



NZ ACCOUNTING
STANDARDS
BOARD

NZ International Financial Reporting Standard 1 (Diff Rep)

First-time Adoption of NZ IFRS Diff Rep (NZ IFRS 1 (Diff Rep))

Issued November 2012 excluding consequential amendments resulting from early adoption of NZ IFRS 9 (2009) (Diff Rep) *Financial Instruments*, NZ IFRS 9 (2010) (Diff Rep) *Financial Instruments*, NZ IFRS 10 (Diff Rep) *Consolidated Financial Statements*, NZ IFRS 11 (Diff Rep) *Joint Arrangements*, NZ IFRS 12 (Diff Rep) *Disclosure of Interests in Other Entities*, NZ IFRS 13 (Diff Rep) *Fair Value Measurement*, NZ IAS 19 (Diff Rep) *Employee Benefits* (as amended in 2011) and NZ IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* effective for annual periods beginning on or after 1 July 2011. Versions of the equivalent NZ IFRS as applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the XRB website at xrb.govt.nz

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NZ International Financial Reporting Standard 1 (Diff Rep) *Adoption of NZ IFRS Diff Rep* (NZ IFRS 1 (Diff Rep)) is set out in paragraphs 1–NZ 39H.1 and Appendices A–E. NZ IFRS 1 (Diff Rep) is based on International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) (2008) published by the International Accounting Standards Board (IASB). All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary. NZ IFRS 1 (Diff Rep) should be read in the context of its objective and the IASB’s Basis for Conclusions on IFRS 1 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ Framework (Diff Rep)). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 1 (Diff Rep) *First-time Adoption of NZ IFRS Diff Rep*

This table lists the pronouncement establishing NZ IFRS 1 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 1 (Diff Rep) <i>First-time Adoption of NZ IFRS Diff Rep</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRS 1 (Diff Rep)

Paragraph affected	How affected	By ... [date]
Paragraph NZ 1.1	Inserted	NZ IFRS 1 (Diff Rep) [Nov 2012]
Paragraphs 34–39H	Deleted	NZ IFRS 1 (Diff Rep) [Nov 2012]
Paragraph NZ 39H.1	Inserted	NZ IFRS 1 (Diff Rep) [Nov 2012]
Paragraphs 40	Deleted	NZ IFRS 1 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRS 1 as applied by qualifying entities prior to the issue of this Standard as NZ IFRS 1 (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 9 (2009) *Financial Instruments*, NZ IFRS 9 (2010) *Financial Instruments*, NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements*, NZ IFRS 12 *Disclosure of Interests in Other Entities*, NZ IFRS 13 *Fair Value Measurement* and NZ IAS 19 *Employee Benefits* (as amended in 2011).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 1 <i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>	Dec 2008	Early application permitted	1 July 2009

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Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 18 <i>Transfers of Assets from Customers</i>	Feb 2009	Early application permitted	1 July 2009 – applies to transfers on or after this date
<i>Additional Exemptions for First-time Adopters</i> (Amendments to NZ IFRS 1)	Aug 2009	Early application permitted	1 Jan 2010
NZ IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Dec 2009	Early application permitted	1 July 2010
<i>Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters</i> (Amendment to NZ IFRS 1)	March 2010	Early application permitted	1 July 2010
<i>Improvements to NZ IFRSs</i>	July 2010	Early application permitted	1 Jan 2011
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate
<i>Disclosures—Transfers of Financial Assets</i> (Amendments to NZ IFRS 7)	Nov 2010	Early application permitted	1 July 2011
<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> (Amendments to NZ IFRS 1)	Feb 2011	Early application permitted	1 July 2011

Table of Amended Paragraphs in NZ IFRS 1 (revised 2008)		
Paragraph affected	How affected	By ... [date]
Paragraph 27	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 27A	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 31A and preceding heading	Inserted	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph 31B and preceding heading	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 31C and preceding heading	Inserted	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]

NZ IFRS 1 (Diff Rep)

Table of Amended Paragraphs in NZ IFRS 1 (revised 2008)		
Paragraph affected	How affected	By ... [date]
Paragraph 32	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 39A	Inserted	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph 39C	Inserted	<i>Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters</i> [March 2010]
Paragraph 39D	Inserted	Minor Amendments [July 2010]
Paragraph 39E	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph 39F	Inserted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]
Paragraph 39H	Inserted	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]
Paragraph B2	Amended	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]
Paragraph D1	Amended	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph D1	Amended	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]
Paragraph D1(c)	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph D1(o)	Inserted	NZ IFRIC 18 [Feb 2009]
Heading preceding paragraph D5	Amended	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph D8	Amended	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph D8A	Inserted	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph D8B	Inserted	<i>Improvements to NZ IFRSs</i> [July 2010]
Paragraph D9A and preceding heading	Inserted	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph D20	Amended	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]
Paragraph D21A and preceding heading	Inserted	<i>Additional Exemptions for First-time Adopters</i> [Aug 2009]
Paragraph D24 and preceding heading	Inserted	NZ IFRIC 18 [Feb 2009]

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Table of Amended Paragraphs in NZ IFRS 1 (revised 2008)		
Paragraph affected	How affected	By ... [date]
Paragraph D25 and preceding heading	Inserted	NZ IFRIC 19 [Dec 2009]
Paragraphs D26–D30 and preceding heading	Inserted	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> [Feb 2011]
Paragraph E3 and preceding heading	Inserted	<i>Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters</i> [March 2010]
Paragraph E4	Inserted	<i>Disclosures—Transfers of Financial Assets</i> [Nov 2010]

Introduction to NZ IFRS 1 (Diff Rep)

Reasons for issuing the IFRS

- IN1 The International Accounting Standards Board issued IFRS 1 in June 2003. IFRS 1 replaced SIC-8 *First-time Application of IASs as the Primary Basis of Accounting*. The IASB developed the IFRS to address concerns about the full retrospective application of IFRSs required by SIC-8.
- IN2 Subsequently, IFRS 1 was amended many times to accommodate first-time adoption requirements resulting from new or amended IFRSs. As a result, the IFRS became more complex and less clear. In 2007, therefore, the IASB proposed, as part of its annual improvements project, to change IFRS 1 to make it easier for the reader to understand and to design it to better accommodate future changes. The version of IFRS 1 issued in 2008 retains the substance of the previous version, but within a changed structure. It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

Main features of the NZ IFRS Diff Rep

NZ IFRS 1 (Diff Rep) is identical to NZ IFRS 1 as applied by qualifying entities prior to the issuance of NZ IFRS 1 (Diff Rep). That is, there are no changes to the recognition, measurement, presentation and disclosure requirements of NZ IFRS 1 on adoption of this Standard.

- IN3 NZ IFRS 1 (Diff Rep) is based on IFRS 1 (as revised in 2008). NZ IFRS 1 (Diff Rep) applies when an entity *adopts NZ IFRS Diff Rep* for the first time by an explicit and unreserved statement of compliance with NZ IFRS Diff Rep.
- IN4 In general, the NZ IFRS Diff Rep requires an entity to comply with each NZ IFRS Diff Rep effective at the end of its first NZ IFRS Diff Rep reporting period. In particular, the NZ IFRS Diff Rep requires an entity to do the following in the opening *NZ IFRS Diff Rep statement of financial position* that it prepares as a starting point for its accounting under NZ IFRS Diff Rep:
- (a) recognise all assets and liabilities whose recognition is required by NZ IFRS Diff Rep;
 - (b) not recognise items as assets or liabilities if NZ IFRS Diff Rep do not permit such recognition;
 - (c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under NZ IFRS Diff Rep; and
 - (d) apply NZ IFRS Diff Rep in measuring all recognised assets and liabilities.

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- IN5 The NZ IFRS Diff Rep grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. The NZ IFRS Diff Rep also prohibits retrospective application of NZ IFRS Diff Rep in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.
- IN6 The NZ IFRS Diff Rep requires disclosures that explain how the transition from previous GAAP to NZ IFRS Diff Rep affected the entity's reported financial position, financial performance and cash flows.
- IN7 An entity is required to apply the NZ IFRS Diff Rep if its first NZ IFRS Diff Rep financial statements are for a period beginning on or after 1 July 2009. Earlier application is encouraged.

New Zealand specific changes

- IN8 [Deleted]
- IN9 NZ IFRS 1 (Diff Rep) defines qualifying entities (Appendix A). Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to provide a statement of financial position as at the beginning of the earliest comparative period in accordance with paragraph 21.

NZ International Financial Reporting Standard 1 (Diff Rep)

First-time Adoption of NZ IFRS Diff Rep (NZ IFRS 1 (Diff Rep))

Objective

- 1 The objective of this NZ IFRS Diff Rep is to ensure that an entity's *first NZ IFRS Diff Rep financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with *NZ IFRS Diff Rep*; and
 - (c) can be generated at a cost that does not exceed the benefits.

Scope

NZ 1.1 This Standard applies only to Tier 3 for-profit entities.

- 2 An entity shall apply this NZ IFRS Diff Rep in:
- (a) its first NZ IFRS Diff Rep financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with NZ IAS 34 (Diff Rep) *Interim Financial Reporting* for part of the period covered by its first NZ IFRS Diff Rep financial statements.
- 3 An entity's first NZ IFRS Diff Rep financial statements are the first annual financial statements in which the entity adopts NZ IFRS Diff Rep, by an explicit and unreserved statement in those financial statements of compliance with NZ IFRS Diff Rep. Financial statements in accordance with NZ IFRS Diff Rep are an entity's first NZ IFRS Diff Rep financial statements if, for example, the entity:
- (a) presented its most recent previous financial statements:
 - (i) in accordance with national requirements that are not consistent with NZ IFRS Diff Rep in all respects;

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- (ii) in conformity with NZ IFRS Diff Rep in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with NZ IFRS Diff Rep;
 - (iii) containing an explicit statement of compliance with some, but not all, NZ IFRS Diff Rep;
 - (iv) in accordance with national requirements inconsistent with NZ IFRS Diff Rep, using some individual NZ IFRS Diff Rep to account for items for which national requirements did not exist; or
 - (v) in accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with NZ IFRS Diff Rep;
- (b) prepared financial statements in accordance with NZ IFRS Diff Rep for internal use only, without making them available to the entity's owners or any other external users;
- (c) prepared a reporting package in accordance with NZ IFRS Diff Rep for consolidation purposes without preparing a complete set of financial statements as defined in NZ IAS 1 (Diff Rep) *Presentation of Financial Statements*; or
- (d) did not present financial statements for previous periods.
- 4 This NZ IFRS Diff Rep applies when an entity first adopts NZ IFRS Diff Rep. It does not apply when, for example, an entity:
- (a) stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with NZ IFRS Diff Rep;
 - (b) presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with NZ IFRS Diff Rep; or
 - (c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with NZ IFRS Diff Rep, even if the auditors qualified their audit report on those financial statements.
- | |
|---|
| <p>NZ 4.1 This NZ IFRS Diff Rep does not apply when an entity's financial statements presented in the reporting period immediately preceding the adoption of NZ IFRS Diff Rep:</p> <ul style="list-style-type: none">(a) were prepared in accordance with NZ IFRSs as applicable to qualifying entities; and(b) included an explicit and unreserved statement of compliance with NZ IFRSs. |
|---|
- 5 This NZ IFRS Diff Rep does not apply to changes in accounting policies made by an entity that already applies NZ IFRS Diff Rep. Such changes are the subject of:

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- (a) requirements on changes in accounting policies in NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (b) specific transitional requirements in other NZ IFRS Diff Rep.

NZ 5.1	In applying this Standard a qualifying entity shall read all references to “NZ IFRS Diff Rep” as references to “NZ IFRS Diff Rep including, where applicable, differential reporting concessions”.
NZ 5.2	Entities which qualify for differential reporting concessions in accordance with XRB A1 <i>Accounting Standards Framework</i> are not required to provide a statement of financial position as at the beginning of the earliest comparative period in accordance with paragraph 21.

Recognition and measurement

Opening NZ IFRS Diff Rep statement of financial position

- 6 An entity shall prepare and present an *opening NZ IFRS Diff Rep statement of financial position* at the *date of transition to NZ IFRS Diff Rep*. This is the starting point for its accounting in accordance with NZ IFRS Diff Rep.

Accounting policies

- 7 **An entity shall use the same accounting policies in its opening NZ IFRS Diff Rep statement of financial position and throughout all periods presented in its first NZ IFRS Diff Rep financial statements. Those accounting policies shall comply with each NZ IFRS Diff Rep effective at the end of its first NZ IFRS Diff Rep reporting period, except as specified in paragraphs 13–19 and Appendices B–E.**
- 8 An entity shall not apply different versions of NZ IFRS Diff Rep that were effective at earlier dates. An entity may apply a new NZ IFRS Diff Rep that is not yet mandatory if that NZ IFRS Diff Rep permits early application.

Example: Consistent application of latest version of NZ IFRS Diff Rep

Background

The end of entity A’s first NZ IFRS Diff Rep reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to NZ IFRS Diff Rep is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements in accordance with its previous GAAP annually to 31 December each year up to, and including, 31 December 20X4. *continued...*

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...continued

Application of requirements

Entity A is required to apply the NZ IFRS Diff Rep effective for periods ending on 31 December 20X5 in:

- (a) preparing and presenting its opening NZ IFRS Diff Rep statement of financial position at 1 January 20X4; and
- (b) preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new NZ IFRS Diff Rep is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that NZ IFRS Diff Rep in its first NZ IFRS Diff Rep financial statements.

- 9 The transitional provisions in other NZ IFRS Diff Rep apply to changes in accounting policies made by an entity that already uses NZ IFRS Diff Rep; they do not apply to a *first-time adopter's* transition to NZ IFRS Diff Rep, except as specified in Appendices B–E.
- 10 Except as described in paragraphs 13–19 and Appendices B–E, an entity shall, in its opening NZ IFRS Diff Rep statement of financial position:
 - (a) recognise all assets and liabilities whose recognition is required by NZ IFRS Diff Rep;
 - (b) not recognise items as assets or liabilities if NZ IFRS Diff Rep do not permit such recognition;
 - (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with NZ IFRS Diff Rep; and
 - (d) apply NZ IFRS Diff Rep in measuring all recognised assets and liabilities.
- 11 The accounting policies that an entity uses in its opening NZ IFRS Diff Rep statement of financial position may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to NZ IFRS Diff Rep. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to NZ IFRS Diff Rep.

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- 12 This Standard establishes two categories of exceptions to the principle that an entity's opening NZ IFRS Diff Rep statement of financial position shall comply with each NZ IFRS Diff Rep:
- (a) Paragraphs 14–17 and Appendix B prohibit retrospective application of some aspects of other NZ IFRS Diff Rep.
 - (b) Appendices C–E grant exemptions from some requirements of other NZ IFRS Diff Rep.

Exceptions to the retrospective application of other NZ IFRS Diff Rep

- 13 This Standard prohibits retrospective application of some aspects of other NZ IFRS Diff Rep. These exceptions are set out in paragraphs 14–17 and Appendix B.

Estimates

- 14 **An entity's estimates in accordance with NZ IFRS Diff Rep at the date of transition to NZ IFRS Diff Rep shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**
- 15 An entity may receive information after the date of transition to NZ IFRS Diff Rep about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with NZ IAS 10 (Diff Rep) *Events after the Reporting Period*. For example, assume that an entity's date of transition to NZ IFRS Diff Rep is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening NZ IFRS Diff Rep statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4.
- 16 An entity may need to make estimates in accordance with NZ IFRS Diff Rep at the date of transition to NZ IFRS Diff Rep that were not required at that date under previous GAAP. To achieve consistency with NZ IAS 10 (Diff Rep), those estimates in accordance with NZ IFRS Diff Rep shall reflect conditions that existed at the date of transition to NZ IFRS Diff Rep. In particular, estimates at the date of transition to NZ IFRS Diff Rep of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

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- 17 Paragraphs 14–16 apply to the opening NZ IFRS Diff Rep statement of financial position. They also apply to a comparative period presented in an entity's first NZ IFRS Diff Rep financial statements, in which case the references to the date of transition to NZ IFRS Diff Rep are replaced by references to the end of that comparative period.

Exemptions from other NZ IFRS Diff Rep

- 18 An entity may elect to use one or more of the exemptions contained in Appendices C–E. An entity shall not apply these exemptions by analogy to other items.
- 19 Some exemptions in Appendices C–E refer to *fair value*. In determining fair values in accordance with this NZ IFRS Diff Rep, an entity shall apply the definition of fair value in Appendix A and any more specific guidance in other NZ IFRS Diff Rep on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

Presentation and disclosure

- 20 This Standard does not provide exemptions from the presentation and disclosure requirements in other NZ IFRS Diff Rep.

Comparative information

- 21 To comply with NZ IAS 1 (Diff Rep), an entity's first NZ IFRS Diff Rep financial statements shall include at least three^{*} statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

Non-NZ IFRS Diff Rep comparative information and historical summaries

- 22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with NZ IFRS Diff Rep. This Standard does not require such summaries to comply with the recognition and measurement requirements of NZ IFRS Diff Rep. Furthermore, some entities present comparative information

* Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to provide a statement of financial position as at the beginning of the earliest comparative period.

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in accordance with previous GAAP as well as the comparative information required by NZ IAS 1 (Diff Rep). In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

- (a) label the previous GAAP information prominently as not being prepared in accordance with NZ IFRS Diff Rep; and
- (b) disclose the nature of the main adjustments that would make it comply with NZ IFRS Diff Rep. An entity need not quantify those adjustments.

Explanation of transition to NZ IFRS Diff Rep

- 23 **An entity shall explain how the transition from previous GAAP to NZ IFRS Diff Rep affected its reported financial position, financial performance and cash flows.**

Reconciliations

- 24 To comply with paragraph 23, an entity's first NZ IFRS Diff Rep financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with NZ IFRS Diff Rep for both of the following dates:
 - (i) the date of transition to NZ IFRS Diff Rep; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
 - (b) a reconciliation to its total comprehensive income in accordance with NZ IFRS Diff Rep for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
 - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening NZ IFRS Diff Rep statement of financial position, the disclosures that NZ IAS 36 (Diff Rep) *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to NZ IFRS Diff Rep.
- 25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

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- 26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraphs 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.
- 27 NZ IAS 8 (Diff Rep) does not apply to the changes in accounting policies an entity makes when it adopts NZ IFRS Diff Rep or to changes in those policies until after it presents its first NZ IFRS Diff Rep financial statements. Therefore, NZ IAS 8 (Diff Rep)'s requirements for disclosures about changes in accounting policies do not apply in an entity's first NZ IFRS Diff Rep financial statements.
- 27A If during the period covered by its first NZ IFRS Diff Rep financial statements an entity changes its accounting policies or its use of the exemptions contained in this NZ IFRS Diff Rep, it shall explain the changes between its first NZ IFRS Diff Rep interim financial report and its first NZ IFRS Diff Rep financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b).
- 28 If an entity did not present financial statements for previous periods, its first NZ IFRS Diff Rep financial statements shall disclose that fact.

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening NZ IFRS Diff Rep statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity's first NZ IFRS Diff Rep financial statements shall disclose, for each line item in the opening NZ IFRS Diff Rep statement of financial position:
- (a) the aggregate of those fair values; and
 - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

- 31 Similarly, if an entity uses a deemed cost in its opening NZ IFRS Diff Rep statement of financial position for an investment in a subsidiary, jointly controlled

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entity or associate in its separate financial statements (see paragraph D15), the entity's first NZ IFRS Diff Rep separate financial statements shall disclose:

- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
- (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
- (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for oil and gas assets

- 31A If an entity uses the exemption in paragraph D8A(b) for oil and gas assets, it shall disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

Use of deemed cost for operations subject to rate regulation

- 31B If an entity uses the exemption in paragraph D8B for operations subject to rate regulation, it shall disclose that fact and the basis on which carrying amounts were determined under previous GAAP.

Use of deemed cost after severe hyperinflation

- 31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening NZ IFRS Diff Rep statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity's first NZ IFRS Diff Rep financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:
- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
 - (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with NZ IAS 34 (Diff Rep) for part of the period covered by its first NZ IFRS Diff Rep financial statements, the entity shall satisfy the following requirements in addition to the requirements of NZ IAS 34 (Diff Rep):
- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under NZ IFRS Diff Rep at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with NZ IFRS Diff Rep for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
 - (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with NZ IAS 34 (Diff Rep) for part of the period covered by its first NZ IFRS Diff Rep financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross reference to another published document that includes these reconciliations.
 - (c) If an entity changes its accounting policies or its use of the exemptions contained in this NZ IFRS Diff Rep, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b).
- 33 NZ IAS 34 (Diff Rep) requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, NZ IAS 34 (Diff Rep) also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

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Effective date

34–39H [Deleted]

NZ 39H.1	A qualifying entity shall apply this NZ IFRS Diff Rep if its first NZ IFRS Diff Rep financial statements are for a period beginning on or after 1 December 2012. Early application is permitted. This Standard replaces NZ IFRS 1 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IFRS 1 as applied by qualifying entities.
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Withdrawal of NZ IFRS 1 (2004)

40 [Deleted]

Appendix A Defined terms

This appendix is an integral part of the NZ IFRS Diff Rep.

date of transition to NZ IFRS Diff Rep	The beginning of the earliest period for which an entity presents full comparative information under NZ IFRS Diff Rep in its first NZ IFRS Diff Rep financial statements .
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
first NZ IFRS Diff Rep financial statements	The first annual financial statements in which an entity adopts NZ IFRS Diff Rep, by an explicit and unreserved statement of compliance with NZ IFRS Diff Rep.
first NZ IFRS Diff Rep reporting period	The latest reporting period covered by an entity's first NZ IFRS Diff Rep financial statements.
first-time adopter	An entity that presents its first NZ IFRS Diff Rep financial statements .
International Financial Reporting Standards (IFRSs)	Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise: <ul style="list-style-type: none">(a) International Financial Reporting Standards;(b) International Accounting Standards;(c) IFRIC Interpretations; and(d) SIC Interpretations.
NZ IFRS Diff Rep	Standards and Interpretations issued by the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) comprising: <ul style="list-style-type: none">(a) NZ International Financial Reporting Standards (Diff Rep);(b) NZ International Accounting Standards (Diff Rep);(c) NZ IFRIC Interpretations (Diff Rep); and(d) NZ SIC Interpretations (Diff Rep).

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opening NZ IFRS Diff Rep statement of financial position A qualifying entity's statement of financial position at the **date of transition to NZ IFRS Diff Rep**.

previous GAAP The basis of accounting that a **first-time adopter** used immediately before adopting NZ IFRS Diff Rep.

qualifying entities Entities which meet the requirements of XRB A1 *Accounting Standards Framework* to qualify for differential reporting concessions in standards.

Appendix B

Exceptions to the retrospective application of other NZ IFRS Diff Rep

This appendix is an integral part of the NZ IFRS Diff Rep.

- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6); and
 - (c) non-controlling interests (paragraph B7).

Derecognition of financial assets and financial liabilities

- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in NZ IAS 39 (Diff Rep) *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition to NZ IFRS Diff Rep. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to NZ IFRS Diff Rep, it shall not recognise those assets and liabilities in accordance with NZ IFRS Diff Rep (unless they qualify for recognition as a result of a later transaction or event).
- B3 Notwithstanding paragraph B2, an entity may apply the derecognition requirements in NZ IAS 39 (Diff Rep) retrospectively from a date of the entity's choosing, provided that the information needed to apply NZ IAS 39 (Diff Rep) to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by NZ IAS 39 (Diff Rep), at the date of transition to NZ IFRS Diff Rep, an entity shall:
- (a) measure all derivatives at fair value; and
 - (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.
- B5 An entity shall not reflect in its opening NZ IFRS Diff Rep statement of financial position a hedging relationship of a type that does not qualify for hedge

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accounting in accordance with NZ IAS 39 (Diff Rep) (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged instrument is a net position). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with NZ IFRS Diff Rep, provided that it does so no later than the date of transition to NZ IFRS Diff Rep.

- B6 If, before the date of transition to NZ IFRS Diff Rep, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in NZ IAS 39 (Diff Rep), the entity shall apply paragraphs 91 and 101 of NZ IAS 39 (Diff Rep) to discontinue hedge accounting. Transactions entered into before the date of transition to NZ IFRS Diff Rep shall not be retrospectively designated as hedges.

Non-controlling interests

- B7 A first-time adopter shall apply the following requirements of NZ IAS 27 (Diff Rep) prospectively from the date of transition to NZ IFRS Diff Rep:

- (a) the requirement in paragraph 28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- (b) the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- (c) the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of NZ IFRS 5 (Diff Rep) *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply NZ IFRS 3 (Diff Rep) retrospectively to past business combinations, it also shall apply NZ IAS 27 (Diff Rep) in accordance with paragraph C1 of this NZ IFRS Diff Rep.

Appendix C Exemptions for business combinations

This appendix is an integral part of the NZ IFRS Diff Rep. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to NZ IFRS Diff Rep.

- C1 A first-time adopter may elect not to apply NZ IFRS 3 (Diff Rep) retrospectively to past business combinations (business combinations that occurred before the date of transition to NZ IFRS Diff Rep). However, if a first-time adopter restates any business combination to comply with NZ IFRS 3 (Diff Rep), it shall restate all later business combinations and shall also apply NZ IAS 27 (Diff Rep) from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to NZ IFRS Diff Rep, and it shall also apply NZ IAS 27 (Diff Rep) from 30 June 20X6.
- C2 An entity need not apply NZ IAS 21 (Diff Rep) *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to NZ IFRS Diff Rep. If the entity does not apply NZ IAS 21 (Diff Rep) retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.
- C3 An entity may apply NZ IAS 21 (Diff Rep) retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to NZ IFRS Diff Rep; or
 - (b) all business combinations that the entity elects to restate to comply with NZ IFRS 3 (Diff Rep), as permitted by paragraph C1 above.
- C4 If a first-time adopter does not apply NZ IFRS 3 (Diff Rep) retrospectively to a past business combination, this has the following consequences for that business combination:
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.

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- (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to NZ IFRS Diff Rep that were acquired or assumed in a past business combination, other than:
- (i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and
 - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with NZ IFRS Diff Rep in the separate statement of financial position of the acquiree (see (f)–(i) below).
- The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).
- (c) The first-time adopter shall exclude from its opening NZ IFRS Diff Rep statement of financial position any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under NZ IFRS Diff Rep. The first-time adopter shall account for the resulting change as follows:
- (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with NZ IAS 38 (Diff Rep) *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from equity in accordance with previous GAAP, see (g)(i) and (i) below).
 - (ii) the first-time adopter shall recognise all other resulting changes in retained earnings.*
- (d) NZ IFRS Diff Rep require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening NZ IFRS Diff Rep statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.

* Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

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- (e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with NZ IFRS Diff Rep at that date. If NZ IFRS Diff Rep require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening NZ IFRS Diff Rep statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that NZ IFRS Diff Rep would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised finance leases acquired in a past business combination, it shall capitalise those leases in its consolidated financial statements, as NZ IAS 17 (Diff Rep) *Leases* would require the acquiree to do in its NZ IFRS Diff Rep statement of financial position. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to NZ IFRS Diff Rep, the acquirer shall recognise that contingent liability at that date unless NZ IAS 37 (Diff Rep) *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under NZ IFRS 3 (Diff Rep), that asset or liability remains in goodwill unless NZ IFRS Diff Rep would require its recognition in the financial statements of the acquiree.
- (g) The carrying amount of goodwill in the opening NZ IFRS Diff Rep statement of financial position shall be its carrying amount in accordance with previous GAAP at the date of transition to NZ IFRS Diff Rep, after the following two adjustments:
 - (i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).
 - (ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply NZ IAS 36 (Diff Rep) in testing the goodwill for impairment at the date of transition to NZ IFRS Diff Rep and in recognising any

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resulting impairment loss in retained earnings (or, if so required by NZ IAS 36 (Diff Rep), in revaluation surplus). The impairment test shall be based on conditions at the date of transition to NZ IFRS Diff Rep.

- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to NZ IFRS Diff Rep. For example, the first-time adopter shall not restate the carrying amount of goodwill:
 - (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with NZ IAS 38 (Diff Rep) in the statement of financial position of the acquiree);
 - (ii) to adjust previous amortisation of goodwill;
 - (iii) to reverse adjustments to goodwill that NZ IFRS 3 (Diff Rep) would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to NZ IFRS Diff Rep.
- (i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity:
 - (i) it shall not recognise that goodwill in its opening NZ IFRS Diff Rep statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
 - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.
- (j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that NZ IFRS Diff Rep would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to NZ IFRS Diff Rep between:
 - (i) the parent's interest in those adjusted carrying amounts; and
 - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
- (k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

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- C5 The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Appendix D Exemptions from other NZ IFRS Diff Rep

This appendix is an integral part of the NZ IFRS Diff Rep.

- D1 An entity may elect to use one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) insurance contracts (paragraph D4);
 - (c) deemed cost (paragraphs D5–D8B);
 - (d) leases (paragraphs D9 and D9A);
 - (e) employee benefits (paragraphs D10 and D11);
 - (f) cumulative translation differences (paragraphs D12 and D13);
 - (g) investments in subsidiaries, jointly controlled entities and associates (paragraphs D14 and D15);
 - (h) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs D16 and D17);
 - (i) compound financial instruments (paragraph D18);
 - (j) designation of previously recognised financial instruments (paragraph D19–D19C);
 - (k) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph D20);
 - (l) decommissioning liabilities included in the cost of property, plant and equipment (paragraphs D21 and D21A);
 - (m) financial assets or intangible assets accounted for in accordance with NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements* (paragraph D22);
 - (n) borrowing costs (paragraph D23);
 - (o) transfers of assets from customers (paragraph D24);
 - (p) extinguishing financial liabilities with equity instruments (paragraph D25); and
 - (q) severe hyperinflation (paragraphs D26–D30).

An entity shall not apply these exemptions by analogy to other items.

Share-based payment transactions

- D2 A first-time adopter is encouraged, but not required, to apply NZ IFRS 2 (Diff Rep) *Share-based Payment* to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply NZ IFRS 2 (Diff Rep) to equity instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to NZ IFRS Diff Rep and (b) 1 January 2005. However, if a first-time adopter elects to apply NZ IFRS 2 (Diff Rep) to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in NZ IFRS 2 (Diff Rep). For all grants of equity instruments to which NZ IFRS 2 (Diff Rep) has not been applied (eg equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of NZ IFRS 2 (Diff Rep). If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which NZ IFRS 2 (Diff Rep) has not been applied, the entity is not required to apply paragraphs 26–29 of NZ IFRS 2 (Diff Rep) if the modification occurred before the date of transition to NZ IFRS Diff Rep.
- D3 A first-time adopter is encouraged, but not required, to apply NZ IFRS 2 (Diff Rep) to liabilities arising from share-based payment transactions that were settled before the date of transition to NZ IFRSs. A first-time adopter is also encouraged, but not required, to apply NZ IFRS 2 (Diff Rep) to liabilities that were settled before 1 January 2005. For liabilities to which NZ IFRS 2 (Diff Rep) is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.

Insurance contracts

- D4 A first-time adopter may apply the transitional provisions in NZ IFRS 4 (Diff Rep) *Insurance Contracts*. NZ IFRS 4 (Diff Rep) restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

Deemed cost

- D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to NZ IFRS Diff Rep at its fair value and use that fair value as its deemed cost at that date.

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- D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to NZ IFRS Diff Rep as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:
- (a) fair value; or
 - (b) cost or depreciated cost in accordance with NZ IFRS Diff Rep, adjusted to reflect, for example, changes in a general or specific price index.
- D7 The elections in paragraphs D5 and D6 are also available for:
- (a) investment property, if an entity elects to use the cost model in NZ IAS 40 (Diff Rep) *Investment Property*; and
 - (b) intangible assets that meet:
 - (i) the recognition criteria in NZ IAS 38 (Diff Rep) (including reliable measurement of original cost); and
 - (ii) the criteria in NZ IAS 38 (Diff Rep) for revaluation (including the existence of an active market).
- An entity shall not use these elections for other assets or for liabilities.
- D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering.
- (a) If the measurement date is *at or before* the date of transition to NZ IFRS Diff Rep, the entity may use such event-driven fair value measurements as deemed cost for NZ IFRS Diff Rep at the date of that measurement.
 - (b) If the measurement date is *after* the date of transition to NZ IFRS Diff Rep, but during the period covered by the first NZ IFRS Diff Rep financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. At the date of transition to NZ IFRS Diff Rep, the entity shall either establish the deemed cost by applying the criteria in paragraphs D5–D7 or measure assets and liabilities in accordance with the other requirements in this NZ IFRS Diff Rep.
- D8A Under some national accounting requirements exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to NZ IFRS Diff Rep on the following basis:
- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and

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- (b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to NZ IFRS Diff Rep in accordance with NZ IFRS 6 (Diff Rep) *Exploration for and Evaluation of Mineral Resources* or NZ IAS 36 (Diff Rep) respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

- D8B Some entities hold items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with NZ IFRS Diff Rep. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to NZ IFRS Diff Rep as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to NZ IFRS Diff Rep, an entity shall test for impairment in accordance with NZ IAS 36 (Diff Rep) each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they provide goods or services to customers at prices (ie rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return. The specified return could be a minimum or range and need not be a fixed or guaranteed return.

Leases

- D9 A first-time adopter may apply the transitional provisions in NZ IFRIC 4 (Diff Rep) *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to NZ IFRS Diff Rep contains a lease on the basis of facts and circumstances existing at that date.
- D9A If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by NZ IFRIC 4 (Diff Rep) but at a date other than that required by NZ IFRIC 4 (Diff Rep), the first-time adopter need not reassess that determination when it adopts NZ IFRS Diff Rep. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying NZ IAS 17 (Diff Rep) *Leases* and NZ IFRIC 4 (Diff Rep).

Employee benefits

- D10 In accordance with NZ IAS 19 (Diff Rep) *Employee Benefits*, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to NZ IFRS Diff Rep into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to NZ IFRS Diff Rep, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.
- D11 An entity may disclose the amounts required by paragraph 120A(p) of NZ IAS 19 (Diff Rep) as the amounts are determined for each accounting period prospectively from the date of transition to NZ IFRS Diff Rep.

Cumulative translation differences

- D12 NZ IAS 21 (Diff Rep) requires an entity:
- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
 - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.
- D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to NZ IFRS Diff Rep. If a first-time adopter uses this exemption:
- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to NZ IFRS Diff Rep; and
 - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to NZ IFRS Diff Rep and shall include later translation differences.

Investments in subsidiaries, jointly controlled entities and associates

- D14 When an entity prepares separate financial statements, NZ IAS 27 (Diff Rep) (as amended in 2008) requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:
- (a) at cost; or
 - (b) in accordance with NZ IAS 39 (Diff Rep).

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D15 If a first-time adopter measures such an investment at cost in accordance with NZ IAS 27 (Diff Rep), it shall measure that investment at one of the following amounts in its separate opening NZ IFRS Diff Rep statement of financial position:

- (a) cost determined in accordance with NZ IAS 27 (Diff Rep); or
- (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value (determined in accordance with NZ IAS 39 (Diff Rep)) at the entity's date of transition to NZ IFRS Diff Rep in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.

Assets and liabilities of subsidiaries, associates and joint ventures

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to NZ IFRS Diff Rep, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
- (b) the carrying amounts required by the rest of this NZ IFRS Diff Rep, based on the subsidiary's date of transition to NZ IFRS Diff Rep. These carrying amounts could differ from those described in (a):
 - (i) when the exemptions in This Standard result in measurements that depend on the date of transition to NZ IFRS Diff Rep.
 - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in NZ IAS 16 (Diff Rep) *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting

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adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Compound financial instruments

- D18 NZ IAS 32 (Diff Rep) *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of NZ IAS 32 (Diff Rep) involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this NZ IFRS Diff Rep, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to NZ IFRS Diff Rep.

Designation of previously recognised financial instruments

- D19 NZ IAS 39 (Diff Rep) permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:
- (a) an entity is permitted to make an available-for-sale designation at the date of transition to NZ IFRS Diff Rep.
 - (b) an entity is permitted to designate, at the date of transition to NZ IFRS Diff Rep, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of NZ IAS 39 (Diff Rep) at that date.

Fair value measurement of financial assets or financial liabilities at initial recognition

- D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of NZ IAS 39 (Diff Rep) paragraph AG76 and in paragraph AG76A prospectively to transactions entered into on or after the date of transition to NZ IFRS Diff Rep.

Decommissioning liabilities included in the cost of property, plant and equipment

- D21 NZ IFRIC 1 (Diff Rep) *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to NZ IFRS Diff Rep. If a first-time adopter uses this exemption, it shall:
- (a) measure the liability as at the date of transition to NZ IFRS Diff Rep in accordance with NZ IAS 37 (Diff Rep);
 - (b) to the extent that the liability is within the scope of NZ IFRIC 1 (Diff Rep), estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
 - (c) calculate the accumulated depreciation on that amount, as at the date of transition to NZ IFRS Diff Rep, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with NZ IFRS Diff Rep.
- D21A An entity that uses the exemption in paragraph D8A(b) (for oil and gas assets in the development or production phases accounted for in cost centres that include all properties in a large geographical area under previous GAAP) shall, instead of applying paragraph D21 or NZ IFRIC 1 (Diff Rep):
- (a) measure decommissioning, restoration and similar liabilities as at the date of transition to NZ IFRS Diff Rep in accordance with NZ IAS 37 (Diff Rep); and
 - (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to NZ IFRS Diff Rep determined under the entity's previous GAAP.

Financial assets or intangible assets accounted for in accordance with NZ IFRIC 12 (Diff Rep)

- D22 A first-time adopter may apply the transitional provisions in NZ IFRIC 12 (Diff Rep).

Borrowing costs

- D23 A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of NZ IAS 23 (Diff Rep), as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 January 2009 or the date of transition to NZ IFRS Diff Rep, whichever is later.

Transfers of assets from customers

- D24 A first-time adopter may apply the transitional provisions set out in paragraph 22 of NZ IFRIC 18 (Diff Rep) *Transfers of Assets from Customers*. In that paragraph, reference to the effective date shall be interpreted as 1 July 2009 or the date of transition to NZ IFRS Diff Rep, whichever is later. In addition, a first-time adopter may designate any date before the date of transition to NZ IFRS Diff Rep and apply NZ IFRIC 18 (Diff Rep) to all transfers of assets from customers received on or after that date.

Extinguishing financial liabilities with equity instruments

- D25 A first-time adopter may apply the transitional provisions in NZ IFRIC 19 (Diff Rep) *Extinguishing Financial Liabilities with Equity Instruments*.

Severe hyperinflation

- D26 If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to NZ IFRS Diff Rep. This applies to entities that are adopting NZ IFRS Diff Rep for the first time, as well as entities that have previously applied NZ IFRS Diff Rep.
- D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:
- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
 - (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
- D28 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D27, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

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- D29 When an entity's date of transition to NZ IFRS Diff Rep is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to NZ IFRS Diff Rep. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening NZ IFRS Diff Rep statement of financial position.
- D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of NZ IAS 1 (Diff Rep)) is provided for that shorter period.

Appendix E

Short-term exemptions from NZ IFRS Diff Rep

This appendix is an integral part of the NZ IFRS Diff Rep.

Disclosures about financial instruments

- E3 A first-time adopter may apply the transition provisions in paragraph 44G of NZ IFRS 7 (Diff Rep).^{*}
- E4 A first-time adopter may apply the transition provisions in paragraph 44M of NZ IFRS 7 (Diff Rep).[†]

^{*} Paragraph E3 was added as a consequence of *Limited Exemption from Comparative NZ IFRS 7 Disclosures for First-time Adopters* (Amendment to NZ IFRS 1) issued in March 2010. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current NZ IFRS preparers, the IASB decided that first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with NZ IFRSs that are included in *Improving Disclosures about Financial Instruments* (Amendments to NZ IFRS 7).

[†] Paragraph E4 was added as a consequence of *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) issued in October 2010. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current IFRS preparers, the IASB decided that first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in *Disclosures—Transfers of Financial Assets* (Amendments to NZ IFRS 7).