PBE Interest Rate Benchmark Reform—Phase 2

Issued November 2020

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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 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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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 157.7, 157.8 and 179 are amended. New text is underlined and deleted text is struck through.
>
> Paragraphs 72.1–72.5, 155.13, 155.14–155.26, 156.4, 157.12–157.15 and 184A are added. For ease of reading these paragraphs have not been underlined. 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.
>
> 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

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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:

(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.

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Temporary Exceptions from Applying Specific Hedge Accounting Requirements

End of Application

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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

(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 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 24month 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

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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 179–184A 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.

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.

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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 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

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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

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.

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6.8 Temporary exceptions from applying specific hedge accounting requirements

End of application

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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

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 24month 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

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

(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 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

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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).

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 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

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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.