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

**For 30 September 2021 year-end reports**

## New and changed requirements

We provide you with an overview of the accounting pronouncements issued as of 30 September 2021 that:

- **Must** be applied for the first time for 30 September 2021 year-ends. They are contained in yellow boxes.
- **May** be applied early for 30 September 2021 year-ends. They are contained in grey boxes.

Implementing new accounting standards often impacts entities beyond their financial reporting function. 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 initial application of new accounting standards applied
- Disclose the possible impact of 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, Tier 2 for-profit entities applying the *Reduced Disclosure Requirements* are not required to disclose the possible impact of accounting pronouncements issued but not yet effective.

## Remain alert to further changes

This publication is updated as of 30 September 2021. 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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[1] For full access to NZ IFRSs please visit https://www.xrb.govt.nz/.
[2] Effective for annual reporting periods beginning on or after this date
[3] Assuming that the entity has not early adopted the pronouncement according to specific provisions in the Standard.

# New pronouncements issued as of 30 June 2021

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[4] In August 2020, the NZASB amended NZ IFRS 4 to extend the expiry date of the temporary exemption from NZ IFRS 9 to annual periods beginning on or after 1 January 2023. This extension allows for continuing use of NZ IAS 39 alongside NZ IFRS 4 until NZ IFRS 17 becomes effective. This amendment is not applicable to those entities already applying Appendix C or Appendix D of NZ IFRS 4.

## Financial instruments

***Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7 - Interest Rate Benchmark Reform***

**Effective for annual reporting periods beginning on or after 1 January 2020**

These amendments to NZ IFRS 7 *Financial Instruments: Disclosures*, NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* were issued in response to the effects of Interbank Offered Rates reform on financial reporting. They provide mandatory temporary relief enabling hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative "nearly risk-free" benchmark.

These amendments apply retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated, nor can any hedge relationships be designated with the benefit of hindsight.

**Resource**

*IFRS Developments Issue 152: IBOR reform: publication of the phase one amendments and commencement of phase two (September 2019)*

EY has also published a series of videos on the accounting impacts of the IBOR reform which are available on www.ey.com/ifrs and the EY media platform on ey.mediaplatform.com:

- 'Global IFRS: Applying the IBOR reform amendments in practice, November 2020'
- 'Global IFRS video: IBOR reform - IASB publishes final phase two amendments, September 2020'





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## Financial instruments

***Amendments to NZ IFRS9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4, NZ IFRS 16 - Interest Rate Benchmark Reform - Phase 2***

Effective for annual reporting periods beginning on or after 1 January 2021

The amendments address the accounting issues that arise when financial instruments that reference Interbank Offered Rates (IBOR) transition to nearly risk-free rates. The main elements of the amendments are that the effective interest rate on financial instruments must be adjusted, and hedge accounting will continue on transition to risk free rates, but only to the extent that the modifications made to financial instruments are those necessary to implement IBOR Reform and that the new basis for calculating cash flows is 'economically equivalent' to the previous basis.

The amendments also introduced some significant new disclosure requirements.

NZ IFRS 4 has been amended so that insurers who are still using NZ IAS 39 will obtain the same reliefs as other entities. NZ IFRS 16 has also been amended to provide relief for the accounting by lessees for leases which refer to IBORs.

**Resource**

*IFRS Developments Issue 174 - IASB completes its IBOR reform programme (September 2020)*

*Good Bank (International) Limited (December 2020)*

*Applying IFRS: IBOR reform (Updated May 2021)*

***Amendment to NZ IFRS 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements NZ IFRSs 2018-2020 Cycle [5])***

Effective for annual reporting periods beginning on or after 1 January 2022

Under NZ IFRS 9, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, measured by the "10 per cent" test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability.

The amendment to NZ IFRS 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by them on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.

These amendments are applied prospectively. Earlier application is permitted.

[5] Refer to the New Pronouncements for the title and topics covered by this standard.

## Group accounts

### *Amendments to NZ IFRS 3 - Definition of a Business*

**Effective for annual reporting periods beginning on or after 1 January 2020**

The definition of a business helps entities to distinguish business combinations from asset purchases. Business combinations are accounted for using the acquisition method, which, among other things, may give rise to goodwill. Accounting treatments for other types of transactions may also be affected, depending on whether the transaction involves a business (e.g., a loss of control transaction where a retained interest is accounted for using the equity method).

With the aim of helping companies determine whether an acquired set of activities and assets is a business, the amendments to NZ IFRS 3:

- Clarify the minimum requirements for a business to exist
- Remove the assessment of whether market participants are capable of replacing missing elements of a business
- Provide guidance to help entities assess whether an acquired process is substantive
- Narrow the definitions of a business and of outputs
- Introduce an optional fair value concentration test to identify a business

These amendments are applied prospectively.

**Resource**

*IFRS Developments Issue 137: IASB issues amendments to the definition of a business in IFRS 3 (October 2018)*

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

**Effective 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.

## Insurance contracts

**NZ IFRS 17 *Insurance Contracts***

**Effective 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.

In contrast to the requirements in NZ IFRS 4, which are largely based on grandfathering previous local accounting policies, 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 are 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 allowed to adopt NZ IFRS 17 using either a full retrospective approach, modified retrospective approach or fair value approach.

Earlier application is permitted, 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**

*Insurance Accounting Alert (June 2020)*

*Applying IFRS 17: A closer look at the new Insurance Contracts Standard (June 2021)*





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## Insurance contracts

**Amendments to NZ IFRS 17 *Insurance Contracts***

**Effective for annual reporting periods beginning on or after 1 January 2023**

To simplify implementation of NZ IFRS 17, the NZASB made the following key amendments:

- Deferring the effective date of NZ IFRS 17 and NZ IFRS 9 for insurers by two years to annual periods beginning on or after 1 January 2023
- Excluding additional contracts from the scope of NZ IFRS 17, such as loans that include an agreement by the lender to compensate the borrower - by waiving some or all the payments due from the borrower - if a specified uncertain event occurs (for example, if the borrower dies), and credit card contracts that provide insurance coverage for purchases made using the credit card
- Permitting policy acquisition costs (such as commissions paid to brokers) to be allocated to related expected contract renewals, recognising those costs as an asset until contract renewal takes place
- Requiring the expected profit on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment activity services
- Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through profit or loss, are used to mitigate the effects of the time value of money and other financial risks
- Reducing a potential accounting mismatch for reinsurance contracts by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract, or on the addition of further onerous contracts to that group
- Simplifying the presentation of insurance contract assets and liabilities in the statement of financial position using broader portfolios of insurance contracts rather than narrower groups of insurance contracts
- Introducing additional transition relief mechanisms

The amendments are applied when an entity applies NZ IFRS 17.

**Resource**

*Insurance Accounting Alert (June 2020)*

*Applying IFRS 17: A closer look at the new Insurance Contracts Standard (June 2021)*

## Insurance contracts

**Amendments to NZ IFRS 4 *Insurance Contracts - Extension of the Temporary Exemption from Applying NZ IFRS 9***

Effective for annual reporting periods beginning on or after 1 January 2021

The amendments provide an extension of the temporary exemption from applying NZ IFRS 9 *Financial Instruments* for those entities that are permitted to apply the exemption until annual reporting periods beginning on or after 1 January 2023.

These amendments are not applicable to those entities already applying Appendix C or Appendix D of NZ IFRS 4.

## Leases

***Amendments to NZ IFRS 16 - Covid-19-Related Rent Concessions***

**Effective for annual reporting periods beginning on or after 1 June 2020**

Due to the covid-19 pandemic, many lessors are granting rent concessions to lessees that impact lease payments. Rent concessions granted by a lessor can take many forms, including any combination of:

- A rent payment holiday
- A reduction in lease payments for a period of time
- A deferral of payments to a later date or
- Other arrangements providing rent relief

A concession might also include a change to the lease term.

From the lessee's perspective, a change in lease payments that was contemplated in the original terms and conditions of the lease would **not** be accounted for as a lease modification. For example, it might be treated as a variable lease payment, with the effect of the rent concession recognised in profit or loss. In contrast, accounting for a lease modification generally requires a lessee to remeasure the lease liability by discounting the revised lease payments using a new discount rate.

The IASB received feedback that assessing whether covid-19 rent concessions are lease modifications could be challenging, compounding the IFRS 16 implementation work lessees have recently undertaken. Consequently, the IASB amended IFRS 16, allowing lessees to **not** account for rent concessions as lease modifications, provided certain conditions are met.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic, and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 and
- There is no substantive change to other terms and conditions of the lease

Once elected, the practical expedient is required to be applied consistently to all lease contracts with similar characteristics and in similar circumstances.

The amendment to IFRS 16 is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the beginning of the annual reporting period in which the lessee first applies the amendment.

The IASB decided not to provide similar relief to lessors for several reasons, including the fact that IFRS 16 did not introduce significant changes to lessor accounting.

The NZASB issued the equivalent amendments to NZ IFRS 16 in June 2020.

**Resources**

*Applying IFRS: Accounting for covid-19 related rent concessions (April 2021)*

# Key requirements

## Leases

**Amendments to NZ IFRS 16 - *Covid-19-Related Rent Concessions beyond 30 June 2021***

Effective for annual reporting periods beginning on or after 1 April 2021

The amendments have extended the amendment to NZ IFRS 16, which provides relief to lessees from applying lease modification accounting to Covid-19 related rent concessions.

The update to the amendment allows it to be applied to a reduction in lease payments, arising from Covid-19, originally due on or before 30 June 2022.

Earlier application is permitted.

**Resources**

*IFRS Developments Issue 189: IASB extends relief for COVID-19 related rent concessions*

## Other topics

***New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting***

***Amendments to References to the Conceptual Framework in NZ IFRS***

**Effective for annual reporting periods beginning on or after 1 January 2020**

The New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the *Conceptual Framework* is to:

- Assist in the development of accounting standards
- Help preparers develop consistent accounting policies where there is no applicable standard in place and
- Assist all stakeholders to understand the standards better

The *Conceptual Framework* is not a standard, and none of the concepts override those in any standard or any requirements in a standard.

The *Conceptual Framework* was revised in May 2018. The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Two exemptions to the application of the revised *Conceptual Framework* were provided:

- When developing accounting policies for regulatory account balances using the previous *Framework*.
  The exemption requires entities to continue applying the previous *Framework* when developing or revising accounting policies for regulatory account balances. The exemption prevents unhelpful and unnecessary disruption for both preparers and users. It avoids revising accounting policies for regulatory account balances twice within a short time frame – once for the revised *Conceptual Framework* and again when a revised standard on rate-regulated activities is issued
- When applying NZ IFRS 3 *Business Combinations*, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the previous *Framework*, and not the definitions in the revised *Conceptual Framework*.
  In some cases, applying the revised definitions might change which assets and liabilities qualify for recognition in a business combination. As a consequence, post-acquisition accounting required by other standards could lead to immediate derecognition of such assets or liabilities, causing ‘day 2 gains or losses’ to arise, which do not depict economic gains or losses. The IASB has since assessed how IFRS 3 can be updated for the revised definitions, without these unintended consequences – refer to the page 15

**Resource**

*Applying IFRS: IASB issues revised Conceptual Framework for Financial Reporting (April 2018)*

## Other topics

***Amendments to NZ IAS 1, NZ IAS 8 – Definition of Material***

**Effective for annual reporting periods beginning on or after 1 January 2020**

The amendments align the definition of 'material' across NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and clarify certain aspects of the definition. The new definition states that, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are applied prospectively.

**Resource**

*IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018)*

***Amendments to FRS 44 (2019 Omnibus Amendments to NZ IFRS)***

**Effective for annual reporting periods beginning on or after 1 January 2020**

The amendments require that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity must disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS. The amendments also delete several paragraphs in FRS-44 and Appendix A of FRS-44, which deal with elements in the statement of service performance.

Other minor editorial corrections are made to other standards.

## Other topics

**Amendments to XRB A1 - *2019 Amendments to XRB A1 Appendix A***

**Effective for annual reporting periods beginning on or after 1 January 2020**

This amendment updates Appendix A of XRB A1, which provides guidance on determining whether an entity is classified as a Public Benefit Entity (PBE).

The guidance on the definition of a PBE is amended to clarify that:

- Both parts of the definition of a PBE need to be assessed when determining an entity's classification
- The classification as a PBE or for-profit entity is made at the entity level. As a result, the classification at the entity level may differ from the classification at the group level
- It is possible for an entity to be classified as a for-profit entity for financial reporting purposes and to be a registered charity

Other minor amendments have been made, and a new illustrative example has been added.

**Amendments to FRS 44 - *Going Concern Disclosures***

**Effective for annual reporting periods ending on or after 30 September 2020**

These amendments introduce more specific disclosure requirements about going concern assessments to help preparers of financial statements to provide relevant and transparent information to users of those financial statements about the matters considered when making such assessments.





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## Other topics

### *Amendments to NZ IFRS 3 - Reference to the Conceptual Framework*

**Effective for annual reporting periods beginning on or after 1 January 2022**

The IASB's assessment of applying the revised definitions of assets and liabilities in the *Conceptual Framework* to business combinations showed that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after the acquisition date by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. The Board updated IFRS 3 in May 2020 for the revised definitions of an asset and a liability and excluded the application of the *Conceptual Framework* to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21.

The NZASB released the equivalent amendments to NZ IFRS 3 in June 2020.

These amendments are applied prospectively. Earlier application is permitted if the entity adopts *Conceptual Framework* at the same time or earlier.

**Resource**

*IFRS Developments Issue 169: Amendments to IFRS 3 - Reference to the Conceptual Framework (May 2020)*

### *Amendments to NZ IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use*

**Effective for annual reporting periods beginning on or after 1 January 2022**

Under NZ IAS 16 *Property, Plant and Equipment*, net proceeds from selling items produced while constructing an item of property, plant and equipment[6] are deducted from the cost of the asset. The IASB's research indicated practical diversity in interpreting this requirement. As a result, NZ IAS 16 was amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment, the proceeds from selling items produced before that asset is available for use. An entity is also required to measure production costs of the sold items by applying NZ IAS 2 *Inventories*. Proceeds from selling any such items, and the cost of those items, are recognised in profit or loss in accordance with applicable standards.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are 'ready to use' on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments – 'ready to use' meaning the asset is in the location and condition necessary to be capable of operating in the manner intended by management.

Earlier application is permitted.

**Resource**

*IFRS Developments Issue 155: Revenue earned before an asset is ready for its intended use (November 2019)*

[6] An item of property, plant and equipment under construction may be capable of producing saleable items (e.g., samples produced when testing whether the asset is functioning properly) while not yet capable of operating in the manner intended by management (i.e., before depreciation of the asset begins).

## Other topics

### *Amendment to NZ IAS 41 -Taxation in Fair Value Measurements (Part of Annual Improvements NZ IFRSs 2018-2020 Cycle [7])*

**Effective for annual reporting periods beginning on or after 1 January 2022**

When using a present value technique to measure fair values of assets within the scope of NZ IAS 41 *Agriculture*, taxation cash flows are not included. While NZ IFRS 13 *Fair Value Measurement* does not prescribe an entity to use a particular present value technique [8] to measure fair value, it requires assumptions about cash flows and discount rates to be internally consistent. Depending on facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a pre-tax discount rate.

The NZASB has removed from NZ IAS 41 the requirement to exclude taxation cash flows when measuring fair value. Such removal aligns with the principles of fair value measurement in NZ IFRS 13.

The amendment is applied prospectively. Earlier application is permitted.

### Amendments to NZ IAS 37 - *Onerous Contracts–Cost of Fulfilling a Contract*

**Effective for annual reporting periods beginning on or after 1 January 2022**

NZ IAS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable cost is the lower of the:

- Cost of fulfilling the contract and
- Any compensation or penalties arising from failure to fulfil it

NZ IAS 37 does not specify which costs to include in determining the cost of fulfilling a contract. Consequently, NZ IAS 37 was amended to clarify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises all costs that relate directly to the contract, which includes both the:

- Incremental costs of fulfilling that contract (e.g., materials and labour) and
- An allocation of other costs that relate directly to fulfilling contracts (e.g., depreciation of property, plant and equipment)

An entity shall apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Comparative information is not restated. Instead, the cumulative effect of initially applying the amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Earlier application is permitted.

[7] Refer to the New Pronouncements for the title and topics covered by this standard.

[8] Present value techniques differ in how they adjust for risk and in the type of cash flows they use.

## Other topics

**Amendment to NZ IFRS 1 - *Subsidiary as a First-time Adopter (Part of Annual Improvements to NZ IFRSs 2018-2020 Cycle* [9])**

**Effective for annual reporting periods beginning on or after 1 January 2022**

Under NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*, an entity is required to determine its own functional currency, being the currency of the primary economic environment in which it operates. Where a group contains individual entities with different functional currencies, the group's consolidated financial statements are presented in a common currency through a translation process prescribed by NZ IAS 21. Exchange differences arising from translating the results and financial position of the individual entities or foreign operations[10], commonly known as 'cumulative translation differences', are accumulated in a separate component of equity.

A subsidiary that adopts IFRSs later than its parent is required to recognise cumulative translation differences at its date of transition to IFRSs either at zero or on a retrospective basis under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.* Consequently, the subsidiary might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs.

Acknowledging that some entities find this requirement burdensome, the NZASB simplified the application of NZ IFRS 1, permitting a subsidiary to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, excluding the impact of any adjustments made for consolidation procedures and for the business combination in which the parent acquired the subsidiary.

This exemption is also available to an associate or joint venture adopting IFRSs later than its investor.

Earlier application is permitted.

[9] Refer to the New Pronouncements for the title and topics covered by this standard.

[10] A foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

## Other topics

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

Effective for annual reporting periods beginning on or after 1 January 2023

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 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

These amendments are applied retrospectively. Earlier application is permitted.

**Resource**

*IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (Updated July 2020)*

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

Effective for annual reporting periods beginning on or after 1 January 2023

In the absence of a definition of the term 'significant' in IFRS, the IASB decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the IASB.

Material accounting policy information is defined as follows in paragraph 117 of IAS 1 "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

The NZASB released the equivalent amendments to NZ IAS 1 in March 2021.

Earlier application is permitted.

**Resource**

*IFRS Developments Issue 187: The Disclosure Initiative - IASB amends the accounting policy requirements*

## Other topics

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

**Effective for annual reporting periods beginning on or after 1 January 2023**

The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

In the amended standard, accounting estimates are now defined as, "monetary amounts in financial statements that are subject to measurement uncertainty".

The NZASB released the equivalent amendments to NZ IAS 8 in March 2021.

Earlier application is permitted.

**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***

**Effective 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) give 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 is expected to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

The NZASB released the equivalent amendment to NZ IAS 12 in July 2021.

Earlier application is permitted.

**Resource**

*IFRS Developments Issue 191: IASB clarifies deferred tax accounting for leases and decommissioning obligations*

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