

Warren Allen, Chief Executive
External Reporting Board
Email: submissions@xrb.govt.nz

29 September 2016

Dear Warren

Auckland Council submission to ED NZASB 2016-7 PBE IFRS 9 Financial Instruments

Thank you for the opportunity to comment on the exposure draft PBE IFRS 9 Financial Instruments.

Auckland Council is Australasia's largest local government entity and is made up of the Council and six substantive council controlled organisations. We invest heavily in infrastructure and many of our decisions will have a fiscal impact on Auckland's future generations.

We have given our responses to the specific questions for the respondents as an attachment to this letter along with our additional comments for the XRB's consideration.

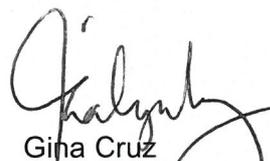
The responses in this letter were also reviewed and agreed with Auckland Transport, Watercare and Regional Facilities Auckland, three of our council controlled organisations.

Once again, thank you for the opportunity to comment.

Yours sincerely



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General Manager Corporate Finance
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AUCKLAND COUNCIL



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Group Accountant – Policies & Standards
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Attachment – Auckland Council’s Responses to Specific Matters for Comment requested for Exposure Draft NZASB 2016-7 PBE IFRS 9 Financial Instruments

1. Do you support the NZASB’s proposal to issue a PBE Standard based on IFRS 9 in advance of the IPSASB completing its project on financial instruments, taking into account the factors discussed in the *PBE Policy Approach*? If not, please explain why not and indicate any alternative course of action that you think would be more appropriate.

Auckland Council’s response:

We support NZASB’s proposal to issue PBE IFRS 9 in advance of the IPSASB. The pros and cons we identified as follows:

Pros:

- Adoption of IFRS 9 equivalent will eliminate some of the differences in the accounting policies within mixed groups which the council is experiencing, especially on adoption of NZ IFRS 9 by for-profit entities.
- Accounting for financial instruments, unlike revenue recognition, should not create significant differences between for-profit entities and PBEs.
- There are no easily available guidance/interpretations for IPSAS or PBE standards. Consequently, guidance and/or interpretations available for IFRS can be, and often are, used for equivalent PBE standards, especially if there are no significant differences between the two sets of standards.
- IFRS 9’s hedging accounting rules are perceived to be more relaxed as compared to IPSAS 29. As Council group uses some complex derivative instruments for hedge accounting purposes, the more relaxed rules of IFRS 9 may result in some benefits in the form of reduced compliance costs.

Con:

- In the event that the IPSASB issues an IFRS 9 equivalent IPSAS that is different to the version issued by the NZASB earlier, it is conceivable that the adoption of the final PBE Standard may require further adjustments.

These pros and con were provided as feedback in our email to the NZASB in March 2016. We still believe that the pros outweigh the cons and adopting the proposed PBE IFRS 9 will have a positive impact to the Group.

2. If a PBE Standard based on IFRS 9 were to be issued by the end of 2016, and you are the head of a mixed group or a member of a mixed group:
 - a) do you think it is likely that you or any PBEs within the mixed group would wish to early adopt PBE IFRS 9; and
 - b) if so, do you think that the expected issue date of late 2016 would provide sufficient lead-in time for a PBE within a mixed group to voluntarily adopt the proposed PBE Standard?

Auckland Council’s response:

Auckland Council is the head of a mixed group and we will, as a group, early adopt PBE IFRS 9 once issued.

Due to the complexity of Auckland Council Group, we support the adoption in the same year as our for-profit subsidiaries and associates will adopt NZ IFRS 9. Auckland Council group has initially assessed that the impact of the proposed new standard is manageable compared to the adjustments that need to be monitored during consolidation as a result of mixed group. We, however, need to emphasise our support to voluntary adoption since not all PBEs are complex compared to the structure of Auckland Council group. These PBEs will need sufficient lead-in time to assess the impact of the proposed standard to their financial reporting.

3. Do you agree with the modifications made by the NZASB in developing the proposed PBE Standard? If not, please explain why not and identify what you think would be more appropriate. Respondents may find it helpful to consider the matters outlined in Tables 2-4.

Auckland Council's response:

We agree with the modifications proposed for PBE IFRS 9 as these are PBE-specific or there is no PBE standard equivalent such as NZ IFRS 13 *Fair value measurement*.

4. Do you agree with the proposed RDR concessions in relation to PBE IPSAS 30 (refer Appendix D of the Exposure Draft)? If you disagree, please provide reasons and indicate what concessions you consider would be appropriate.

Auckland Council's response:

We support the proposed RDR concessions although this is not expected to impact Auckland Council Group.

5. Do you agree with the proposal that the effective date of the proposed PBE IFRS 9 be 1 January 2021, with early adoption permitted (bearing in mind the NZASB's intention to defer the effective date of PBE IFRS 9 until a future IPSAS based on IFRS 9 is effective)?

Auckland Council's response

We support the effective date to be 1 January 2021 as this will give most of the PBEs sufficient time to prepare for the transition. We acknowledge and support the plan of NZASB to wait for the completion of the IPSASB equivalent IFRS 9 as this is a way to minimise the potential double up of transition costs.

For entities such as the Auckland Council group, who will early adopt the proposed PBE IFRS 9, we suggest that the NZASB considers providing guidance or concessions if there are significant differences between PBE IFRS 9 and the final PBE Standard based on the new IPSAS when issued by the IPSASB.

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

Auckland Council's response

We have no further comment.