

AC-3-62

14 August 2017

Treasury Circular 2017/09

Unrestricted Distribution

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EARLY ADOPTION OF PBE IFRS 9 FINANCIAL INSTRUMENTS

1. This circular applies to all entities who report their financial statements (actuals and forecasts) in accordance with Crown accounting policies through CFISnet submissions.
2. We signalled in the year end Treasury circular we were considering early adopting PBE IFRS 9 *Financial Instruments* in 2018/19. The purpose of this circular is to:
 - inform you that the Crown has now decided it will adopt the new accounting standard PBE IFRS 9 for the Financial Statements of Government in 2018/19, and
 - update you regarding the status of NZ IFRS 16 *Leases* and NZ IFRS 15 *Revenue from Contracts with Customers*.
3. Many of you will be aware the for-profit sector (both internationally and in New Zealand) must adopt IFRS 9, or its equivalent NZ IFRS 9, in 2018/19, but public benefit entities¹ (PBEs) in New Zealand could choose to adopt the equivalent standard later (by 2021/22 at the latest).
4. We think that PBE IFRS 9 is a better standard than the previous financial instrument standard. We also see advantages in the Crown aligning its adoption date with the for-profit sector (and with the Australian central and state governments who must adopt the equivalent of IFRS 9 in 2018/19). For example, we will be able to more easily benchmark our financial instrument portfolios internationally and all our agencies will be reporting on the same financial instruments basis when we consolidate them.

¹ Public Benefit Entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

What does early adoption of PBE IFRS 9 mean for entities reporting to the Crown?

5. The first CFISnet submission under the new standard will be the five-year forecasts for Budget 2018, which is usually due late February or early March 2018 (for those entities that are required to submit forecasts through CFISnet).
6. All interim financial statements for 2018/19 will need to be submitted under the new standard. The first set of interim financial statements in 2018/19 are for the three months to September 2018, which are due in October 2018 (for those entities that are required to report interim results through CFISnet).
7. NZ IFRS 9 and PBE IFRS 9 have the same requirements, except PBE IFRS 9 includes additional guidance for concessionary loans and financial guarantee contracts entered into at no or nominal value, brought forward from the existing financial instrument standard.
8. For-profit entities that report under NZ IFRS for their separate financial statements (and must already adopt NZ IFRS 9 by 2018/19) will be able to align their CFISnet submissions with their own reporting.
9. All entities will need to assess what the impact of adopting PBE IFRS 9 will be on their financial statements. The extent of this assessment will vary between entities and will depend on whether your entity holds a large amount of financial instruments and how complex those instruments are.
10. For entities that only hold simple financial instruments such as cash, term deposits, account receivables and accounts payables we suggest that the impact assessment could be minimised by targeting only specific aspects of PBE IFRS 9 and taking a pragmatic approach to transitioning to the new requirements.
11. We recommend you talk to your auditors early in the process about how you intend to approach the transition to PBE IFRS 9.

What are the main changes in PBE IFRS 9?

12. We understand the main changes in PBE IFRS 9 from our existing financial instrument standard are:
 - a new way to classify and measure financial assets (for subsequent measurement), with new rules around when the amortised cost measurement basis can be used
 - new impairment requirements for loans and receivables (moving from an incurred loss model to a forward looking expected loss model)
 - new hedge accounting requirements (which more closely aligns to an entity's hedging activity and the economic substance of hedges), and
 - new disclosure requirements.
13. A copy of PBE IFRS 9 can be found on the External Reporting Board's website <https://xrb.govt.nz/accounting-standards/public-sector/pbe-ifs-9/>

What are the Treasury's next steps?

14. The Treasury will be working on a number of items in relation to PBE IFRS 9 over the next couple of months:
 - Working through the detailed requirements of PBE IFRS 9 and engaging with entities that are likely to have material impacts on the Financial Statements of the Government as a result of the new requirements.
 - Assessing changes in disclosures and understanding how this will impact our CFISnet DataLoad and other Crown reporting templates.
 - Identifying which entities have simple financial instruments and supporting them to transition at minimum cost while still complying with PBE IFRS 9.
 - Reviewing the requirements around restating comparatives for 2017/18. The general principle is that comparatives will need to be restated when we first report in 2018/19, but there are a number of transition exemptions in PBE IFRS 9. We need to work out a consistent approach to comparatives for Crown reporting purposes.
15. We intend to set up a dedicated area on the Treasury website to make materials and tools available as well as post relevant messages related to this project.
16. We are very keen to hear from you regarding possible material impacts on your financial statements as a result of adopting PBE IFRS 9 as you work through the requirements. Angela Ryan, in the Fiscal Reporting team of the Treasury, will be managing the project from a Treasury perspective and is your main point of contact on this topic. Her contact details are at the top of this circular.

Adoption of other NZ IFRS standards

17. In addition to NZ IFRS 9 we are aware that there are two additional NZ IFRS standards applying to for-profit entities, NZ IFRS 16 *Leases* and NZ IFRS 15 *Revenue from Contracts with Customers*.
18. For-profit entities (internationally and in New Zealand) must adopt the new lease accounting in the 2019/20 year. We understand NZ IFRS 16 requires a lessee to recognise assets (being the right to use the underlying leased asset) and liabilities (being the obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying asset is of low value.
19. It is unlikely that the Crown will adopt new lease accounting at the same time as the for-profit sector. Firstly, there is currently no equivalent standard to NZ IFRS 16 in the PBE suite of accounting standards (although we are aware that the International Public Sector Accounting Standards Board plans to issue a converged leasing standard by the end of 2018). Secondly, we believe a change in lease accounting has a number of significant ramifications for the public sector that will need to be worked through. As a result, the Crown will need a considerable lead time before transitioning to any new lease accounting, which means we are unlikely to early adopt a new PBE lease standard when it is issued.
20. Entities that report under NZ IFRS for their separate financial statements and are required to adopt NZ IFRS 16 in 2019/20 should plan to continue to report lease

transactions and balances based on the previous lease accounting standard to comply with Crown accounting policies (based on PBE IPSAS 13) for Crown reporting purposes. The length of time that this situation will exist for the for-profit entities within the Government group will be dependent on when a PBE lease standard is issued and its effective date.

21. For-profit entities must adopt the NZ IFRS 15 *Revenue from Contracts with Customers* in 2018/19. There is currently no equivalent standard for NZ IFRS 15 in the PBE suite of standards, so the Crown accounting policies in relation to revenue will not change. For-profit entities will need to assess to what extent any impact of the new revenue standard has on their Crown reporting and ensure their revenue transactions and balances continue to be compliant with Crown accounting policies (based on the PBE standards) for Crown reporting purposes.
22. Please contact Angela or me with any questions or concerns in relation to this circular.

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