



## **PBE Interest Rate Benchmark Reform**

### **Issued February 2020**

This Standard was issued on 20 February 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 19 March 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 G.

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 support the provision of useful financial information by entities during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates.

COPYRIGHT

© External Reporting Board (XRB) 2020

This XRB standard contains International Financial Reporting Standards (IFRS®) Foundation copyright material. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: [enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz) and the IFRS Foundation at the following email address: [permissions@ifrs.org](mailto:permissions@ifrs.org)

All existing rights (including copyrights) in this material outside of New Zealand are reserved by the IFRS Foundation. Further information and requests for authorisation to reproduce for commercial purposes outside New Zealand should be addressed to the IFRS Foundation.

ISBN: 978-0-947505-74-5

Copyright

IFRS Standards are issued by the  
International Accounting Standards Board  
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.  
Tel: +44 (0)20 7246 6410  
Email: [info@ifrs.org](mailto:info@ifrs.org) Web: [www.ifrs.org](http://www.ifrs.org)

**Copyright © International Financial Reporting Standards Foundation** All rights reserved.

Reproduced and distributed by the External Reporting Board with the permission of the IFRS Foundation.

This English language version of the IFRS Standards is the copyright of the IFRS Foundation.

1. The IFRS Foundation grants users of the English language version of IFRS Standards (Users) the permission to reproduce the IFRS Standards for
  - (i) the User's Professional Use, or
  - (ii) private study and education.

**Professional Use:** means use of the English language version of the IFRS Standards in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS Standards for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

For the avoidance of doubt, the abovementioned usage does not include any kind of activities that make (commercial) use of the IFRS Standards other than direct or indirect application of IFRS Standards, such as but not limited to commercial seminars, conferences, commercial training or similar events.

2. For any application that falls outside Professional Use, Users shall be obliged to contact the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.
3. Except as otherwise expressly permitted in this notice, Users shall not, without prior written permission of the Foundation have the right to license, sublicense, transmit, transfer, sell, rent, or otherwise distribute any portion of the IFRS Standards to third parties in any form or by any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.
4. Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works, save as otherwise expressly permitted in this notice.
5. Commercial reproduction and use rights are strictly prohibited. For further information please contact the IFRS Foundation at [licences@ifrs.org](mailto:licences@ifrs.org).

The authoritative text of IFRS Standards is that issued by the International Accounting Standards Board in the English language. Copies may be obtained from the IFRS Foundation's Publications Department.

## PBE INTEREST RATE BENCHMARK REFORM

Please address publication and copyright matters in English to:

IFRS Foundation Publications Department  
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.  
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749  
Email: [publications@ifrs.org](mailto:publications@ifrs.org) Web: [www.ifrs.org](http://www.ifrs.org)

### Trade Marks



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the “Hexagon Device”, “IFRS Foundation”, “eIFRS”, “IAS”, “IASB”, “IFRS for SMEs”, “IASs”, “IFRS”, “IFRSs”, “International Accounting Standards” and “International Financial Reporting Standards”, “IFRIC” and “SIC” are **Trade Marks** of the IFRS Foundation.

### Disclaimer

The authoritative text of the IFRS Standards is reproduced and distributed by the External Reporting Board in respect of their application in New Zealand. The International Accounting Standards Board, the Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

## PBE INTEREST RATE BENCHMARK REFORM

### CONTENTS

	<i>from page</i>
<b>PART A: INTRODUCTION</b>	5
<b>PART B: SCOPE</b>	5
<b>PART C: AMENDMENTS TO PBE IPSAS 41 <i>FINANCIAL INSTRUMENTS</i></b>	6
<b>PART D: AMENDMENTS TO PBE IFRS 9 <i>FINANCIAL INSTRUMENTS</i></b>	9
<b>PART E: AMENDMENTS TO PBE IPSAS 29 <i>FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT</i></b>	12
<b>PART F: AMENDMENTS TO PBE IPSAS 30 <i>FINANCIAL INSTRUMENTS: DISCLOSURES</i></b>	15
<b>PART G: EFFECTIVE DATE</b>	16

## **Part A – Introduction**

This Standard sets out amendments to PBE Standards to support the provision of useful financial information by entities applying hedge accounting during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as IBORs.

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 to PBE IPSAS 41 *Financial Instruments*

Paragraphs 155.1–155.12 and 156.4 are added. A new heading is added before paragraph 155.1. New subheadings are added before paragraphs 155.4, 155.5, 155.6, 155.7 and 155.9. These paragraphs have not been underlined for ease of reading.

Paragraphs 157.7, 157.8, 179 and 184 are amended. New text in these paragraphs is underlined.

### Hedge Accounting

...

#### Temporary Exceptions from Applying Specific Hedge Accounting Requirements

155.1 An entity shall apply paragraphs 155.4–155.12 and paragraphs 156.4 and 184(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

155.2 For the purpose of applying paragraphs 155.4–155.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.<sup>1</sup>

155.3 Paragraphs 155.4–155.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

#### *Highly Probable Requirement for Cash Flow Hedges*

155.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 124, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### *Reclassifying the Amount Accumulated in the Cash Flow Hedge Reserve*

155.5 For the purpose of applying the requirement in paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### *Assessing the Economic Relationship Between the Hedged Item and the Hedging Instrument*

155.6 For the purpose of applying the requirements in paragraphs 129(c)(i) and AG278–AG280, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

#### *Designating a Component of an Item as a Hedged Item*

155.7 Unless paragraph 155.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

<sup>1</sup> The report, ‘Reforming Major Interest Rate Benchmarks’, is available at [http://www.fsb.org/wp-content/uploads/r\\_140722.pdf](http://www.fsb.org/wp-content/uploads/r_140722.pdf).

155.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

***End of Application***

155.9 An entity shall prospectively cease applying paragraph 155.4 to a hedged item at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) when the hedging relationship that the hedged item is part of is discontinued.

155.10 An entity shall prospectively cease applying paragraph 155.5 at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
- (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

155.11 An entity shall prospectively cease applying paragraph 155.6:

- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 155.11(a) or the date specified in paragraph 155.11(b), the entity shall prospectively cease applying paragraph 155.6 to that hedging relationship at the date of discontinuation.

155.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 155.4–155.6 to an individual item or financial instrument in accordance with paragraphs 155.9, 155.10, or 155.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

**Effective Date and Transition**

**Effective Date**

...

156.4 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 155.1–155.12 and amended paragraphs 157.7, 157.8, 179 and 184. If an entity has applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020 it shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. If an entity has not applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020, it shall apply these amendments when it first applies PBE IPSAS 41.

**Transition**

...

***Entities Transitioning from PBE IFRS 9***

...

**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 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 of this Standard in accordance with paragraphs 179–184 of this Standard.

...

***Entities Transitioning from PBE IPSAS 29***

...

**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 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.

...

184. As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

...

(d) shall apply the requirements in paragraphs 155.1–155.12 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC14 is added.

**Interest Rate Benchmark Reform**

BC14. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

## Part D – Amendments to PBE IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. These paragraphs have not been underlined for ease of reading.

Paragraph 7.2.26 is amended. New text in this paragraph is underlined.

### Chapter 6 Hedge accounting

...

#### 6.8 Temporary exceptions from applying specific hedge accounting requirements

- 6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
  - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.<sup>2</sup>
- 6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

#### Highly probable requirement for cash flow hedges

- 6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### Reclassifying the amount accumulated in the cash flow hedge reserve

- 6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### Assessing the economic relationship between the hedged item and the hedging instrument

- 6.8.6 For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually

<sup>2</sup> The report, ‘Reforming Major Interest Rate Benchmarks’, is available at [http://www.fsb.org/wp-content/uploads/r\\_140722.pdf](http://www.fsb.org/wp-content/uploads/r_140722.pdf).

or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

## Designating a component of an item as a hedged item

- 6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.
- 6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

## End of application

- 6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:
- when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
  - when the hedging relationship that the hedged item is part of is discontinued.
- 6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:
- when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
  - when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.
- 6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:
- to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
  - to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.

- 6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

## Chapter 7 Effective date and transition

### 7.1 Effective date

---

- ...
- 7.1.8 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added Section 6.8 and amended paragraph 7.2.26. An entity shall

apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

## 7.2 Transition

---

...

### Transition for hedge accounting (Chapter 6)

...

7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

...

- (d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC21 is added.
--

### ***Interest Rate Benchmark Reform***

BC21. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

## Part E – Amendments to PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

---

Paragraphs 113A–113N and 126.9 are added. A new heading is added before paragraph 113A. New subheadings are added before paragraphs 113D, 113E, 113F, 113H and 113J. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 (which are shown in square brackets [ ]) 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 (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

### Hedging

...

#### Temporary Exceptions from Applying Specific Hedge Accounting Requirements

113A An entity shall apply paragraphs 113D–113N and 113G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

113B For the purpose of applying paragraphs 113D–113N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.<sup>3</sup>

113C Paragraphs 113D–113N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

#### *Highly Probable Requirement for Cash Flow Hedges*

113D For the purpose of applying the requirement in paragraph 98(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### *Reclassifying the Cumulative Gain or Loss Recognised in Other Comprehensive Revenue and Expense*

113E For the purpose of applying the requirement in paragraph 112(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### *Effectiveness Assessment*

113F For the purpose of applying the requirements in paragraphs 98(b) and AG145(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

---

<sup>3</sup> The report, ‘Reforming Major Interest Rate Benchmarks’, is available at [http://www.fsb.org/wp-content/uploads/r\\_140722.pdf](http://www.fsb.org/wp-content/uploads/r_140722.pdf).

113G For the purpose of applying the requirement in paragraph 98(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG145(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 98, including the prospective assessment in paragraph 98(b), to assess whether the hedging relationship must be discontinued.

*Designating Financial Items as Hedged Items*

113H Unless paragraph 113I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.

113I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

*End of Application*

113J An entity shall prospectively cease applying paragraph 113D to a hedged item at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) when the hedging relationship that the hedged item is part of is discontinued.

113K An entity shall prospectively cease applying paragraph 113E at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
- (b) when the entire cumulative gain or loss recognised in other comprehensive revenue and expense with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

113L An entity shall prospectively cease applying paragraph 113F:

- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 113L(a) or the date specified in paragraph 113L(b), the entity shall prospectively cease applying paragraph 113F to that hedging relationship at the date of discontinuation.

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 of the hedging instrument; and
- (b) when the hedging relationship to which the exception is applied is discontinued.

113N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 113D–113G to an individual item or financial instrument in accordance with paragraphs 113J, 113K, 113L, or 113M, as relevant, when

the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

## Effective Date and Transition

...

- 126.9 *PBE Interest Rate Benchmark Reform* which amended PBE IPSAS 41, [PBE IFRS 9,] PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 113A–113N. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2020. 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 to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive revenue and expense that existed at the beginning of the reporting period in which an entity first applies these amendments.

In the Basis for Conclusions, paragraph BC4 is added.
---

## Interest Rate Benchmark Reform

- BC4. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

## Part F – Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 28H and 53.9–53.10 are added and a subheading is added before paragraph 28H. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 (which are shown in square brackets [ ]) 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 (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

### Hedge Accounting

...

#### *Uncertainty Arising from Interest Rate Benchmark Reform*

28H For hedging relationships to which an entity applies the exceptions set out in paragraphs 155.4–155.12 of PBE IPSAS 41, [paragraphs 6.8.4–6.8.12 of PBE IFRS 9], or paragraphs 113D–113N of PBE IPSAS 29, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity’s hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
- (e) the nominal amount of the hedging instruments in those hedging relationships.

### Effective Date and Transition

...

53.9 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 28H and 53.10. An entity shall apply these amendments when it applies the amendments to PBE IPSAS 41, [PBE IFRS 9] or PBE IPSAS 29.

53.10 In the reporting period in which an entity first applies *PBE Interest Rate Benchmark Reform*, issued in February 2020, an entity is not required to present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the Basis for Conclusions, paragraph BC3 is added.

### Interest Rate Benchmark Reform

BC3. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. They also required information about the extent to which an entity’s hedging relationships were within the scope of the exceptions. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions and should be required to disclose the extent to which they applied the exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

## **Part G – Effective Date**

This Standard shall be applied for annual financial statements covering periods beginning on or after 1 January 2020. 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 2020 or when an entity applies those standards, whichever comes first.