New Accounting Standards and Interpretations for New Zealand Tier 1 Public Sector and Not-for-Profit Public Benefit Entities (PBEs)

For 30 June 2023 year-end reports

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Building a better working world

New and changed requirements

We provide you with an overview of the accounting pronouncements, for Public Benefit Entities (PBEs), issued as of 30 June 2023 which:

- **Must** be applied for the first time for 30 June 2023 year-ends. **They are contained in yellow boxes.**
- **May** be applied early for 30 June 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 PBEs 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 30 June 2023. Any pronouncements issued afterwards (up until the date of authorisation of your financial report) must also be considered. EY Eye on Reporting publications will keep you informed of further changes.

Contents

Catalogue of new accounting pronouncements issued as of 31 March 2023

[1] For full access to PBE Standards 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.
[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.
[5] PBE IFRS 17 *Insurance Contracts* and its amendments only apply to not-for-profit public benefit entities.
[6] *2022 Omnibus Amendments to PBE Standards* also amended the application guidance or the implementation guidance in some other standards to clarify certain requirements which are not included in this publication, for full access to the amendments, please visit 2022 Omnibus Amendments to PBE Standards » XRB

Catalogue of IFRIC agenda decisions

Return to the content page

Financial instruments

PBE IPSAS 41 Financial Instruments

Commences to apply for annual reporting periods beginning on or after 1 January 2022

This Standard, when applied, supersedes parts of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*, and supersedes PBE IFRS 9 *Financial Instruments*.

This new standard:

- Introduces a classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held
- Applies a forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing
- Introduces a hedge accounting model that broadens the hedging arrangements in the scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy

Requirements on transition depend on whether the entity is transitioning from PBE IPSAS 29 or PBE IFRS 9.

Transitional provisions require mostly retrospective application with some exceptions.

Return to the content page

Insurance contracts

PBE IFRS 17 Insurance Contracts (only applies to not-for-profit PBEs)

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

This Standard was issued in July 2019 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

PBE IFRS 17 applies to **not-for-profit** PBEs ONLY and is applied to:

- Insurance contracts, including reinsurance contracts issued by an entity
- Reinsurance contracts held by an entity
- Investment contracts with discretionary participation features issued by the entity, provided the entity also issues insurance contracts

PBE IFRS 17 will be mandatory from 1 January 2023 for not-for-profit PBEs, with early adoption permitted, if requirements are met, for entities that apply PBE IPSAS 41 *Financial Instruments* on or before the date of initial application of PBE IFRS 17.

Amendments to PBE IFRS 17 Insurance Contracts

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

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

- Deferring the effective date of PBE IFRS 17 for insurers by one year to annual periods beginning on or after 1 January 2023
- Excluding additional contracts from the scope of PBE 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 cash flows (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

Return to the content page

Insurance contracts

Amendments to PBE IFRS 17 Insurance Contracts – Initial Application of PBE IFRS 17 and PBE IPSAS 41 – Comparative Information

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

When insurers apply PBE IFRS 17 and PBE IPSAS 41 for the first time in 2023[7], PBE IFRS 17 requires restatement of comparatives. However, under PBE IPSAS 41, insurers may restate the comparatives only when hindsight is not required but cannot restate for financial assets derecognised before the application date of PBE IPSAS 41. 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 NZASB amended PBE IFRS 17 to add 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 initial application of PBE IFRS 17.

If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies PBE IFRS 17 (i.e., from transition date to the date of initial application of PBE 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 PBE IPSAS 41 (for example, using preliminary assessments performed to prepare for initial application of PBE IPSAS 41)
- Present comparative information as if the classification and measurement requirements of PBE IPSAS 41 had been applied to that financial asset

[7] Entities that have already applied PBE IPSAS 41 are allowed, or in some cases required, under the transition guidance in PBE IFRS 17, to redesignate financial assets on initial application of PBE IFRS 17 in order to reduce accounting mismatches. However, this redesignation cannot be applied to financial assets derecognised in the comparative period, since it applies only from the date of initial application of PBE IPSAS 41. The classification overlay can also be applied to such financial assets for the purpose of presenting comparative information, as if the redesignation guidance in PBE IFRS 17 had been applied to them based on how the entity expects the assets would be designated at the date of initial application of PBE IFRS 17.

Return to the content page

Insurance contracts

Amendments to PBE IFRS 17 - Insurance Contracts in the Public Sector

Commences to apply for annual reporting periods beginning on or after 1 January 2026.

The amending standard Insurance Contracts in the Public Sector adds public sector modifications to PBE IFRS 17 *Insurance Contracts* to include public sector entities within its scope from periods beginning on or after 1 January 2026.

Amendments are also made to ensure the Standard is suitable for this sector. This includes the following modifications:

- Information on how to identify arrangements to which PBE IFRS 17 should apply – specifically when an arrangement is in substance a contract
- Specific exemptions relating to sub-grouping contracts. Public sector entities are not required to divide contracts into onerous, no possibility of being onerous and all remaining contracts. A public sector entity is also not required to sub-group insurance contracts based on the date they were issued. The portfolio of insurance contracts will be the unit of account
- An amendment to the timing of initial recognition. A public sector entity will recognise an insurance contract at the earlier of the beginning of the coverage period and the date when the first payment is due
- Guidance on coverage periods in the public sector
- An accounting policy choice to allow the public sector to apply the premium allocation approach to all insurance contracts
- Additional application guidance with specific public sector examples

Early application is permitted if requirements are met. These amendments require comparative information to be provided in respect of the preceding accounting period.

Resource

Insurance Contracts in the Public Sector

Other topics

PBE FRS 48 Service Performance Reporting

Commences to apply for annual reporting periods beginning on or after 1 January 2022

This Standard was issued in November 2017 and establishes requirements for PBEs to select and present service performance information.

PBEs within the scope of this Standard will need to provide users with:

- Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this
- Information about what the entity has done during the reporting period in working towards its broader aims and objectives

This Standard applies to:

a) All not-for-profit PBEs

b) Public sector PBEs required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP). If an entity is required by legislation to report service performance information on only some of its activities, this Standard applies only to those activities

Return to the content page

Other topics

Amendments to PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

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

When considering whether a contract is onerous, PBE IPSAS 19 requires an entity to consider the unavoidable costs which is the lower of the costs of fulfilling a contract and any compensation or penalties arising from failure to fulfill a contract.

The amendments added a description on the "costs of fulfilling a contract" when determining the unavoidable costs under the onerous contracts.

The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

- The incremental costs of fulfilling that contract—for example, direct labour and materials; and
- An allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others

Early application is permitted if specific requirements are met.

Amendments to PBE IPSAS 17 Property, Plant and Equipment

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

The amendments amended the direct attribution costs to exclude the proceed from selling any items produced, such as samples produced when testing equipment, while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating. The amendments also require the proceed from selling such produced sample to be recognised in surplus or deficit and applying the measurement requirements of PBE IPSAS 12 *Inventories*.

The amendment also requires the separate disclosure of the amounts of proceeds and costs included in the surplus or deficit for the samples produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating.

Early application is permitted if specific requirements are met.

Return to the content page

Other topics

Amendments to PBE IAS 12 Income taxes

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

The amendment narrows the scope of the recognition exemption under PBE 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 leased asset and the associated lease obligation when commencing a finance lease for a lessee. 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 leased asset and lease obligation under a finance lease (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 is expected to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in surplus or deficit.

Earlier application is permitted if specific requirements are met.

Amendments to PBE IPSAS 27 Agriculture

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

When using a present value technique to measure fair values of assets within the scope of PBE IPSAS 27 *Agriculture*, taxation cash flows are not included. PBE IPSAS 27 does not prescribe an entity to use a particular present value technique 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 PBE IPSAS 27 the requirement to exclude taxation cash flows when measuring fair value.

Earlier application is permitted if specific requirements are met.

Return to the content page

Other topics

Amendments to PBE IPSAS 1 Disclosure of Fees for Audit Firms' Services

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

The amendments to PBE IPSAS 1 aim 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 report
- Other non-audit and non-review 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

Resource

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

Return to the content page

Interpretations and agenda decisions

The XRB has noted that "although, [the IFRS Interpretations committee's (IFRIC's)] agenda decisions are specifically developed with for-profit entities in mind, PBEs applying Tier 1 or Tier 2 PBE Standards may also consider applicable explanatory material in the IFRIC interpretations and agenda decisions when developing and applying accounting policies in accordance with PBE IPSAS 3". Therefore, on this basis this publication outlines recent activities of the IFRIC for consideration by PBEs.

During calendar year 2022, the IFRIC issued no interpretations. However, it issued several agenda decisions on matters brought to its attention.

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[8] to assess impacts and make required changes.

Below we summarise all IFRIC agenda decisions published during the period from 1 July 2021 to 31 December 2022.

Non-refundable Value Added Tax on Lease Payments – October 2021

The IFRIC discussed lessee accounting for any non-refundable value added tax (VAT) charged on lease payments. The question is whether the lessee includes non-refundable VAT as part of the lease payments of a lease.

Outreach conducted by the IFRIC and comment letters on the tentative agenda decision provided limited evidence as to whether the issue is material or receiving diverse accounting treatment. For this reason, the IFRIC provided no guidance.

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition - October 2021

The IFRIC discussed warrants that give the holder a right to buy a fixed number of the issuer's own equity instruments for an exercise price that will be fixed at a future date. Such warrants are initially classified by the issuer as a financial liability as the fixed-for fixed condition[9] is not met.

The question was whether the warrants should be reclassified as equity once the exercise price is fixed, as the fixed-for-fixed condition would at that stage be met.

The IFRIC noted that IAS 32 *Financial Instruments: Presentations* contains no general requirement for reclassifying financial liabilities or equity instruments when their contractual terms are unchanged.

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

Economic Benefits from Use of a Windfarm – December 2021

The IFRIC discussed whether an agreement between an electricity retailer and a windfarm generator contains a lease under IFRS 16 *Leases*.

Both parties are registered participants in an electricity market and make purchases and sales via the electricity grid. The agreement:

- Swaps the spot price received by the windfarm for electricity supplied to the grid for a fixed price for a 20-year period
- Transfers to the retailer all the renewable energy credits earned by the windfarm

The agreement, however, conveys neither the right nor the obligation for the retailer to obtain any of the electricity the windfarm produces and

[8] 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.

[9] Derivative financial instruments settled only by the issuer exchanging a fixed amount of cash (or another financial assets) for a fixed number of own equity instruments are classified as equity.

supplies to the grid. The agreement results in the retailer settling the difference between the fixed price and the spot price of electricity the windfarm supplies to the grid.

Therefore, the IFRIC noted that this agreement does not contain a lease.

Targeted longer-term refinancing operations (TLTROs) transactions – March 2022

The IFRIC discussed how to account for the third program of the TLTRO of the European Central Bank. The TLTROs link the amount that a participating bank can borrow, and the interest rate the bank pays on each tranche of borrowings, to the volume and amount of loans it makes to non-financial corporations and households.

The IFRIC discussed whether the TLTROs should be accounted for by the borrowing bank applying IFRS 9 *Financial Instruments* or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, given they may have below-market interest rates.

The IFRIC observed that:

- IFRS 9 is the starting point, while IAS 20 provides an adequate basis to assess whether the TLTROs contain a portion that is treated as a government grant, such as a below-market interest rate
- Determining whether an interest rate is a below market rate requires judgement based on the specific facts and circumstances

The IFRIC further considered the impact of conditions creating uncertainty about future interest rates, impacting the estimation of effective interest rates and measurement of the financial liability. This issue was considered too broad for IFRIC, which recommended that it be considered as a part of the post-implementation review of IFRS 9.

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party – April 2022

The IFRIC discussed whether a demand deposit which is subject to contractual restrictions on use is a part of cash and cash equivalents.

In this situation, the terms and conditions of the demand deposit do not restrict the use of the funds. However, the entity has a contractual obligation with a third party to keep specified amounts in the deposit account and to use the funds only for specified purposes.

The IFRIC noted that third-party restrictions on use do not change the nature of the deposit. Therefore, it concluded that this demand deposit forms a part of cash and cash equivalents. When relevant, the entity presents this as an additional line item within the cash and cash equivalents note. The deposit should be classified as a current asset, unless restrictions over its exchange or use to settle a liability apply for at least 12 months from the reporting date.

Principal versus Agent: Software Reseller- May 2022

The IFRIC discussed whether a reseller of software licences is operating as a principal or agent.

In the situation considered, the reseller provides pre-sale advice to customers, negotiates price and places orders on behalf of each customer.

Should the reseller order software licences that do not meet customer needs, the customer can reject the order. If this happens, the reseller bears the loss as it cannot return the licences or resell them to another customer.

The software manufacturer provides the software licence under an agreement between the manufacturer and the customer.

The IFRIC noted that pre-sale advice is not an implicit promise in the contract with the customer. Therefore, the software licence is the

Return to the content page

only promised good and service in the reseller's contract with the customer.

The IFRIC noted that the reseller would be a principal if it controlled the software licences before transferring them to customers.

It also noted that assessing whether the reseller obtains control of the software before transferring it to customers requires consideration of all facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer, and the software manufacturer and the customer.

It was concluded that IFRS accounting standards provide an adequate basis to determine whether the reseller was a principal; however, no conclusion was reached for the fact pattern discussed.

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.

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'

Return to the content page

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.

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.

Return to the content page

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 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 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

Return to the content page

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
- 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.

Return to the content page

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

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