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Unrestricted Distribution

Chief Executives

Chief Financial Officers/ Financial Controllers/other finance staff with responsibility for preparing annual financial statements, financial forecasts and the provision of financial information to the Treasury.

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CROWN REPORTING: GUIDANCE FOR ACCOUNTING FOR FINANCIAL INSTRUMENTS UNDER PBE IFRS 9 FOR NON-FINANCIAL ENTITIES AND UPDATED GUIDANCE FOR MEASURING REMEASUREMENTS

The purpose of this circular is to inform entities that the Treasury has released two guidance documents. These are:

- Guidance on Accounting for Financial Instruments under PBE IFRS 9 for non-financial entities, and
- Updated guidance on Measuring Remeasurements (government departments only).

Guidance on Accounting for Financial Instruments under PBE IFRS 9 for non-financial entities

- On 12 January 2017, the New Zealand Accounting Standards Board of the External Reporting Board issued PBE IFRS 9 Financial Instruments. This accounting standard updates the principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.
- The Crown has resolved to adopt PBE IFRS 9 Financial Instruments for financial statements prepared for periods beginning on or after 1 January 2018. Accounting for financial instruments, especially those with complex features, can be difficult. Among other things, the standard deals with the classification of financial assets and financial liabilities, which can impact how they are measured in the accounts, impairment and hedge accounting items.

- This guidance is targeted at entities who are restricted from investing and borrowing activities. If you are a financial institution you will need to separately consider the impact of PBE IFRS 9 on your financial statements and reporting to the Treasury.
- Under the Public Finance Act 1989 and the Crown Entities Act 2001, all government departments and Crown entities subject to s.161-164 are restricted from investing and borrowing activity. The application of PBE IFRS 9 to these entities is therefore likely to be limited to accounting for:
 - Debtors or receivables (including provisioning), and
 - Term Deposits issued by a registered bank, or by any other entity that satisfies a credit-rating test that is specified in the Crown Entities (Financial Powers) Regulations 2005.
- This guidance note has been prepared to provide practical and simple assistance for such entities to adopt and subsequently assert compliance with the requirements of PBE IFRS 9 Financial Instruments. It has been organised to provide advice on accounting for both of the issues above.
- The Treasury has consulted with the Audit Office in the preparation of this document.
- This guidance can be found at the following link on the Treasury website - <http://www.treasury.govt.nz/publications/guidance/reporting/accounting/pdfs/pbeifrs-acct-guidance.pdf>

Updated guidance for Measuring Remeasurements (government departments only)

- The Treasury has updated the guidance Measuring Remeasurements. This updated guidance on remeasurements includes additional information based on examples since the first guidance was issued.
- The Public Finance Act sets out a number of requirements:
 - that the Crown must not incur expenses without appropriation,
 - excludes remeasurements from the definition of expenses, and
 - excludes a number of items from the definition of remeasurements.
- The Audit Office has been consulted in the development of this guidance.
- This guidance can be found at the following link on the Treasury website - <http://www.treasury.govt.nz/publications/guidance/reporting/accounting/remmeasurements>

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