

# New Accounting Standards and Interpretations for Tier 1 For-profit Entities

For 31 March 2024 year-end reports

## New and changed requirements

We provide you with an overview of the accounting pronouncements issued by the New Zealand Accounting Standards Board (NZASB or the Board) as of 31 March 2024, which:

- ▶ Must be applied for the first time for 31 March 2024 year-ends. They are contained in yellow boxes.
- ▶ May be applied early for 31 March 2024 year-ends if specific criteria are met. They are contained in grey boxes.

Implementing new accounting standards often impacts entities beyond their financial reporting functions. We hope that this publication will:

- ▶ Support you in having better conversations about accounting changes with your stakeholders
- ▶ Help you respond in a timely manner to all accounting changes in your next financial report
- ▶ Keep you focused on future changes in financial reporting and their impact on your implementation efforts

## Accounting change disclosures

Financial statements are required to:

- ▶ Present the impact of the initial application of new accounting standards applied
- ▶ Disclose the possible impact of the initial application of forthcoming accounting standards not yet applied, or if the impact is not known or estimable, a statement to that effect

Please note that Tier 2 for-profit entities applying the *Reduced Disclosure Requirements* are not required to disclose the possible impact of accounting pronouncements issued, but adoption has not yet commenced.

## Remain alert to further changes

This publication is updated as of 31 March 2024. Any pronouncements issued afterwards (up until the date of authorisation of your financial report) must also be considered. Our [Eye on Reporting](#) publications will keep you informed of further changes.

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# Catalogue of new accounting pronouncements issued as of 31 March 2024

<b>New pronouncements<sup>1</sup> that must be applied for 31 March 2024 year-ends</b>	<b>Commencement date<sup>2</sup></b>	<b>Application date<sup>3</sup></b>	<b>Page</b>
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<b>New pronouncements that may be applied early for 31 March 2024 year-ends if specific requirements are met<sup>4</sup></b>	<b>Commencement date</b>	<b>Application date</b>	<b>Page</b>
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<sup>1</sup> For full access to NZ IFRSs please visit <https://www.xrb.govt.nz/>.

<sup>2</sup> Commences annual reporting periods beginning on or after this date

<sup>3</sup> Assuming that the entity has not early adopted the pronouncement according to specific provisions in the Standard.

<sup>4</sup> The ability to early adopt new standards and amendments will depend on the specific commencement and application date requirements of each new standard or amendment.

Note 1: The amendments are effective immediately upon issuance. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, that end on or after 30 September 2023, but are not required for any interim period ending on or before 31 December 2023.

## Catalogue of IFRIC agenda decisions

IFRIC agenda decisions published from 1 January 2023 to 31 March 2024	Month of issue	Page
<a href="#">Definition of a Lease - Substitution Rights (IFRS 16 Leases)</a>	April 2023	15
<a href="#">Premiums Receivable from an Intermediary (IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments)</a>	October 2023	16
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<a href="#">Merger Between a Parent And Its Subsidiary In Separate Financial Statements</a>	January 2024	17

### Group accounts

#### **Amendments to NZ IFRS 10, NZ IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

Commences to apply for annual reporting periods beginning on or after 1 January 2025

The amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in NZ IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

These amendments are applied prospectively. Earlier application is permitted if requirements are met.

## Insurance contracts

### NZ IFRS 17 Insurance Contracts

Commences to apply for annual reporting periods beginning on or after 1 January 2023

NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts*. NZ IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entity that issues them, as well as to certain guarantees, and financial instruments with discretionary participation features.

NZ IFRS 17 provides a comprehensive accounting model for insurance contracts. The core of NZ IFRS 17 is the general model, supplemented by:

- ▶ A specific adaptation for contracts with direct participation features (the variable fee approach)
- ▶ A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- ▶ The measurement of insurance liabilities at the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- ▶ The concept of a Contractual Service Margin (CSM), representing the unearned profit on the insurance contracts to be recognised in profit or loss over the coverage period

- ▶ Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period
- ▶ The effect of changes in discount rates is reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- ▶ Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet

Entities are required to adopt NZ IFRS 17 using the full retrospective approach, however, if this is impracticable for a group of insurance contracts, either the modified retrospective approach or fair value approach may be used.

Earlier application is permitted, if requirements are met, and provided that the entity also applies NZ IFRS 9, and NZ IFRS 15 *Revenue from Contracts with Customers* on or before the date it first applies NZ IFRS 17.

### Resources

[Applying IFRS 17: A closer look at the Insurance Contracts Standard \(June 2021\)](#)

[Insurance Accounting Alert September 2023](#)

[Insurance Accounting Alert March 2023](#)

## Insurance contracts

### **Amendments to NZ IFRS 17 and NZ IFRS 9 - Initial Application of NZ IFRS 17 and NZ IFRS 9 Comparative Information**

**Commences to apply for annual reporting periods beginning on or after 1 January 2023**

When insurers apply NZ IFRS 17 and NZ IFRS 9 for the first time in 2023, NZ IFRS 17 requires a restatement of comparatives. However, under NZ IFRS 9, insurers may restate the comparatives only when hindsight is not required but cannot restate for financial assets derecognised before the application date of NZ IFRS 9. The accounting mismatch caused by financial assets derecognised during the comparative period is potentially significant and could make financial statements more difficult to understand.

The amendment to NZ IFRS 17 adds a transition option 'classification overlay'. The overlay addresses the above accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on the initial application of NZ IFRS 17.

If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies NZ IFRS 17 (i.e., from the transition date to the date of initial application of NZ IFRS 17). An entity that applies the classification overlay to a financial asset should:

- ▶ Use reasonable and supportable information available at the transition date to determine how the entity expects a financial asset would be classified and measured on initial application of NZ IFRS 9 (for example, using preliminary assessments performed to prepare for initial application of NZ IFRS 9)
- ▶ Present comparative information as if the classification and measurement requirements of NZ IFRS 9 had been applied to that financial asset

### **Resources**

[Insurance Accounting Alert December 2021](#)

## Leases

### **Amendments to NZ IFRS 16 - Lease Liability in a Sale and Leaseback**

Commences to apply for annual reporting periods beginning on or after 1 January 2024

In November 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to NZ IFRS 16).

The amendment to NZ IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of NZ IFRS 16 to the right-of-use asset arising from the leaseback, and paragraphs 36 to 46 of NZ IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of NZ IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of NZ IFRS 16. The seller-lessee will need to develop, and apply an accounting policy that results in information that is relevant, and reliable in accordance with NZ IAS 8.

### **Transition**

A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted if specific criteria is met, and that fact must be disclosed.

A seller-lessee applies the amendment retrospectively in accordance with NZ IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied NZ IFRS 16.

### **Resource**

[IFRS Developments Issue 206: IASB amends IFRS 16 for lease liability measurement in a sale and leaseback transactions \(September 2022\)](#)



### Other topics

#### **Amendments to NZ IAS 1 - Classification of Liabilities as Current or Non-current**

#### **Amendments to NZ IAS 1 Non-current Liabilities with Covenants**

Commences to apply for annual reporting periods beginning on or after 1 January 2024

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The NZASB recently issued amendments to NZ IAS 1 to clarify the requirements for classifying liabilities as current or non-current. Specifically:

- ▶ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- ▶ Management intention or expectation does not affect the classification of liabilities.
- ▶ In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

A consequence of the first amendment is that a liability would be classified as current if its repayment conditions failed their test at reporting date, despite those conditions only becoming effective in the 12 months after the end of the reporting period.

In response to this possible outcome the NZASB issued Amendments to NZ IAS 1 *Non-current Liabilities with Covenants*

The updated amendments are:

- ▶ Clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- ▶ Add presentation, and disclosure requirements for non-current liabilities subject to compliance with future covenants within the next 12 months.
- ▶ Clarify specific situations in which an entity does not have a right to defer settlement for at least 12 months after reporting date.

#### ***Management expectations***

NZ IAS 1.75A clarifies that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance. However, in these circumstances, an entity may need to disclose information about the timing of settlement to enable users to understand the impact on its financial position.

These amendments are applied prospectively. Earlier application permitted if specific requirements met.

[IFRS Developments Issue 209: The IASB amends the requirements for classification of non-current liabilities with covenants \(November 2022\)](#)

## Other topics

### **Amendments to NZ IAS 1 - Disclosure of Accounting Policies**

**Commences to apply for annual reporting periods beginning on or after 1 January 2023**

The amendments to NZ IAS 1 Presentation of Financial Statements require disclosure of material accounting policy information, instead of significant accounting policies. Unlike 'material', 'significant' was not defined in NZ IFRS. Leveraging the existing definition of material with additional guidance is expected to help preparers make more effective accounting policy disclosures. The guidance illustrates circumstances where an entity is likely to consider accounting policy information to be material. Entity-specific accounting policy information is emphasised as being more useful than generic information or summaries of the requirements of New Zealand Accounting Standards.

Earlier application is permitted if specific requirements are met.

#### **Resource**

[IFRS Developments Issue 187: The Disclosure Initiative - IASB amends the accounting policy requirements](#)

[Applying IFRS: Disclosure of accounting policy information](#)

### **Amendments to NZ IAS 8 - Definition of Accounting Estimates**

**Commences to apply for annual reporting periods beginning on or after 1 January 2023**

An accounting policy may require items in the financial statements to be measured using information that is either directly observable or estimated.

Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information. The amendments to NZ IAS 8 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively. The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

- ▶ For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.
- ▶ In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

Earlier application is permitted if requirements are met.

#### **Resource**

[IFRS Developments Issue 186: The IASB defines accounting estimates](#)

### Other topics

#### **Amendment to NZ IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

**Commences to apply for annual reporting periods beginning on or after 1 January 2023**

The amendment narrows the scope of the recognition exemption under NZ IAS 12 *Income Taxes* so that it would not apply to transactions that give rise to equal amounts of taxable, and deductible temporary differences.

Such situations can arise on the recognition of a right of use asset, and a lease liability when commencing a lease. It can also arise on the recognition of decommissioning, restoration, and similar liabilities with corresponding amounts included in the cost of the related asset.

The amendment clarifies that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset, and liability.

In the amended standard, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable, and deductible temporary differences. It only applies if the recognition of a lease asset, and lease liability (or other liability, and asset such as decommissioning obligations) gives rise to taxable, and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which are expected to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

Earlier application is permitted if specific requirements are met.

#### **Resource**

[IFRS Developments Issue 191: IASB clarifies deferred tax accounting for leases and decommissioning obligations](#)

## Other topics

### **Amendment to NZ IAS 12 - International Tax Reform - Pillar Two Model Rules**

Commences to apply for annual reporting periods beginning on or after 1 January 2023

In response to the Pillar Two Global anti-Base Erosion rules (GloBE Rules), amendments to NZ IAS 12 introduce:

- ▶ A mandatory temporary exception in NZ IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.
- ▶ Disclosure requirements for affected entities for the periods before and when the legislation is effective.

The amendments are intended to provide temporary relief, avoid diverse interpretations of NZ IAS 12 developing in practice and improve the information provided to users of financial statements before and after Pillar Two legislation comes into effect.

The amendments do not clarify whether a Pillar Two top-up tax is considered to be an income tax in the scope of NZ IAS 12, nor do they require all top-up taxes to be treated as income taxes. Judgement must be applied in determining which top-up taxes are considered to be income taxes.

Earlier application of the amendments is permitted if specific requirements are met.

#### **Resource**

[Accounting for BEPS Pillar Two income taxes before IAS 12 is amended](#)

[Amendments to IAS 12: International Tax Reform Pillar Two Model Rules](#)

[Applying IFRS - International Tax Reform - Pillar Two Disclosures](#)

### **Amendment to NZ FRS 44 - Disclosure of Fees for Audit Firms' Services**

Commences to apply for annual reporting periods beginning on or after 1 January 2024

The amendment aims to address concerns about the quality, and consistency of disclosures an entity provides about fees paid to its audit or review firm for different types of services.

The enhanced disclosures are expected to improve the transparency, and consistency of disclosures about fees paid to an entity's audit or review firm.

Entities are required to disclose the fees incurred for services received from their audit or review firm, and a description of each service, using the following specified categories:

- ▶ Audit or review of the financial statements
- ▶ Other services:
  - ▶ Audit or review related services
  - ▶ Other assurance services, and other agreed-upon procedures engagements
  - ▶ Taxation services
  - ▶ Other services

Tier 2 entities have reduced requirements, and are required to disclose:

- ▶ The total fee incurred for the audit or review of the financial statements; and
- ▶ The total fees for any other services together with a general description of those services

Earlier application of the amendments is permitted if specific requirements are met.

#### **Resource**

[Disclosure of fees for audit firms' services - illustrative example](#)

### Other topics

#### **Amendment to NZ IAS 7 and NZ IFRS 7 - Disclosures of Supplier Finance Arrangements**

Commences to apply for annual reporting periods beginning on or after 1 January 2024.

The amendment provides clarification on the characteristics of supplier finance arrangements and introduces new disclosure requirements to assist users in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

A supplier finance arrangement, as clarified by the amendment, has the following characteristics:

- ▶ One or more finance providers pay amounts an entity owes to its suppliers.
- ▶ The entity settles the amounts with the finance providers at the same time or after the date the finance providers pay the suppliers.
- ▶ As a result, the finance providers provide the entity with extended payment terms, or the suppliers with early payment terms, compared to the original due dates.

The amendments require disclosures on the impact of supplier finance arrangements on liabilities and cash flows, including:

- ▶ Terms and conditions
- ▶ The line items in which the supplier finance arrangement financial liabilities are presented.
- ▶ Carrying amounts, showing separately those for which the finance providers have settled the corresponding trade payables.

- ▶ The range of payment due dates of the financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements.
- ▶ The types and effects of non-cash changes, which prevent the carrying amounts of the financial liabilities from being comparable.

The amendments also include supplier finance arrangements as an example of relevant disclosure for quantitative liquidity risk disclosures under NZ IFRS 7 and provide guidance on aggregation and disaggregation of information.

Earlier application of the amendments is permitted if specific requirements are met.

#### **Resource**

[Supplier finance arrangements - IASB proposes additional disclosure requirements](#)

[IASB amendments to IAS 7 and IFRS 7 for supplier finance arrangements.](#)

### Other topics

#### **Amendment to NZ IAS 21 - Lack of Exchangeability**

Commences to apply for annual reporting periods beginning on or after 1 January 2025

The NZ ASB has amended NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*, requiring entities to apply a consistent approach to determining:

- ▶ Whether a currency is exchangeable into another currency
- ▶ The spot exchange rate to use when it is not exchangeable.

The amendments create a new definition of exchangeable, which explains that a currency is exchangeable into another currency when:

- ▶ An entity can obtain the other currency within a time frame that allows for a normal administrative delay.
- ▶ Through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations

The amendments also clarify that a currency is not exchangeable into another currency:

- ▶ If an entity can only obtain an insignificant amount of the other currency
- ▶ At the measurement date for the specified purpose

When a currency is not exchangeable:

- ▶ An entity shall estimate the spot exchange rate.
- ▶ The estimate would reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.
- ▶ The entity must also disclose information on how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position, and cash flows.

Earlier application of the amendments is permitted if specific requirements are met.

#### **Resource**

[Amendments to IAS 21: Lack of Exchangeability](#)

## Interpretations and agenda decisions

The IFRS Interpretations committee (IFRIC) issued no recent interpretations. However, it issued several agenda decisions on matters brought to its attention. Whilst IFRIC agenda decisions do not add or change requirements in NZ IFRS, entities are required to consider explanatory material in an applicable agenda decision when applying NZ IFRS.

Entities need to consider the impact of each agenda decision, based on their circumstances, and possibly adopt a change in policy. Agenda decisions do not have commencement dates and so commence when issued. However, entities are entitled to sufficient time<sup>5</sup> to assess impacts and make required changes.

Below we summarise all IFRIC agenda decisions published during the period from 1 January 2023 to 31 March 2024.

### **Definition of a Lease - Substitution Rights - April 2023**

The IFRIC discussed how to determine whether there is an identified asset when an arrangement contains a substitution right. In the situation considered:

- ▶ A customer enters into a 10-year contract with a supplier for a number of similar assets (batteries), each of them is used together with other readily available resources (buses) of the customer
- ▶ The supplier has the practical ability to substitute alternative assets throughout the contract term. The supplier, however, is required to compensate the customer for any revenue lost or costs

incurred while the substitution takes place

- ▶ Whether substitution is economically beneficial for the supplier at a point in time depends on both the amount of compensation payable to the customer and the condition of the battery
- ▶ At inception of the contract, it is expected that the supplier would not benefit economically from substituting a battery that has been used for less than 3 years, but could benefit economically from substituting a battery that has been used for 3 years or more.

The IFRIC concluded that:

- ▶ The level at which to assess whether the contract contains a lease is individual assets, since each battery is specified, either explicitly in the contract or implicitly at the time it is made available to the customer
- ▶ Because the supplier is not expected to benefit economically from its right to substitute a battery for at least the first 3 years of the contract, the supplier does not have the substantive right to substitute a battery throughout the period of use

The IFRIC also observed that:

- ▶ The standard sets a high hurdle to conclude that there is no identified asset when an asset is explicitly or implicitly specified
- ▶ Determining whether a supplier's right to substitute an asset is substantive throughout the period of use requires judgement

<sup>5</sup> The IASB advised that 'sufficient time' will depend on the particular facts and circumstances. Refer IFRS feature article: Agenda decisions -time is of the essence.

- ▶ A supplier can have the practical ability to substitute alternative assets throughout the period of use even if the supplier does not already have alternative assets but could source those assets within a reasonable period of time. This illustrates that the term 'throughout the period of use' does not mean 'at all times' within that period

### **Premium Receivable from an Intermediary (IFRS 17 and IFRS 9) - October 2023**

The IFRIC discussed how an insurer should account for the premium receivable from an intermediary who arranges an insurance contract between the insurer and a policyholder.

In the fact pattern considered, the policyholder has paid premiums to the intermediary, upon which, the insurer is obliged to provide insurance services to the policyholder. The insurer, however, has not yet received the premiums from the intermediary.

The question asked is whether the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the "group of insurance contracts" under IFRS 17 ('View 1') or are a separate financial asset under IFRS 9 ('View 2').

The IFRIC observed that:

- ▶ IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and those to be collected through an intermediary.
- ▶ IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when those cash flows are settled in cash.

The IFRIC therefore concluded that an insurer should develop an accounting policy under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to determine when to remove the cash flows from the measurement of insurance contracts, either when the premiums are received from the intermediary (View 1) or when the policyholder has paid the premium (View 2).

### **Homes and Home Loans Provided to Employees - October 2023**

The IFRIC received a question on how an entity accounts for:

- ▶ Employee home ownership plans where the entity provides its employee with a house that it constructed and owns. Repayments are deducted from the employee's salary until the agreed sale price is fully repaid. The right to the house will be forfeited if the employee leaves within five years, in which case they recover the salary deductions. If the employee leaves after five years, they can choose to keep the house and repay the outstanding balance immediately. and
- ▶ Employee home loans where the entity provides a loan to its employee to buy a house which the entity does not own. The loan is typically at a below-market rate of interest or interest free and is repaid through salary deductions. Upon termination of employment, the outstanding balance becomes repayable.

Based on evidence gathered, the IFRIC concluded that the matters above do not have widespread effect and decided not to



add a standing-setting project to the work plan.

### **Guarantee over a Derivative Contract (IFRS 9) - October 2023**

The IFRIC received a question about whether, in applying IFRS 9, an entity accounts for a guarantee it issued over a derivative contract as a financial guarantee or as a derivative. Such a guarantee reimburses the holder, who is a party to a derivative contract, for the actual loss incurred, up to a close-out amount, in an event of default of the other party to the derivative contract. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative immediately prior to default.

Based on evidence gathered, the IFRIC concluded that the matter does not have widespread effect, nor is it expected to have a material effect on those affected, and therefore decided not to add a standing-setting project to the work plan.

### **Merger Between A Parent And Its Subsidiary In Separate Financial Statements - January 2024**

The IFRIC received a request about how a parent entity that prepares separate financial statements applying IAS 27 accounts for a merger with its subsidiary in its separate financial statements.

In the fact pattern described in the request: a parent entity prepares separate financial statements applying IAS 27 and recognises an investment in a subsidiary applying paragraph 10 of IAS 27; the subsidiary contains a business (as defined by IFRS 3 Business Combinations); and the parent entity merges with the subsidiary, resulting

in the subsidiary's business becoming part of the parent entity (merger transaction).

The request asked how the parent entity should account for the merger transaction in its separate financial statements. In particular, the request asked whether, in the context of the parent entity's separate financial statements, the merger transaction: constitutes a business combination as defined in IFRS 3 and consequently, whether an entity should apply the acquisition method (and related requirements) in IFRS 3; or should not be accounted for as a business combination, applying this view, the parent entity—in its separate financial statements—recognises the subsidiary's assets and liabilities at previous carrying amounts.

Evidence gathered by the IFRIC indicates little, if any, diversity in determining whether to apply the acquisition method (and related requirements) in IFRS 3 to the merger transaction described in the request. In accounting for the merger transaction described in the request in their separate financial statements, parent entities generally do not apply the acquisition method (and related requirements) in IFRS 3.

Based on its findings, the IFRIC concluded that the matter described in the request does not have widespread effect. Consequently, the IFRIC decided not to add a standard-setting project to the work plan.

# Key contacts

## New Zealand

Lara Truman  
Partner  
Ernst & Young, New Zealand  
Tel: +64 274 899 896  
[lara.truman@nz.ey.com](mailto:lara.truman@nz.ey.com)

Alex Knyazev  
Associate Director  
Ernst & Young, New Zealand  
Tel: +64 21 853 152  
[alex.knyazev@nz.ey.com](mailto:alex.knyazev@nz.ey.com)

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