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

For 31 December 2023 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 December 2023, which:

- Must be applied for the first time for 31 December 2023 year-ends. They are contained in yellow boxes.
- May be applied early for 31 December 2023 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 December 2023. 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] Commences 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.
[4] 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

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 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

Key requirements

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-*

The updated amendments:

- 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 least12 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 Australian 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]

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 10estimates 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 Ratas*, 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[5] to assess impacts and make required changes.

Below we summarise all IFRIC agenda decisions published during the period from 1 July 2022 to 31 December 2023.

Negative Low Emission Vehicle Credits – July 2022

The IFRIC discussed whether particular government measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In the situation considered, entities receive positive or negative credits for produced or imported vehicles whose average fuel emissions are lower or higher than a government target. Entities are required to eliminate negative credits by surrendering or obtaining, either by purchasing from another entity or by generating more in the next year, positive credits. Failing to eliminate negative credits could result in government - imposed sanctions such as restricting access to the market. The sanctions would not involve fines or penalties, or any other outflow of economic benefit resources.

In considering whether an entity that has negative credits has a present obligation that represents an IAS 37 liability, the IFRIC noted that either method of settling the negative credits would result in an outflow of resources.

It also noted that if an entity has produced or imported vehicles that do not meet the government target, an obligation has arisen from past events and exists independently of the entity's future actions.

The IFRIC concluded that the government measures could create a legal obligation if accepting the sanctions for non-settlement is not a realistic alternative for the entity. It also observed, however, that determining whether accepting sanctions is a realistic alternative requires judgement and will depend on the nature of the sanctions and the entity's specific circumstances. If an entity determines that it has no legal obligation to eliminate its negative credits, it will then need to consider whether it has a constructive obligation to do so.

It was concluded that IFRS accounting standards provide an adequate basis to determine whether the entity has an obligation that meets the definition of a liability under IAS 37; however, no conclusion was reached for the fact pattern discussed.

[5] 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.

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity – July 2022

The IFRIC considered an issue relating to the assessment of shareholders' contractual rights when classifying public shares issued by a SPAC as financial liabilities or equity. A SPAC is a listed entity established to acquire a yet-to-be-identified target entity.

In the fact pattern discussed, a SPAC issues two classes of shares, class A (founder shares) and class B (public shares). Class B shareholders, along with class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired, avoiding a reimbursement of the Class B shares. The question asked is whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC.

The IFRIC observed that IAS 32 includes no requirements on how to assess whether a decision of shareholders is treated as a decision of the entity and also acknowledged that similar questions about shareholder decisions arise in other circumstances.

However, the issue has been identified as a practice issue to be considered in the Financial Instruments with Characteristics of Equity (FICE) project.

Transfer of Insurance Coverage under a Group of Annuity Contracts - July 2022

The IFRIC discussed the method to determine the amount of the contractual service margin (CSM) to be recognised in a period for a group of annuity contracts. The amount of CSM recognised needs to reflect the provision of insurance services during the period.

Under the groups of annuity contracts described, policyholders pay the premium upfront with no right to cancel or seek a refund. They receive periodic payments from the start of the annuity period for as long as they survive but receive no other services under the contracts. The group includes both contracts that have an immediate annuity and those that have a deferred annuity.

In considering an appropriate method for determining the benefits of insurance coverage provided in the current period and expected to be provided in the future, the IFRIC observed that the benefits of insurance coverage under the contracts are the policyholders' right to claim a periodic amount as long as they survive. The policyholders have no right to claim before the start of the annuity period and their right to claim in future years is contingent on them surviving in those future years.

The IFRIC considered a method under which the benefits in the current period are determined based on the annuity payments in the current period and the benefits in the future are determined based on the present value of the annuity payments expected in the future. The IFRIC concluded that such a method met the requirement of IFRS 17 *Insurance Contracts* by assigning the quantity of benefits only to periods in which an insured event (survival) can occur, resulting in a policyholder having the right to claim and aligning the quantity of benefits in a period with the amount that could be claimed in that period.

The IFRIC also noted that for the annuity contracts described, the entity accepts insurance risk related to the uncertainty about how long the policyholders will survive. The entity would apply other requirements in IFRS 17 to recognise in profit or loss, separately from the CSM, the risk adjustment for that non-financial risk.

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Multi-currency Groups of Insurance Contracts -October 2022

The IFRIC considered how an entity accounts for insurance contracts with cash flows in more than one currency. Two specific questions asked were whether currency exchange rate risks should be considered when identifying portfolios of insurance contracts under IFRS 17, and how to apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* in conjunction with IFRS 17 when measuring a multi-currency group of insurance contracts.

In relation to the first question, the IFRIC concluded that an entity is required to consider all risks, including currency exchange rate risks, when assessing whether insurance contracts are 'subject to similar risks' for the purpose of identifying portfolios of insurance contracts. However, 'similar risks' does not mean 'identical risks' and therefore an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The IFRIC observed that what an entity considers to be 'similar risks' will depend on the nature and extent of risks in the insurance contracts.

In relation to the second question, the IFRIC observed that both IFRS 17 and IAS 21 refer to single currency transactions or items. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items with cash flows in more than one currency.

The IFRIC therefore observed that an entity, based on its specific circumstances, and the terms of the contracts in the group, uses judgement to develop, and apply an accounting policy that determines the currency denomination of the group, including the contractual service margin (CSM), which could be a single currency or multiple currencies. The entity cannot simply presume that the CSM is denominated in the functional currency.

In measuring a multi-currency group of insurance contracts, the IFRIC observed that an entity applies IFRS 17 to treat that group, including the CSM, as a monetary item, and applies IAS 21 to translate their carrying amounts into the entity's functional currency.

A single-currency denomination treats changes in exchange rates between the currency of the cash flows and the currency of the insurance contract group as changes in financial risk accounted for under IFRS 17, while changes in exchange rates between the currency of that group and the functional currency of the entity as exchange differences accounted for under IAS 21.

A multi-currency denomination treats all changes in exchange rates as exchange differences accounted for under IAS 21.

The IFRIC also considered and decided not to add a standard-setting project on how to account for the foreign currency aspects of insurance contracts to the workplan.

Lessor Forgiveness for Lease Payments – October 2022

The IFRIC discussed the application of IFRS 9, and IFRS 16 in accounting for forgiveness of lease payments in an operating lease. In the fact pattern considered, the lease payments forgiven include both amounts due, but not paid, and amounts not yet due, and no other changes are made to the lease contract.

The IFRIC discussed three issues:

- *Applying the IFRS 9 expected credit loss (ECL) model to the operating lease receivable (amounts due, but not paid) before the rent forgiveness is granted*: The IFRIC concluded that before the rent forgiveness is granted, the lessor measures ECL on the operating lease receivable considering its expectation of forgiving the lease receivables.
- *Applying IFRS 9 derecognition requirements to the operating lease receivables forgiven*: on granting the forgiveness, the derecognition requirements under IFRS 9 are met. On the grant date, the lessor remeasures ECL and derecognises the operating lease receivable and associated ECL allowance.
- *Applying IFRS 16 modification requirements to future lease payments*: the forgiveness of lease payments meets the definition of a lease modification and the lessor accounts for the modified lease as a new lease from the grant date. Neither the due-but-not-paid lease payments nor their forgiveness are considered part of the lease payments for the new lease.

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition – October 2022

The IFRIC discussed how an entity accounts for warrants issued on acquisition of a SPAC. In the fact pattern discussed:

- An entity acquires control of a SPAC that has raised cash in an IPO. The purpose of the acquisition is to obtain the cash, and the SPAC's stock exchange listing. The SPAC has no assets other than cash, and is not a business under the definition of IFRS 3 *Business Combinations*.
- Before the acquisition, in addition to ordinary shares, the SPAC had issued warrants to founder shareholders for their services, and warrants to public shareholders along with ordinary shares at the IPO.
- The entity issues new ordinary shares, and new warrants to the SPAC's shareholders in exchange for the SPAC's ordinary shares, and the legal cancellation of the SPAC warrants, and replaces the SPAC as the entity listed on the stock exchange.
- The SPAC's shareholders are not SPAC employees, nor will they provide any services to the entity after the acquisition.
- The fair value of instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets.

The IFRIC considered key questions in accounting for the transaction, and noted:

- The acquisition is an asset acquisition, and not a business acquisition. The entity recognises individual identifiable assets acquired, and liabilities assumed.

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- In identifying individual liabilities assumed as part of the acquisition, the entity assesses whether it assumes the SPAC warrants as a part of the acquisition. If so, the entity issues only the ordinary shares to acquire the SPAC, and assume the SPAC warrants, then issues new warrants to replace the SPAC warrants. If not, the entity issues both ordinary shares, and new warrants to acquire the SPAC.
- The fair value of the instruments issued to acquire the SPAC may exceed the fair value of net assets acquired. If so, in applying IFRS 2 requirements relating to unidentifiable goods or services, the IFRIC concluded that the entity receives a stock exchange listing service as part of a share-based payment transaction, and measures the service received as the difference between the fair value of the instruments issued, and the fair value of net assets acquired.
- The entity applies IFRS 2 *Share-based Payment* to account for instruments issued to acquire the stock exchange listing service.
- The entity applies IAS 32 *Financial Instruments: Presentation* to account for instruments issued to acquire cash, and assume any liability related to the SPAC warrants.

The IFRIC also provided some additional accounting considerations if the entity concludes that, as part of the acquisition, it assumes the SPAC warrants, specifically how to account for the SPAC warrants assumed and the replacement warrants issued, and accounting considerations if it concludes that it does not assume the SPAC warrant, specifically which types of instruments were issued for the SPAC's net assets and which were issued for the listing service.

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 is it 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
- 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).

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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 and it does not have (nor is it expected to have) a material effect on those affected and decided not to add a standing-setting project to the work plan.

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