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Exposure Draft NZASB 2016-7: PBE IFRS 9 Financial Instruments

Dear Warren

The New Zealand Accounting Standards Board (NZASB or Board) has sought submissions relating to *Exposure Draft NZASB 2016-7: PBE IFRS 9 Financial Instruments* (ED).

PwC New Zealand is pleased to present its submission.

Overall, we are supportive of the NZASB's proposal to incorporate IFRS 9 into the suite of PBE Standards to replace the current PBE IPSAS 29 (based on IPSAS 29 which in turn was based on IAS 39).

We believe that issuing a PBE Standard based on IFRS 9 is a positive step to address some of the concerns relating to the compliance costs for mixed groups arising from the differences in accounting requirements between for-profit and public benefit entities. As acknowledged in the Invitation to Comment to the ED, this is a particular concern when those differences arise from differences in the timing of introduction of new requirements for the different sectors rather than from differences in the information needs of users of financial statements.

Therefore we support the NZASB in providing PBEs with the option to voluntarily early adopt a PBE Standard based on IFRS 9 to help alleviate the potential compliance costs that mixed groups would have to face when IFRS 9 becomes mandatory for for-profit entities.

Below we have outlined our specific comments to the questions in the Invitation to Comment issued by the NZASB accompanying ED 2016-7.

- 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.**

As above, we support the proposal to issue a PBE Standard based on IFRS 9. We also agree with the reasons for the NZASB issuing the ED. We are not aware of any reasons why accounting requirements for financial assets and liabilities that arise from contractual arrangements should be different for for-profit and public benefit entities. That is, the differences between the sectors do not appear to justify differences in the accounting for contractual financial assets and liabilities. Therefore, although developed by the IASB for for-profits, we support the NZASB's proposal to adopt IFRS 9, with modifications, into the PBE Standards suite.



Further, we believe that IFRS 9 is a more modern standard than IAS 39 on which PBE IPSAS 29 is based, and therefore the issue of a PBE Standard based on IFRS 9 should result in higher quality accounting.

- 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?**

This question is not relevant to PwC New Zealand.

- 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.**

We agree with the approach to make minimal changes to IFRS 9 when developing the ED given that the IPSASB has commenced work on its financial instruments update project. This project is expected to result in an IPSAS based on IFRS 9 which will then be adopted in New Zealand based on the XRB's strategy.

We agree that the approach taken by the NZASB should minimise the potential differences between the IPSASB's new standard and PBE IFRS 9. Specifically we agree with the approach of keeping the terminology in IFRS 9 at this stage rather than pre-empting how the IPSASB might change the terms used in IFRS 9. We also support the approach taken to lift the changes into PBE IFRS 9 that were made to IAS 39 when IPSAS 29 was developed as these changes continue to be relevant.

- 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.**

We agree that the same RDR concessions should be available for Tier 2 PBEs and Tier 2 for-profits as there appear to be no sector specific reasons for any differences.

- 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)?**

We agree that PBE IFRS 9 should be available for voluntary early adoption by those who see early adoption as beneficial.

We also agree with aligning the mandatory effective date of the PBE Standard based on IFRS 9 with the new IPSAS standard on financial instruments as we do not see any need for the new PBE Standard to become mandatory for New Zealand PBEs before it becomes mandatory for public sector entities applying IPSAS in other jurisdictions.

Deferring the mandatory adoption date also allows the NZASB to align PBE IFRS 9 with the IPSASB's standard prior to mandatory adoption by New Zealand PBEs.



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

Illustrative examples not brought forward from PBE IPSAS 29

PBE IPSAS 29 contains illustrative examples relating to the guidance brought into PBE IFRS 9 (for example relating to concessionary loans in IE 37-45 and to the initial measurement of financial assets arising from non-exchange transactions in IE 46-50). The NZASB did not include the above examples in the ED.

The proposed standard also does not contain the Illustrative Examples and Implementation Guidance of IFRS 9. However BC10 to the ED refers readers to the additional material for NZ IFRS 9 on the XRB website.

We recommend that the NZASB considers adding to PBE IFRS 9 the examples from PBE IPSAS 29 that relate to the guidance brought forward from PBE IPSAS 29. We consider that these examples remain relevant under PBE IFRS 9, although some may need to be modified slightly, for example, to reflect the changes to financial asset categories under the proposed standard.

Initial measurement of financial assets arising from non-exchange transactions

The scope of ED states that the standard applies to all financial instruments, but scopes out initial recognition and measurement of rights and obligations arising from non-exchange transactions to which PBE IPSAS 23 applies (p.2.1(j)). This is consistent with the scope paragraph of PBE IPSAS 29.

Notwithstanding the above, the ED contains application guidance (B5.1.0) relating to the initial measurement of assets that arise from a non-exchange transaction that is also a contractual arrangement and therefore meet the definition of a financial asset. This is consistent with PBE IPSAS 29 which contains the same application guidance (AG 81 to PBE IPSAS 29) and related illustrative example (IE 48-50 to PBE IPSAS 29).

Therefore there seems to be an inconsistency between the scope paragraph of the ED (carried forward from PBE IPSAS 29) and the guidance within the ED relating to the initial measurement of assets that arise from a non-exchange transaction and also meet the definition of a financial asset.

We are not aware that the inconsistency between the scope paragraph and included guidance has caused problems in the past. However, as the scope paragraph is derived from IPSAS 29, we recommend that the NZASB raises this issue with the IPSASB so that it can be addressed as part of their financial instruments project.

Should you wish to discuss the above, please do not hesitate to contact Lyn Hunt on (09) 355 8863.

Yours sincerely

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Partner
Chairman