to the contractual terms of a financial asset or financial liability to enable any change described in (a) and (b) above to be implemented.
- 5.4.9 If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 5.4.7 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial

PBE INTEREST RATE BENCHMARK REFORM—PHASE 2

liability, the entity shall apply paragraph 5.4.3 or paragraph B5.4.6, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

...

6.8 Temporary exceptions from applying specific hedge accounting requirements

End of application

...

- 6.8.13 An entity shall prospectively cease applying paragraphs 6.8.7 and 6.8.8 at the earlier of:
- (a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 6.9.1; or
 - (b) when the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

6.9 Additional temporary exceptions arising from interest rate benchmark reform

- 6.9.1 As and when the requirements in paragraphs 6.8.4–6.8.8 cease to apply to a hedging relationship (see paragraphs 6.8.9–6.8.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8. In this context, the hedge designation shall be amended only to make one or more of these changes:
- (a) designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
 - (b) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
 - (c) amending the description of the hedging instrument.
- 6.9.2 An entity also shall apply the requirement in paragraph 6.9.1(c) if these three conditions are met:
- (a) the entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 5.4.6);
 - (b) the original hedging instrument is not derecognised; and
 - (c) the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 5.4.7 and 5.4.8).
- 6.9.3 The requirements in paragraphs 6.8.4–6.8.8 may cease to apply at different times. Therefore, in applying paragraph 6.9.1, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 6.9.7–6.9.12 as applicable. An entity also shall apply paragraph 6.5.8 (for a fair value hedge) or paragraph 6.5.11 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.
- 6.9.4 An entity shall amend a hedging relationship as required in paragraph 6.9.1 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.
- 6.9.5 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8) or to the designation of the hedging relationship (as required by paragraph 6.9.1), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation

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of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 6.9.1.

- 6.9.6 Paragraphs 6.9.7–6.9.13 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 6.4.1, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Cash flow hedges

- 6.9.7 For the purpose of applying paragraph 6.5.11, at the point when an entity amends the description of a hedged item as required in paragraph 6.9.1(b), the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- 6.9.8 For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of items

- 6.9.9 When an entity applies paragraph 6.9.1 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 6.9.1, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.
- 6.9.10 An entity shall assess separately whether each subgroup meets the requirements in paragraph 6.6.1 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 6.6.1, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 6.5.8 and 6.5.11 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of risk components

- 6.9.11 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 6.3.7(a) and B6.3.8) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (i.e., the 24-month period applies on a rate-by-rate basis).
- 6.9.12 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 6.9.11 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a noncontractually specified risk component.
- 6.9.13 In addition to those hedging relationships specified in paragraph 6.9.1, an entity shall apply the requirements in paragraphs 6.9.11 and 6.9.12 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 6.3.7(a) and B6.3.8) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

7.1 Effective date

- ...
- 7.1.9 [Not used]
- 7.1.10 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30, issued in November 2020, added paragraphs 5.4.5–5.4.9, 6.8.13, Section 6.9 and paragraphs 7.2.43–7.2.46. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

- ...
- 7.2.27–7.2.42 [Not used]

Transition for PBE Interest Rate Benchmark Reform—Phase 2

- 7.2.43 An entity shall apply *PBE Interest Rate Benchmark Reform—Phase 2* retrospectively in accordance with PBE IPSAS 3, except as specified in paragraphs 7.2.44–7.2.46.
- 7.2.44 An entity shall designate a new hedging relationship (for example, as described in paragraph 6.9.13) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:
- (a) the entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and
 - (b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).
- 7.2.45 If, in applying paragraph 7.2.44, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 6.9.11 and 6.9.12 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).
- 7.2.46 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

In the Basis for Conclusions, paragraphs BC22 and BC23 are added.

Interest Rate Benchmark Reform—Phase 2

- BC22. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided a practical expedient for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform. As a consequence of the amendments, entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the

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alternative benchmark rate. The amendments also provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.

- BC23. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks could also urgently require these amendments and proposed equivalent amendments to PBE Standards. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020 and finalised the amendments in November 2020.

Amendments to PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

Paragraph 113M is amended. New text is underlined, and deleted text is struck through.

Paragraphs 113O–113Z3 and 126.10–126.14 are added. A heading is added before paragraph 113P and subheadings are added before paragraphs 113P, 113V, 113Y and 113Z1. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9.

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

...

End of Application

113M An entity shall prospectively cease applying paragraph 113G to a hedging relationship at the earlier of:

- (a) When the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item ~~or~~ and of the hedging instrument; and
- (b) When the hedging relationship to which the exception is applied is discontinued.

...

113O An entity shall prospectively cease applying paragraphs 113H and 113I at the earlier of:

- (a) When changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 113P; or
- (b) When the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional Temporary Exceptions Arising from Interest Rate Benchmark Reform

Hedge Accounting

113P As and when the requirements in paragraphs 113D–113I cease to apply to a hedging relationship (see paragraphs 113J–113O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, i.e., the changes are consistent with the requirements in paragraphs 72.2–72.4 of PBE IPSAS 41 [5.4.6–5.4.8 of PBE IFRS 9]. In this context, the hedge designation shall be amended only to make one or more of these changes;

- (a) Designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
- (b) Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- (c) Amending the description of the hedging instrument; or
- (d) Amending the description of how the entity will assess hedge effectiveness.

113Q An entity also shall apply the requirement in paragraph 113P(c) if these three conditions are met:

- (a) The entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 72.2 of PBE IPSAS 41 [5.4.6 of PBE IFRS 9]);
- (b) The original hedging instrument is not derecognised; and

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- (c) The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 72.3 and 72.4 of PBE IPSAS 41 [5.4.7 and 5.4.8 of PBE IFRS 9]).
- 113R The requirements in paragraphs 113D–113I may cease to apply at different times. Therefore, applying paragraph 113P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 113V–113Z2 as applicable. An entity also shall apply paragraph 99 (for a fair value hedge) or paragraph 107 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.
- 113S An entity shall amend a hedging relationship as required in paragraph 113P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.
- 113T If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 72.2–72.4 of PBE IPSAS 41 [5.4.6–5.4.8 of PBE IFRS 9]) or to the designation of the hedging relationship (as required by paragraph 113P), an entity shall first apply the applicable requirements in this Standard to determine if those additional changes result in the discontinuation of hedge accounting. If the additional changes do not result in the discontinuation of hedge accounting, an entity shall amend the formal designation of the hedging relationship as specified in paragraph 113P.
- 113U Paragraphs 113V–113Z3 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 98, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for Qualifying Hedging Relationships*Retrospective Effectiveness Assessment*

- 113V For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 98(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 1132G as required by paragraph 113M. This election is made separately for each hedging relationship (i.e., on an individual hedging relationship basis).

Cash Flow Hedges

- 113W For the purpose of applying paragraph 108, at the point when an entity amends the description of a hedged item as required in paragraph 113P(b), the cumulative gain or loss in other comprehensive revenue and expense shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- 113X For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of applying paragraph 112(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in other comprehensive revenue and expense for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Groups of Items

- 113Y When an entity applies paragraph 113P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 113P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair

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value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

- 113Z An entity shall assess separately whether each subgroup meets the requirements in paragraphs 87 and 93 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 87 and 93, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 99 or 107 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating Financial Items as Hedged Items

- 113Z1 An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 90 and AG139) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (i.e., the 24-month period applies on a rate-by-rate basis).
- 113Z2 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 113Z1 to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was designated as a non-contractually specified risk portion.
- 113Z3 In addition to those hedging relationships specified in paragraph 113P, an entity shall apply the requirements in paragraphs 113Z1 and 113Z2 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 90 and AG139) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

Effective Date

...

- 126.10 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in November 2020, added paragraphs 113O–113Z3, 26.11–126.13, AG20A–AG20B, and amended paragraph 113M. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 126.11–126.13 and paragraph 126.14.
- 126.11 An entity shall designate a new hedging relationship (for example, as described in paragraph 113Z3) only prospectively (i.e., an entity is prohibited from designating a new hedge accounting relationship in prior periods). However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:
- (a) The entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if these amendments had been applied at that time; and
 - (b) At the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).
- 126.12 If, in applying paragraph 126.11, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 113Z1 and 113Z2 to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of these amendments (i.e., the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

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- 126.13 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
- 126.14 An entity is not required to restate prior periods to reflect the application of the amendments in paragraphs AG20A and AG20B. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening accumulated comprehensive revenue and expense (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Paragraphs AG20A–AG20B are added. A heading is added before paragraph AG20A. For ease of reading these paragraphs have not been underlined.

Changes in the Basis for Determining the Contractual Cash Flows as a Result of Interest Rate Benchmark Reform

- AG20A An entity shall apply the requirements in paragraphs 72.2–72.5 of PBE IPSAS 41 [or paragraphs 5.4.6–5.4.9 of PBE IFRS 9] to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 113B of PBE IPSAS 29.
- AG20B For the purpose of applying paragraphs 72.2–72.5 of the amendments to PBE IPSAS 41, the references to paragraph AG160 of PBE IPSAS 41 shall be read as referring to paragraph AG19 of PBE IPSAS 29. References to paragraphs 71 and AG161 of PBE IPSAS 41 shall be read as referring to paragraph AG20 of PBE IPSAS 29. [For the purpose of applying paragraphs 5.4.6–5.4.9 of the amendments to PBE IFRS 9, the references to paragraph B5.4.5 of PBE IFRS 9 shall be read as referring to paragraph AG19 of PBE IPSAS 29. References to paragraphs 5.4.3 and B5.4.6 of PBE IFRS 9 shall be read as referring to paragraph AG20 of PBE IPSAS 29.]

In the Basis for Conclusions, paragraphs BC5 and BC6 are added.

Interest Rate Benchmark Reform—Phase 2

- BC5. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments provided relief to continue hedge accounting when changes to financial instruments or hedging relationships occur as a result of the reform.
- BC6. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks could also urgently require these amendments and proposed equivalent amendments to PBE Standards. In addition, the NZASB considered that entities still applying PBE IPSAS 29 in full could benefit from the practical expedient added to PBE IFRS 9 and PBE IPSAS 41 for changes in the contractual cash flows of a financial asset or financial liability when such changes are directly required by interest rate benchmark reform and proposed an equivalent practical expedient in PBE IPSAS 29. As a result of that practical expedient entities meeting certain criteria will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change

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to the alternative benchmark rate. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020 and finalised the amendments in November 2020.

Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 28I–28J and 53.11–53.12 are added and a subheading is added before paragraph 28I. For ease of reading these paragraphs have not been underlined.

The references to [PBE IFRS 9] are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when these amendments are compiled into PBE IPSAS 41.

Other Disclosures

...

Additional Disclosures Related to Interest Rate Benchmark Reform

28I To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

- (a) The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and
- (b) The entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

28J To meet the objectives in paragraph 28I, an entity shall disclose:

- (a) How the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;
- (b) Disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:
 - (i) Non-derivative financial assets;
 - (ii) Non-derivative financial liabilities; and
 - (iii) Derivatives; and
- (c) If the risks identified in paragraph 28J(a) have resulted in changes to an entity's risk management strategy, a description of these changes.*

* For entities that have early adopted PBE IFRS 9 or PBE IPSAS 41, see also paragraph 26A

...

Effective Date and Transition

...

53.11 *PBE Interest Rate Benchmark Reform—Phase 2*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in November 2020, added paragraphs 28I–28J and 53.12. An entity shall apply these amendments when it applies the amendments to PBE IPSAS 41, [PBE IFRS 9] or PBE IPSAS 29.

53.12 In the reporting period in which an entity first applies *PBE Interest Rate Benchmark Reform—Phase 2*, an entity is not required to disclose the information that would otherwise be required by paragraph 33(f) of PBE IPSAS 3.

In the Basis for Conclusions, paragraphs BC4 and BC5 are added.

Interest Rate Benchmark Reform—Phase 2

- BC4. In August 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2* which amended IFRS 9, IAS 39, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. In September 2020 the NZASB made equivalent amendments to NZ IFRS. These amendments addressed the financial reporting issues that arise during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). The amendments also introduced additional disclosure requirements regarding an entity’s progress towards completing the implementation of the reform.
- BC5. The NZASB considered that PBEs affected by the replacement of interest rate benchmarks would also benefit from these amendments and proposed equivalent amendments to PBE Standards, including additional disclosure requirements. The NZASB issued NZASB ED 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2* in September 2020 and finalised the amendments in November 2020.

Part D – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after 1 January 2021. Earlier application is permitted.

In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2021 or when an entity applies those standards.



**NZ ACCOUNTING
STANDARDS
BOARD**

Memorandum

Date: 4 November 2020

To: Michele Embling, Chair External Reporting Board

From: Mike Bradbury, Acting Chair NZASB

Subject: *PBE Interest Rate Benchmark Reform—Phase 2*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *PBE Interest Rate Benchmark Reform—Phase 2*. This amending standard will amend:
 - (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*.
2. The proposed amendments are equivalent to the for-profit amending standard *Interest Rate Benchmark Reform—Phase 2* (issued September 2020). The NZASB is amending PBE Standards now, rather than waiting for the IPSASB to consider the amendments because some PBEs could urgently require the practical expedients and exceptions introduced by the amendments, the amendments could help avoid mixed group issues and there are benefits from keeping the two sets of financial instrument standards closely aligned.

Background to IBOR reform

3. The International Accounting Standards Board (IASB) has now issued two sets of amendments to IFRS® Standards to address the effects of interest rate benchmark reform on financial reporting.
4. 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 interest rate benchmarks.
5. 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 the IASB’s Phase 2 amendments was to assist entities in providing useful

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

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.

6. The Phase 2 amendments relate to:
 - (a) changes to contractual cash flows — an entity does not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but instead updates the effective interest rate to reflect the change to an alternative benchmark rate;
 - (b) hedge accounting — an entity does not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
 - (c) disclosures — an entity is required to disclose information about risks arising from the reform and how it manages the transition to alternative benchmark rates.

7. Earlier this year (in February) the NZASB incorporated the Phase 1 amendments in PBE Standards. Following the completion of the IASB's Phase 2 work, the NZASB incorporated the Phase 2 amendments in NZ IFRS and proposed the adoption of the Phase 2 amendments in PBE Standards. Although the NZASB had expected that moving ahead of the IPSASB would lead to a temporary difference between PBE Standards and IPSAS, the IPSASB has not yet considered the Phase 1 or the Phase 2 amendments. This has been due to the IPSASB's workload and pressures on meeting time.

Due process

8. The proposed Phase 2 amendments are based on the Phase 2 amendments to NZ IFRS, which have already been through due process by the IASB and the NZASB. Key dates in the IASB's and NZASB's due process for the Phase 2 amendments to NZ IFRS were as follows.
 - (a) April 2020: The IASB issued Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform—Phase 2*.
 - (b) 25 May 2020: Comments were due to the IASB. Due to the short comment period the NZASB asked constituents to comment directly to the IASB.
 - (c) June–July 2020: The IASB considered responses and due process steps.² The IASB received 80 responses. Most respondents welcomed the urgency accorded to this project by the IASB and broadly supported the proposed amendments. The IASB made some changes to its proposals as a result of feedback received from constituents. The feedback received led to some minor changes and clarifications and an additional disclosure requirement.
 - (d) August 2020: The IASB issued *Interest Rate Benchmark Reform—Phase 2* which amends a number of IFRS Standards.

² A summary of the IASB's July 2020 IBOR deliberations is available at: [IASB Update July 2020](#). More detail on the IASB's due process is available in the signing memo that accompanied *Interest Rate Benchmark Reform—Phase 2* (dated 10 September 2020).

- (e) September 2020: The NZASB approved for issue *Interest Rate Benchmark Reform—Phase 2*.
9. In September 2020 the NZASB issued NZASB Exposure Draft 2020-5 *PBE Interest Rate Benchmark Reform—Phase 2*. The NZASB requested comments by 26 October 2020. Although the 45-day comment period was shorter than the usual 90 days, this was longer than the IASB’s comment period and consistent with the urgency of the amendments. The NZASB did not receive any submissions on ED 2019-5 *PBE Interest Rate Benchmark Reform—Phase 2*.
 10. The NZASB has approved *PBE Interest Rate Benchmark Reform—Phase 2*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB’s view, meets the requirements of section 22 of the Financial Reporting Act 2013.
 11. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB’s view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

12. In implementing the Financial Reporting Strategy set out in the Accounting Standards Framework the NZASB usually waits for the IPSASB to complete its consideration of a new IFRS Standard before developing a new PBE Standard. The NZASB uses the *Policy Approach to Developing the Suite of PBE Standards* to guide its decisions on when and how to incorporate new international developments in PBE Standards. In deciding to issue these amendments before the IPSASB, the NZASB has departed from its usual processes. However, the NZASB considers that the departure is justified because of the potential impact on any affected entities and the urgency of the issue.
13. There are no disclosure concessions for Tier 2 PBEs. The additional disclosures will be required for a limited period of time.

Effective date

14. The amending standard will be applicable for financial statements covering periods beginning on or after 1 January 2021. Earlier application is permitted.
15. Where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2021 or when an entity applies those standards.

Other matters

16. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

17. The NZASB recommends that you sign the attached Certificate of Determination on behalf of the XRB Board.

Attachments

PBE Interest Rate Benchmark Reform—Phase 2

Certificate of Determination

Michael Bradbury
Acting Chair NZASB

Appendix

The following table summarises the IBOR Phase 2 amendments to NZ IFRS and PBE Standards.

Amendments NZ IFRS	Amendments to PBE Standards
<p>NZ IFRS 9 Financial Instruments</p> <p>Modifications</p> <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. <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 41 Financial Instruments</p> <ul style="list-style-type: none"> Equivalent to the amendments to NZ IFRS 9. The transition requirements differ because of the different possible timelines for adoption of PBE IPSAS 41. <p>PBE IFRS 9 Financial Instruments</p> <ul style="list-style-type: none"> Equivalent to the amendments to NZ IFRS 9.
<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.

Final Pronouncement
September 2020

IPSAS®

International Public Sector Accounting Standard®

*COVID-19: Deferral of
Effective Dates*

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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COVID-19: DEFERRAL OF EFFECTIVE DATES

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INTRODUCTION

1. The IPSASB has recently published the following pronouncements which have effective dates of January 1, 2022:
 - (a) IPSAS 41, *Financial Instruments*;
 - (b) IPSAS 42, *Social Benefits*;
 - (c) *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41);
 - (d) *Collective and Individual Services* (Amendments to IPSAS 19); and
 - (e) *Improvements to IPSAS, 2019*.
2. The COVID-19 pandemic has had a significant impact on constituents, therefore the IPSASB ~~has decided is proposing~~ to defer the effective dates of those pronouncements by one year, to January 1, 2023.
3. The IPSASB ~~decided is of the view~~ that some constituents will require more time to prepare for the implementation of these new pronouncements in order to deal with the impact of the on-going pandemic.
4. Early application is permitted to the extent specified in each pronouncement as originally issued.

OBJECTIVE

5. The objective of ~~this Pronouncement~~ ~~Exposure Draft (ED 73)~~, *COVID-19: Deferral of Effective Dates*, is to ~~propose establish~~ the deferral of the effective dates of IPSAS 41, *Financial Instruments*, IPSAS 42, *Social Benefits*, *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), *Collective and Individual Services* (Amendments to IPSAS 19), and *Improvements to IPSAS, 2019* by one year, to January 1, 2023.

REQUEST FOR COMMENTS

- ~~6. The IPSASB welcomes comments on the deferral of the effective dates proposed in ED 73, COVID-19: Deferral of Effective Dates. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.~~

1 – AMENDMENTS TO IPSAS 41, *FINANCIAL INSTRUMENTS*

Amendments to IPSAS 41, *Financial Instruments*

Paragraph 156 is amended. New text is underlined and deleted text is struck through.

Effective date

156. An entity shall apply this Standard for annual periods beginning on or after January 1, ~~2022~~2023. Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact and apply all of the requirements in this Standard at the same time (but see also paragraph 179). It shall also, at the same time, apply the amendments in Appendix D.

Appendix D

Amendments to Other IPSAS

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 153L is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 153L. Paragraphs 7, 79, 82, 101, 102 and 138 were amended and paragraphs 125A, 125B and 125C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraph 71D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 71D. Paragraphs 3, 4, 5, 31 and 61 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 41D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 41D. Paragraph 10 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 12, *Inventories*

Paragraph 51E is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 51E. Paragraph 2 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 14, *Events After the Reporting Date*

Paragraph 32F is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 32F. Paragraph 11 was amended by IPSAS 41, *Financial Instruments* issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 111H is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 111H. Paragraph 4 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment

for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 82I is amended. New text is underlined and deleted text is struck through.

Effective Date

...

82I. Paragraphs 2, 9 and 13 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraph 124F is amended. New text is underlined and deleted text is struck through.

Effective Date

...

124F. Paragraphs 43, 105A was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 26, *Impairment of Cash Generating Assets*

Paragraph 126K is amended. New text is underlined and deleted text is struck through.

Effective Date

...

126K. Paragraphs 2, 9 and 12 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph 60F is amended. New text is underlined and deleted text is struck through.

Effective Date

...

60F. Paragraphs 2, 3, 4, 9, 10, 14, 28, 36, 47, 48, AG2 and AG55 were amended, paragraph AG63 was deleted and paragraphs AG63A, AG63B, AG63C, AG63D, AG63E and AG63F were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraph 125H is amended. New text is underlined and deleted text is struck through.

Effective Date

...

125H. Paragraphs 2, 9, 10, 80, 98, 99, 101, 102, 107, 108, 109, 111, 112, 113, AG128, AG157 and AG161 were amended, paragraph AG156A was added and paragraphs 1, 3, 4, 5, 6, 11–79, 88, AG1–AG126 and AG129 were deleted by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 52F is amended. New text is underlined and deleted text is struck through.

Effective Date and Transition

...

52F. Paragraphs 2, 3, 4, 5, 8, 11, 12, 13, 14, 18, 24, 34, 35, 36, 37, 41, 43, 45, AG1, AG5, AG9, AG10, AG24, and AG29 were amended, paragraphs 16, 17, 20, 26, 27, 28 and 44 were deleted and several headings and paragraphs 5A, 13A, 14A, 14B, 15A, 15B, 15C, 17A, 17B, 17C, 17D, 17E, 17F, 20A, 24A, 25A, 25B, 25C, 25D, 26A, 26B, 26C, 27A, 27B, 27C, 27D, 27E, 27F, 28A, 28B, 28C, 28D, 28E, 28F, 28G, 37A, 39A, 42A, 42B, 42C, 42D, 42E, 42F, 42G, 42H, 42I, 42J, 42K, 42L, 42M, 42N, 49A, 49B, 49C, 49D, 49E, 49F, 49G, 49H, 49I, 49J, 49K, 49L, 49M, 49N, 49O, 49P, 49Q, 49R, 49S, 52C, 52D, AG8A, AG8B, AG8C, AG8D, AG8E, AG8F, AG8G, AG8H, AG8I, AG8J, AG31, AG32, AG32A, AG33, AG34, AG35, AG36, AG37, AG38, AG39, AG40, AG41, AG42, AG43, AG44, AG45, AG46, AG47, AG48, AG49, AG50, AG51, AG52, AG53, AG54 and AG55 are added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraph 36D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

36D. Paragraphs 20, 29, AG37, AG45, AG52 and AG53 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 33, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 154D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

154D. Paragraphs 36, 64, 72, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122 and 124 were amended and paragraphs 114A, 119A, 119B, 119C, 119D, 122A, 122B, 122C, and 122D were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

IPSAS 34, *Separate Financial Statements*

Paragraph 32B is amended. New text is underlined and deleted text is struck through.

Effective Date

...

32B. Paragraphs 6, 12, 13, 14, 15, 22, 26 and 30 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

IPSAS 35, *Consolidated Financial Statements*

Paragraph 79E is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 79E. Paragraphs 22, 45, 52, 55A, 56, 58 and AG105 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 51D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 51D. Paragraphs 20, 24, 25, 26, 43, 44 and 45 were amended and paragraphs 44A, 44B and 44C were added by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 37, *Joint Arrangements*

Paragraph 42D is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 42D. Paragraphs 28, 30, 41, AG11 and AG33A were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 38, *Disclosure of Interests in Other Entities*

Paragraph 61C is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 61C. Paragraph 4 was amended by IPSAS 41, in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Amendments to IPSAS 40, *Public Sector Combinations*

Paragraph 126A is amended. New text is underlined and deleted text is struck through.

Effective Date

...

126A. Paragraphs 25, 45, 70, 111, 115, 117 and AG88 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 41 at the same time.

Basis for Conclusions

...

Revision of IPSAS 41 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

BC46. The IPSASB published IPSAS 41, *Financial Instruments* in August 2018. At the time this Standard was finalized, the Board decided that an entity shall apply it for annual financial statements covering periods beginning on or after January 1, 2022.

BC47. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of IPSAS 41.

BC48. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of IPSAS 41.

BC49. The Board ~~did~~ not propose ~~ing~~ any changes to the Standard other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

2 – AMENDMENTS TO IPSAS 42, *SOCIAL BENEFITS*

Amendments to IPSAS 42, *Social Benefits*

Paragraph 35 is amended. New text is underlined and deleted text is struck through.

Effective Date

35. An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, ~~2022~~2023, it shall disclose that fact.

Appendix B

Amendments to Other IPSAS

...

Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 154G is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 154G. Paragraph 36 was amended and paragraphs 134A and 134B were added by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2019~~2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, ~~2019~~2023 it shall disclose that fact and apply IPSAS 42 at the same time.

Basis for Conclusions

...

Revision of IPSAS 42 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

BC164. The IPSASB published IPSAS 42, *Social Benefits* in January 2019. At the time this Standard was finalized, the Board decided that an entity shall apply it for annual financial statements covering periods beginning on or after January 1, 2022.

BC165. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of IPSAS 42.

BC166. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of IPSAS 42.

BC167. The Board ~~did~~ not propose ~~ing~~ any changes to the Standard other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

3 – AMENDMENTS TO LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IPSAS 36) AND PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IPSAS 41)

Amendments to IPSAS 36, *Investments in Associates and Joint Ventures*

Paragraph 51F is amended. New text is underlined and deleted text is struck through.

Effective Date and Transition

...

51F. Paragraph 20A was added and paragraph 44 deleted by *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)*, issued in January 2019. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023, except as specified in paragraphs 51G–51I. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, ~~2022~~2023, it shall disclose that fact and apply IPSAS 41 at the same time.

Basis for Conclusions

...

Revision of IPSAS 36 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

- BC21. The IPSASB published *Long-term Interests in Associates and Joint Ventures (Amendments to IPSAS 36) and Prepayment Features with Negative Compensation (Amendments to IPSAS 41)* in January 2019. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.
- BC22. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.
- BC23. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.
- BC24. The Board ~~did~~is not proposeing any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Amendments to IPSAS 41, *Financial Instruments*

Paragraph 156A is amended. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

...

156A. *Long-term Interests in Associates and Joint Ventures* (Amendments to IPSAS 36) and *Prepayment Features with Negative Compensation* (Amendments to IPSAS 41), issued in January 2019, added paragraphs 184–189 and AG74A and amended paragraphs AG73(b) and AG74(b). An entity shall apply these amendments for annual periods beginning on or after January 1, ~~2022~~2023. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

4 – AMENDMENTS TO COLLECTIVE AND INDIVIDUAL SERVICES (AMENDMENTS TO IPSAS 19)

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 111J is amended. New text is underlined and deleted text is struck through.

Effective Date

...

111J. Paragraphs 6A and AG1–AG20 were added and paragraph 18 was amended by *Collective and Individual Services* (Amendments to IPSAS 19), issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, ~~2022~~2023 it shall disclose that fact and apply IPSAS 42, *Social Benefits*, at the same time.

Basis for Conclusions

...

Revision of IPSAS 19 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

- BC22. The IPSASB published *Collective and Individual Services* (Amendments to IPSAS 19) in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.
- BC23. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.
- BC24. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.
- BC25. The Board ~~did~~ not propose~~ing~~ any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Amendments to IPSAS 42, *Social Benefits*

Paragraph 35A is amended. New text is underlined and deleted text is struck through.

Effective Date

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- 35A. Paragraph 4A was added by *Collective and Individual Services (Amendments to IPSAS 19)*. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, ~~2022~~2023. Earlier application is encouraged.

5 – AMENDMENTS TO IMPROVEMENTS TO IPSAS, 2019

Amendment: Part 1a

Amendments to IPSAS 5, *Borrowing Costs*

Paragraph 42E is amended. New text is underlined and deleted text is struck through.

Effective Date

...

- 42E. Paragraph 6 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, ~~2022~~2023, it shall disclose that fact and apply IPSAS 41 at the same time.

Basis for Conclusions

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Revision of IPSAS 5 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

- BC4. The IPSASB published *Improvements to IPSAS, 2019* in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.
- BC5. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.
- BC6. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.
- BC7. The Board ~~did~~ not propose ~~ing~~ any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Amendment: Part 1c

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 52G is amended. New text is underlined and deleted text is struck through.

Effective Date

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52G. Paragraph AG5 was amended by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies this amendment for a period beginning before January 1, ~~2022~~2023, it shall disclose that fact and apply IPSAS 41 at the same time.

Basis for Conclusions

...

Revision of IPSAS 30 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

BC8. The IPSASB published *Improvements to IPSAS, 2019* in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC9. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC10. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC11. The Board ~~did~~is not propose~~ing~~ any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

Amendment: Part 1d

Amendments to IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*

Paragraph 154H is amended. New text is underlined and deleted text is struck through.

Effective Date

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154H. Paragraph 113 was amended, paragraph 113A was added and paragraph 114 was deleted by *Improvements to IPSAS, 2019*, issued in January 2020. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2022. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, ~~2022~~2023, it shall disclose that fact and apply IPSAS 41 at the same time.

Basis for Conclusions

...

Revision of IPSAS 33 as a result of [draft] IPSAS [X] (ED 73), *COVID-19: Deferral of Effective Dates*

BC122. The IPSASB published *Improvements to IPSAS, 2019* in January 2020. At the time these amendments were finalized, the Board decided that an entity shall apply them for annual financial statements covering periods beginning on or after January 1, 2022.

BC123. In June 2020, the IPSASB discussed the effect of the COVID-19 pandemic on financial reporting. The Board noted that the pandemic has created significant pressures on the resources public sector entities might otherwise allocate to the implementation of these amendments.

BC124. The Board concluded that deferral during a time of significant disruption would provide much-needed operational relief to public sector entities. Therefore, the Board decided to propose a one-year deferral of the effective date of these amendments.

BC125. The Board ~~did~~ not propose~~ing~~ any changes to the amendments other than the deferral of the effective date. Earlier application of the amendments will continue to be permitted.

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**[DRAFT] Final Pronouncement
October 2020**

IPSAS®

*[PROPOSED] International Public Sector
Accounting Standard®*

**Amendments to IPSAS 41,
*Financial Instruments***

IPSASB

International Public
Sector Accounting
Standards Board®



This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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Amendments to IPSAS 41 *Financial Instruments*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

Introduction

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BC3. The IPSASB acknowledges that there are other ~~aspects of~~ financial instruments ~~and items with some financial instruments characteristics as defined in IPSAS 41, insofar as they relate to~~ the public sector, which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Non-exchange Expenses*, to address:

- (a) Certain transactions undertaken by monetary authorities; and
- (b) Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

Public Sector Specific Financial Instruments

BC3A. In developing IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, the IPSASB identified several items ~~which havewith~~ public sector specific characteristics ~~that may be public sector specific financial instruments (PSSFIs)~~. These items identified during the initial financial instruments project as ~~"Public Sector Specific Financial Instruments"~~ possible PSSFIs were:

- Monetary gold;
- ~~Special Drawing Rights (SDRs);~~
- International Monetary Fund (IMF) quota subscriptions;
- IMF Special Drawing Rights (SDRs);
- Currency in circulation;
- Statutory receivables / payables;
- Concessionary loans; and
- Financial guarantee contracts.

BC3B. Two public sector specific ~~issues~~items — concessionary loans and financial guarantee contracts issued through non-exchange transactions — ~~met the definition of a financial instrument and were addressed in the application guidance in IPSAS 41. Both instruments meet the definition of a financial instrument.~~ As statutory receivables and payables are not contractual, the IPSASB agreed to address these instruments in a separate project.

BC3C. The IPSASB agreed to address the remaining ~~issues through public sector specific items in a Public Sector Specific Financial Instruments PSSFI project. In July 2016, the IPSASB issued a Consultation Paper (CP), *Public Sector Specific Financial Instruments* which provided a detailed analysis of these items. This analysis included definitions, which were developed to reflect the~~

substance of these items as well as conventions included in IPSAS and discussions by the IPSASB related to the transactions in an accounting context. The IPSASB intended for these definition to have the same substance as guidance included in the various Government Finance Statistics manuals referenced.

BC3D. Respondents to the Consultation Paper (CP), Public Sector Specific Financial Instruments (issued in July 2016) indicated agreed:

- (a) Several PSSFI met of the items meet the definition of a financial instrument in IPSAS 41 and therefore should be addressed in existing guidance; and
- (b) Items that meet the IPSAS definition of a financial instrument should be accounted for Specific responses to Preliminary Views (PVs) and Specific Matters for Comments (SMCs) in the CP were consistent in accordance with existing IPSAS 41 accounting principles.

In considering these responses to the CP, the IPSASB agreed concluded, where possible, that Public Sector Specific Financial Instruments PSSFIs should be addressed in the current financial instruments standards and the scope should be retained. This eliminated the need to incorporate the detailed analysis and definitions from the CP into amendments to IPSAS 41 as sufficient principles exist in IPSAS 41 to account for PSSFI items. The IPSASB concluded the analysis reflected in the CP was useful, and allowed the Board to determine the approach. However, it was not necessary to carry forward the analysis to the amendments to IPSAS 41 as principles consistent with responses to the CP already existed in IPSAS 41. The IPSASB noted while definitions were not necessary, additional non-authoritative guidance would help users identify these specific financial instruments. In consultation with constituents, the IPSASB concluded the output of the project should focus on the application of IPSAS 41 to PSSFI within the scope of the CP and this scope should not be expanded. PVs on recognition and measurement of PSSFI was not replicated as sufficient guidance on recognition and measurement exist in IPSAS 41.

BC3E. The IPSASB noted that additional non-authoritative guidance would help users identify these specific financial instruments, and developed additional implementation guidance for monetary gold, currency in circulation and Special Drawing Rights. However, the IPSASB noted the features of IMF quota subscriptions are consistent with those in Illustrative Example 32 in IPSAS 41 and decided that additional guidance for quota subscriptions was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for these three public sector specific types of financial instruments.

BC3F. The IPSASB issued Exposure Draft (ED) 69 in August 2019 that proposed amendments to IPSAS 41 to illustrate the application of IPSAS 41 to PSSFIs. These amendments included the non-authoritative guidance noted in BC3E. Respondents to the ED supported the direction taken by the IPSASB and the amendments proposed in the ED.

...

Gold Bullion

BC18. Gold bullion does not meet the definition of a financial instrument as defined in IFRS 9. Given the IPSASB proposals in its Public Sector Specific Financial Instruments -PSSFI project related to monetary gold, the IPSASB considered whether this was appropriate. The IPSASB noted that gold bullion has a wider meaning than monetary gold, and for entities that are not monetary authorities, the guidance is appropriate. The IPSASB therefore agreed to include Implementation

Guidance B.1. The IPSASB will reconsider this matter when it concludes its Public Sector Specific Financial Instruments project.

Monetary Gold

BC18A. As part of the ~~Public Sector Financial Instruments-PSSFI~~ project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to them in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:

- a. Readily convertible into cash;
- b. Quoted globally in US dollars;
- c. Easily traded with willing counterparties (durable, divisible and portable);
- d. Accepted as a form of payment by some central banks; and
- e. A store of wealth.

Furthermore, monetary gold can be held:

- a. For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and
- b. For an indeterminate period of time, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

BC18B. In considering the responses to the ~~Consultation Paper, Public Sector Specific Financial Instruments~~CP, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB ~~noted that considered whether~~ applying the principles in IPSAS 41 to monetary gold may be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC18D. The IPSASB concluded that, while monetary gold ~~shares many has some~~ characteristics ~~with of~~ a financial asset, as noted in paragraph BC18A, the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

...

Example 32—Capital Subscriptions Held with Redemption Features

IE211. In order to participate in and support the activities of International Development Bank A, or similar international organization.¹ Federal Government B invests and acquires a fixed number of subscription rights in International Development Bank A, based on Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Government B with the right to put the subscription rights back to Bank A in exchange for the initial amount invested (i.e., CU1,000 per subscription right). International Development Bank A has no obligation to deliver dividends on the subscription rights.

...

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

...

Section B Definitions

Section B is intended to provide non-authoritative guidance on whether certain transactions meet the definitions per IPSAS 41 and is not intended to define items.

B.1 Definition of a Financial Instrument: Gold Bullion

Is gold bullion a financial instrument (like cash) or is it a commodity?

It is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion.

B.1.1 Definition of a Financial Instrument: Monetary Gold

Is monetary gold a financial instrument (like cash)?

No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold has many of the characteristics of a financial asset, applying the principles set out in IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. It may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.

B.1.2 Public Sector Specific Financial Instruments

B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

¹ An example of a similar international organization that issues such instruments includes the International Monetary Fund (IMF quota subscriptions).

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations or similar requirements enforceable by law, such as a ~~Banking~~ Act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a "contract" exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22-43 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories*, in accounting for any unissued currency.

B.1.2.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

Do Special Drawing Rights (SDR) Holdings (SDR) meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR's can be used in transactions with the IMF or can be exchanged between participants of the IMF's SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.

B.1.2.3 Definition of a Financial Instrument: Special Drawing Rights (SDR) Allocations

Do Special Drawing Rights Allocations meet the definition of a financial liability?

Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability.

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