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

For 30 June 2022 year-end reports

New and changed requirements

We provide you with an overview of the accounting pronouncements issued as of 30 June 2022 that:

- Must be applied for the first time for 30 June 2022 year-ends. They are contained in yellow boxes.
- May be applied early for 30 June 2022 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 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 not yet effective.

Remain alert to further changes

This publication is updated as of 30 June 2022. 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.

Contents

Catalogue of new accounting pronouncements issued as of 31 December 2021

New pronouncements[1] that must be applied for 30 June 2022 year-ends	Effective date[2]	Application date[3]	Page
Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4, NZ IFRS 16 - Interest Rate Benchmark Reform - Phase 2	1 January 2021	1 July 2021	5
Amendments to NZ IFRS 4 Insurance Contracts - Extension of the Temporary Exemption from Applying NZ IFRS 9	1 January 2021[4]	1 July 2021[4]	9
Amendments to NZ IFRS 16 - Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021	1 July 2021	10

New pronouncements that may be applied early for 30 June 2022 year-ends	Effective date	Application date	Page
Amendments to NZ IAS 37 - Onerous Contracts–Cost of Fulfilling a Contract	1 January 2022	1 July 2022	12
Amendments to NZ IFRS 3 - Reference to the Conceptual Framework	1 January 2022	1 July 2022	11
Amendments to NZ IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	1 July 2022	11
Annual Improvements NZ IFRSs 2018-2020 Cycle ▸ Amendment to NZ IFRS 1, Subsidiary as a First-time Adopter ▸ Amendment to NZ IFRS 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities ▸ Amendment to NZ IAS 41, Taxation in Fair Value Measurements	1 January 2022	1 July 2022	 13 5 12
NZ IFRS 17 Insurance Contracts	1 January 2023	1 July 2023	7
Amendments to NZ IFRS 17 Insurance Contracts	1 January 2023	1 July 2023	7
Amendments to NZ IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2023	1 July 2023	14
Amendments to NZ IAS 1 - Disclosure of Accounting Policies	1 January 2023	1 July 2023	14
Amendments to NZ IAS 8 - Definition of Accounting Estimates	1 January 2023	1 July 2023	15
Amendment to NZ IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	1 July 2023	16
Amendments to NZ IFRS 10, NZ IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2025	1 July 2025	6

[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.
[4] In August 2020, the NZASB amended NZ IFRS 4 to extend the expiry date of the temporary exemption from applying NZ IFRS 9 in NZ IFRS 4 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.

Catalogue of IFRIC agenda decisions

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 rate (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 the 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.

Resources

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

Good Bank (International) Limited (December 2021)

Applying IFRS: IBOR reform (Updated December 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.

Key requirements

Group accounts

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)

Insurance Accounting Alert (July 2021)

Insurance Accounting Alert (December 2021)

Insurance Accounting Alert (February 2022)

Insurance Accounting Alert (March 2022)

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

In January 2022, the NZASB added a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance liabilities in the comparative information presented on initial application of IFRS 17.

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

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

Return to the content page

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 NZASB amended NZ IFRS 4 to extend the expiry date of the temporary exemption from applying NZ IFRS 9 in NZ IFRS 4 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.

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

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

Applying IFRS: IFRS accounting considerations of the Coronavirus pandemic (April 2021)

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

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 the *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.

Return to the content page

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)

IFRS Developments Issue 198: classification of non-current liabilities with covenants-proposed amendments (November 2021)

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) 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 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

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 are effective when issued. However, entities are entitled to sufficient time[11] to assess impacts and make required changes.

Below we summarise all IFRIC agenda decisions published during the period from 1 January 2021 to 30 June 2022.

Configuration or Customisation Costs in a Cloud Computing Arrangement – March 2021

The IFRIC discussed accounting for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement.[12]

The Committee noted that configuration and customisation costs cannot be capitalised when the customer does not control the software or when the configuration/ customisation does not create an asset separate from the software. Such costs need to be expensed as and when incurred.

This agenda decision has an impact not only on costs in current and future periods but could also impact previously incurred costs that should, or should not have been capitalised.

Resource [13]

Applying IFRS –Accounting for cloud computing costs (July 2021)

Attributing Benefits to Periods of Service – May 2021

The IFRIC discussed how an entity attributes retirement benefits to periods of service for a defined benefit plan when the entitlement is subject to a minimum retirement age, and the benefit amount is capped by reference to a maximum period of service. Due to these constraints, services rendered before reaching a particular age do not affect the amounts of the benefits to be received on retirement.

Under IAS 19 *Employee Benefits*, benefits should be attributed to the periods of service commencing from the day when employee's services first lead to the benefit entitlement. This period should end when further service will not lead to a material further benefit.

Consequently, the Committee concluded that the entity attributes no retirement benefit for periods before reaching the entitlement age and after reaching the retirement age.

Hedging Variability in Cash Flows due to Real Interest Rates – May 2021

The IFRIC discussed whether a hedge of the variability in cash flows arising from changes in a real interest rate could be accounted for as a cash flow hedge.

In this situation, an entity with a floating rate instrument enters into an inflation swap[14], While not contractually specified, a nominal interest rate economically includes both a real interest rate and an inflation component.

An entity may designate an item in its entirety, or a component of an item, as a hedged item. A risk component may be designated if the risk

[11] 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.

[12] Configuration involves the setting of various 'flags' or 'switches' within the software, or defining parameters, to set up the software's code to function in a specified way. Customisation involves modifying the software to change or create more functionalities within the software.

[13] Further to our EY publication, the Treasury also issued a guidance on accounting for SaaS for public sector PBEs, please see here.

[14] Which swaps the variable interest cash flows of the floating rate instrument for variable cash flows based on an inflation index.

component is separately identifiable and reliably measurable. However, the IFRIC observed that inflation risk cannot be considered as separately identifiable and reliably measurable unless it is contractually specified. To support its eligibility as a separate risk component, the real interest rate must represent an identifiable pricing element in setting the floating benchmark interest rate.

For the fact pattern discussed, the IFRIC concluded that there is no exposure to variability in cash flows that is attributable to changes in the real interest rate. As a result, the real interest rate does not meet the requirements in IFRS 9 to be designated as an eligible hedged item.

Costs Necessary to Sell Inventories - June 2021

The IFRIC discussed what costs need to be included when estimating net realisable value of inventories.

In this discussion, the IFRIC noted that IAS 2 *Inventories* requirements do not permit an entity to limit costs necessary to sell inventories to only those that are incremental. There is a range of possibilities beyond the incremental cost approach: from direct costs at the point of sale (which might include, for example, a portion of the cost of internal sales staff or the cost of a special promotion campaign) to full costs (which might include costs such as depreciation or amortisation).

Therefore, an entity uses its judgment to determine which costs are necessary to complete the inventory and make the sale, considering specific facts and circumstances, including the nature of the inventory.

Resource

IFRS Developments issue 193 - Costs necessary to sell inventories (July 2021)

Preparation of Financial Statements when an Entity is No Longer a Going Concern - June 2021

The IFRIC discussed the accounting by an entity that is no longer a going concern. The IFRIC noted the following:

- When an entity is no longer a going concern, it cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.
- The IFRIC did not address whether such an entity restates comparative information, previously prepared on a going concern basis, to reflect the basis of accounting used for the current period's financial statements. No diversity in the application of IFRS Standards with respect to this issue was noted.

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[15] 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 issue 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.

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 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 TLTRO's should be accounted for by the borrowing bank applying IFRS 9 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 TLTRO's 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.

[15] 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.

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, 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 the 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 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.

Key contacts

New Zealand

Lara Truman
Partner
Ernst & Young Limited
Tel: +64 274 899 896
Lara.Truman@nz.ey.com

Alex Knyazev
Associate Director
Ernst & Young Limited
Tel: +64 21 853 152
Alex.Knyazev@nz.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EYSCORE 006607-22-AUNZ

ED None

ey.com