

NZX Regulation Decision

NZX Regulation and New Zealand Clearing Limited Ruling under NZX Participant Rule 21.3.1(c), Derivatives Market Rule 14.2.1, and Clearing and Settlement Rule 6.7.1 in relation to lease accounting changes under NZ IFRS 16.

30 November 2018



Ruling under NZX Participant Rule 21.3.1(c), Derivatives Market Rule 14.2.1, and Clearing and Settlement Rule 6.7.1

Background

1. This ruling applies to the calculation of Net Tangible Current Assets (**NTCA**) as required by:
 - a) NZX Participant Rule (**Rule**) 19.4.2(d);
 - b) NZX Derivatives Market Rule (**Derivatives Rule**) 16.4.2(d); and
 - c) Clearing and Settlement Rule (**C&S Rule**) 9.4.2(d).
2. References to a Participant in this ruling includes:
 - a) A Market Participant Requiring Capital as defined in the Rules;
 - b) A Participant Requiring Capital as defined in the Derivatives Rules; and
 - c) A Clearing Participant as defined in the C&S Rules;collectively "**Participants**" for the purpose of this ruling.
3. Capitalised terms that are not defined in this decision have the meanings given to them in the Rules, the Derivatives Rules and/or the C&S Rules.
4. The International Accounting Standards Board has published the new International Financial Reporting Standard 16 (**IFRS 16**) for the accounting treatment of leases.
5. New Zealand International Financial Reporting Standard 16 (**NZ IFRS 16**) is the New Zealand equivalent to IFRS 16 and is effective for any reporting period on or after 1 January 2019. NZ IFRS 16 requires all leases to be recognised on an entity's balance sheet as a "Right-of-use Asset" (**ROUA**) and a corresponding lease liability. For the purposes of Capital Adequacy, these ROUAs should be recognised as Property, Plant and Equipment (**PPE**).
6. Changes in the value of a ROUA and the corresponding lease liability over the life of the lease must be reflected as part of the PPE calculations of a Participant.
7. For the purposes of Capital Adequacy, a Participant must calculate Net Tangible Current Assets (**NTCA**) as the sum of its tangible assets less the sum of its liabilities, and excluding PPE.
8. While the adoption of NZ IFRS 16 should have minimal impact on net assets, the exclusion from NTCA of the ROUA within PPE may adversely affect the Capital Adequacy of Participants with a significant level of leases.

Decision

9. NZX Regulation (**NZXR**) and New Zealand Clearing Limited (**CHO**) have determined that, for the purposes of calculating PPE under Rule 19.4.2(d), C&S Rule 9.4.2(d) and Derivative

Market Rule 16.4.2(d), any asset considered as a ROUA under NZ IFRS 16 may be netted against the corresponding lease liability, provided that:

- a. The net value of the ROUA and corresponding lease liability treated as PPE must always be positive or zero, otherwise it should not be considered under PPE; and
 - b. The netting of the ROUA and corresponding lease liability must be done on a lease by lease basis and not on an aggregate basis.
10. This ruling is effective until revoked by NZXR and CHO. NZXR and CHO reserve the right to revoke or vary this ruling at any time.
11. The rules to which this decision relates are set out in Appendix One to this decision.

Reasons

12. In reaching the decision to provide this ruling, NZXR and CHO have considered that:
- a. The intention of IFRS 16 is for all leases to be recognised on entities' balance sheets to achieve greater transparency of a lessee's long-term obligations;
 - b. The exclusion of the full ROUA from NTCA would not be an accurate reflection of a Participant's readily realisable liquid assets; and
 - c. The approach outlined in this ruling is consistent with the approach taken by other Recognised Securities Exchanges.

Publication

13. This ruling will be published.

ENDS



Appendix One

Participant Rules:

- 19.4.1 A Market Participant Requiring Capital's Net Tangible Current Assets are calculated as the sum of its tangible assets less the sum of its liabilities, as calculated in accordance with Generally Accepted Accounting Practice, this Rule 19.4 and Rule 19.13. In the event of any inconsistency between these Rules and Generally Accepted Accounting Practice, these Rules will prevail.
- 19.4.2 The following items must be excluded from the calculation of Net Tangible Current Assets:
- (d) Property, Plant and Equipment.
- 21.3.1 Without limiting NZX's powers under Rule 21.2, NZX shall have power to:
- (c) make rulings as to the interpretation of these Rules or the Procedures, and grant waivers from these Rules and/or the Procedures, on such terms and conditions as NZX, in its complete discretion, thinks fit. Any waiver granted by NZX pursuant to this Rule 21.3.1(c) and in force prior to the commencement of these Rules shall continue in force notwithstanding the introduction of these Rules.

Clearing and Settlement Rules:

- 6.7.1 CHO has sole discretion to waive all or any part of these Rules or the Procedures in respect of a Clearing Participant, a Lending Clearing Participant or any class or classes thereof and CHO may make rulings as to the interpretation of these Rules or the Procedures. CHO may make rulings and grant waivers from these Rules or the Procedures, on such terms and conditions as CHO, in its complete discretion, thinks fit. CHO may by Procedure specify the procedures and practices it will adopt in relation to consideration of applications for rulings or waivers.
- 9.4.1 A Clearing Participant's Net Tangible Current Assets are calculated as the sum of its tangible assets less the sum of its liabilities, as calculated in accordance with Generally Accepted Accounting Practice, this Rule 9.4 and Rule 9.13. In the event of any inconsistency between these Rules and Generally Accepted Accounting Practice, these Rules will prevail.
- 9.4.2 The following items must be excluded from the calculation of Net Tangible Current Assets:
- (d) Property, Plant and Equipment.

Derivatives Rules:

- 14.2.1 NZX has sole discretion to waive all or any part of these Rules or the Procedures and NZX may make rulings as to the interpretation of these Rules or the Procedures. NZX may make rulings and grant waivers from these Rules or the Procedures, on such

terms and conditions as NZX, in its complete discretion, thinks fit. NZX may by Procedure specify the procedures and practices it will adopt in relation to consideration of applications for rulings or waivers.

- 16.4.1 A Participant Requiring Capital's Net Tangible Current Assets are calculated as the sum of its tangible assets less the sum of its liabilities, as calculated in accordance with Generally Accepted Accounting Practice, this Rule 16.4 and Rule 16.13. In the event of any inconsistency between these Rules and Generally Accepted Accounting Practice, these Rules will prevail.
- 16.4.2 The following items must be excluded from the calculation of Net Tangible Current Assets:
- (d) Property, Plant and Equipment.

