



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

**ACCOUNTING STANDARDS FRAMEWORK FOR GENERAL
PURPOSE FINANCIAL REPORTING BY FOR-PROFIT
ENTITIES**

Consultation Paper

September 2011

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Information for Respondents

Invitation to Comment

The External Reporting Board (XRB) is seeking comments on the specific matters raised in this Consultation Paper. Responses to this Consultation Paper will be considered by the XRB Board which will then make final decisions about the accounting standards framework for for-profit entities.

Respondents are encouraged to supplement their opinions by detailed comments, whether supportive or critical of the framework proposed, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz.

It would be appreciated if respondents would include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments.

Respondents are asked to indicate in their submission on whose behalf the submission is being made (for example own behalf, a group of people, or an entity).

The closing date for submissions is **16 December 2011**.

Publication of Submissions, the Official Information Act and the Privacy Act

Other than submissions that may be defamatory, the XRB intends publishing all submissions on its website www.xrb.govt.nz. The XRB will not publish your submission on the internet if you have any objection to its publication. However, it will remain subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

When making your submission, please state if you have any objections to the release of any information contained in your submission. If so, please identify which parts of your submission you are requesting to be withheld and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

List of Abbreviations

The following abbreviations are used in this Consultation Paper.

AASB	Australian Accounting Standards Board
ASRB	Accounting Standards Review Board
GBE	Government Business Enterprise
FRA	Financial Reporting Act 1993
FRS	Financial Reporting Standards
FRSB	Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants
GAAP	Generally Accepted Accounting Practice
GPFR	General Purpose Financial Reports
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
MED	Ministry of Economic Development
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PBE	Public Benefit Entity
RDR	Reduced Disclosure Requirements
XRB	External Reporting Board Organisation
XRB Board	Board of the XRB

Executive Summary

This Consultation Paper outlines proposals for the accounting standards framework for for-profit entities. The Paper was initially prepared by the Accounting Standards Review Board (ASRB) and has been endorsed by the External Reporting Board (XRB Board) for issue for consultation.

The Consultation Paper has been prepared in the context of the XRB Board's decision to adopt a multi-standards approach as outlined in a separate Position Paper¹. This Paper also takes into account the Government's recently announced financial reporting framework. Under that framework most non-issuer small and medium sized companies will no longer have to prepare General Purpose Financial Reports (GPFR).

The XRB Board proposes that a two tier structure apply in the for-profit sector. This was supported by respondents to the ASRB's earlier Discussion Document². It is also consistent with the Australian approach which enhances trans-Tasman harmonisation.

There was general support amongst respondents to the Discussion Document to use public accountability, based on the International Accounting Standards Board (IASB) definition, as the criterion for allocating for-profit entities to tiers. The XRB Board proposes to apply that definition by "deeming" all issuers, registered banks, deposit takers and registered superannuation schemes to be publicly accountable and therefore in Tier 1. The deeming approach, which is also used in Australia, will reduce any uncertainty about how the IASB definition should be applied in the New Zealand context. The XRB Board proposes that large³ for-profit public sector entities also be in Tier 1. This reflects the wider public accountability obligations of such entities.

All non-publicly accountable for-profit entities required to prepare GPFR would be in Tier 2. However, they would be able to voluntarily adopt Tier 1 requirements.

In May 2011, the ASRB approved harmonising amendments to NZ IFRS and a new domestic standard, FRS-44 *New Zealand Additional Disclosures*. Those approvals resulted in substantive convergence of NZ IFRS with (pure) IFRS and between accounting standards for for-profit entities in New Zealand and Australia. As such they provided a common set of standards for reporting on both sides of the Tasman that are close to pure IFRS. The amendments were effective from 1 July 2011 and the XRB Board proposes that they be the Tier 1 accounting standards under the new for-profit accounting standards framework.

The XRB Board has considered three options for Tier 2 accounting standards: IFRS for SMEs; a revised *Framework for Differential Reporting* that would consist of recognition, measurement and disclosure concessions; and a Reduced Disclosure Requirements (RDR) approach which would include only disclosure concessions. The XRB Board favours the RDR approach because it would retain the recognition and measurement requirements of full NZ IFRS. It would mean that preparers and users would need to be familiar with only one set of recognition and measurement requirements, the comparability of financial information between tiers would be enhanced, and the preparation of consolidated financial statements for groups with entities in both tiers would be simplified. The Australian Accounting Standards Board (AASB) adopted a RDR approach in 2010, so selecting this option also supports trans-Tasman harmonisation. The XRB Board considers, however, that IFRS for SMEs should continue to be considered as a Tier 2 reporting option for the future.

In order to more fully understand the RDR option, the ASRB requested the FRSB to develop a draft set of RDR concessions for application in New Zealand, based on the AASB approach. This is provided as an attachment to this Consultation Paper. The proposed RDR concessions have been prepared as an Exposure Draft and Invitation to Comment and comments on the specific disclosure concessions proposed are requested.

¹ The Position Paper is entitled "Accounting Standards Framework: A Multi Standards Approach" and is available on the Strategy page of XRB website: www.xrb.govt.nz.

² The discussion document is entitled "Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting" and is available on the Strategy page of the XRB website: www.xrb.govt.nz.

³ The Government's Financial Reporting Framework defines companies as large if they have \$30 million revenue or \$60 million assets.

It is expected that the legislative changes to give effect to the Government's financial reporting framework will come into force in mid 2013. The XRB Board proposes that the proposed new for-profit accounting standards framework (essentially the tier structure and the RDR) would also be effective from that date. In the meantime for-profit entities would be able to continue to report under the existing arrangements (NZ IFRS, NZ IFRS *Framework for Differential Reporting*, old GAAP (including old GAAP *Framework for Differential Reporting*) or Financial Reporting Order as applicable). Alternatively they would be able to early adopt the new tier structure and RDR from 1 July 2012.

The XRB Board is seeking comments from constituents on the proposals outlined in this Consultation Paper. The deadline for submissions is Friday 16 December 2011.

Summary of Questions for Respondents

1. Do you agree that the deeming approach should be used to supplement the IASB definition of public accountability for defining the for-profit tiers? If not what alternative would you suggest and why?
2. Do you agree that all publicly accountable for-profit entities should be in Tier 1 regardless of size? If not what alternative would you suggest and why?
3. Do you agree that large⁴ for-profit public sector entities should be included in Tier 1? If not what alternative would you suggest and why?
4. Do you agree that the accounting standards applying to Tier 1 for-profit entities should be NZ IFRS converged with IFRS, supplemented by additional New Zealand specific standards, and harmonised with Australia as appropriate? If not what alternative would you suggest and why?
5. Do you agree that:
 - (a) the accounting standards applying to Tier 2 for-profit entities should be a Reduced Disclosure Requirements approach, consisting of the same recognition and measurement requirements as Tier 1 but with disclosure concessions? If not what alternative would you suggest and why?
 - (b) if adopted, the Reduced Disclosure Requirements should be harmonised with Australia? If not what alternative would you suggest and why?
6. Do you agree with the disclosure concessions contained in the Proposed Tier 2 Reduced Disclosure Requirements attached to this Consultation Paper? If not which specific concessions would you add or delete and why (please indicate the specific standard and specific paragraph numbers)?
7.
 - (a) Do agree that the effective date for the new tier structure and the Reduced Disclosure Requirements should be 1 July 2013 or such later date as the amendments to the Financial Reporting Act come into force? If not what date do you suggest?
 - (b) Do you agree that early adoption of the new tier structure and RDR should be permitted from 1 July 2012? If not what alternative would you propose?
8. Do you agree that entities currently required to prepare GPFR, but which will not be required to do so under the Government's new financial reporting framework, should be able to continue to report in accordance with the existing NZ IFRS Framework for Differential Reporting or old GAAP (including the Old GAAP Framework for Differential Reporting) or the Financial Reporting Order (as applicable) until 1 July 2013 (or such other date as the legislative amendments come into force)?

⁴ A for-profit public sector entity is large if it has expenses over \$30 million or assets over \$60 million.

1. Introduction

1.1 Purpose of this Consultation Paper

1. In September 2009 the Accounting Standards Review Board (ASRB) issued a discussion document outlining a proposed new accounting and assurance standards framework for general purpose financial reporting in New Zealand (the Discussion Document)⁵. That document accompanied a Ministry of Economic Development (MED) discussion document which outlined a proposed new financial reporting framework⁶.
2. Submissions on the Discussion Document closed at the end of January 2010 and seventy-six submissions were received⁷. During 2010 the ASRB considered in depth the feedback received, the evolving trans-Tasman and international accounting standards environment, and the accounting standards framework options.
3. After much consideration and deliberation the ASRB concluded that user-needs in the future cannot be adequately addressed by a single set of accounting standards applying to all entities required to prepare General Purpose Financial Reports (GPFR) under the framework proposed by the MED. Accordingly the ASRB concluded that the new accounting standards framework should consist of two sets of accounting standards: one applied by entities with a for-profit objective; and another applied by entities with a public benefit objective. This conclusion has been endorsed and confirmed by the External Reporting Board (XRB Board)⁸. An explanation of the rationale underlying this decision is provided in a separate Position Paper entitled “Accounting Standards Framework: A Multi Standards Approach”⁹.
4. This Consultation Paper was initially prepared by the ASRB and has been endorsed by the XRB Board for issue for consultation. It outlines the XRB Board’s proposals in relation to the accounting standards framework for profit-oriented entities. A separate Consultation Paper outlines proposals for the accounting standards framework for public benefit entities in the public sector and the private not-for-profit sector¹⁰.
5. To a large extent the proposals in this Consultation Paper are independent of the single versus multi standards issue. That is because the structuring of the for-profit framework is driven by different considerations (which are outlined in this Consultation Paper) that apply regardless of whether a single or multi standards approach is adopted.
6. This Consultation Paper has been developed for consultation rather than discussion purposes. Accordingly it contains specific proposals. The XRB Board is seeking feedback on these proposals from the constituency. That feedback will be considered by the XRB Board (or in the case of the proposed RDR concessions, the New Zealand Accounting Standards Board of the XRB (NZASB)). It is anticipated that final decisions will be made during the first quarter of 2012. The resulting framework is proposed to be available for early adoption for financial years beginning on or after 1 July 2012 with compulsory adoption for financial years beginning on or after 1 July 2013 (or such later date when the legislative changes come into force).

⁵ The discussion document is entitled “Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting” and is available on the Strategy page of the XRB website: www.xrb.govt.nz.

⁶ The MED document is entitled “The Statutory Framework for Financial Reporting” available on their website: www.med.govt.nz.

⁷ A high level summary of respondent’s views is available on the ASRB website at: www.asrb.co.nz.

⁸ In doing so the Board took account of the anticipated final form of the legislative financial reporting framework, now reflected in the Government’s recent announcement (see section 1.3).

⁹ This is available on the Strategy page of the XRB website: www.xrb.govt.nz.

¹⁰ The document is entitled Accounting Standards Framework for General Purpose Reporting by Public Benefit Entities and is available on the XRB website: www.xrb.govt.nz.

1.2 Definition of For-Profit Reporting Entity

7. For the purposes of the accounting standards framework “for-profit entities” will continue to be defined in accordance with the existing definition i.e. as *any reporting entity that is not a public benefit entity*.¹¹
8. Public benefit entities will also continue to be defined in accordance with the existing definition, namely:
- “reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.”*¹²
9. The definition of “for-profit entities” will therefore be unchanged under the new accounting standards framework.

1.3 Government Framework for For-Profit Entities

10. The accounting standards framework outlined in this Consultation Paper is based on the assumption that the financial reporting framework recently announced by the Government¹³ will proceed and be reflected in amendments to the Financial Reporting Act 1993 and/or other relevant legislation.
11. The requirements for for-profit entities to prepare GPFR under the Government’s financial reporting framework are summarised in Table 1.

Table 1: Financial Reporting Framework Requirements

Entity	Required to Prepare GPFR
Issuers ^a	Yes
Large ^b companies	Yes
Large ^b overseas-owned companies ^c	Yes
Non-large companies (including overseas-owned companies) with 10 or more shareholders	Yes but may opt-out ^d
Non-large companies (including overseas-owned companies) with fewer than 10 shareholders	No
Large ^b overseas-incorporated companies that carry on business in New Zealand ^{e,1}	Yes
Non-Large overseas-incorporated companies that carry on business in New Zealand	No
Large ^b limited partnerships	Yes
Non-large limited partnerships	No
Large ^b partnerships	Yes
Non-large partnerships	No

¹¹ Appendix A, External Reporting Standard A1: *Application of Accounting Standards*, External Reporting Board.

¹² Appendix A, External Reporting Standard A1: *Application of Accounting Standards*, External Reporting Board.

¹³ Details of the new legislative financial reporting framework are available on the MED website: www.med.govt.nz.

Table 1: Financial Reporting Framework Requirements (continued)

Entity	Prepare GPFR
For-profit public sector entities	Yes
Large ^b For-profit Retirement Villages which are not issuers	Yes
Non-Large For-Profit Retirement Villages	Yes
Maori Incorporations	Yes
Large ^b For-profit Maori Incorporations	Yes
Non-Large For-profit Maori Incorporations	Yes but may opt-out ^g
Large ^b For-profit Maori Land Trusts	Yes
Non-Large For-Profit Maori Land Trusts	Yes
Trading Trusts	No
Sole Traders	No

^a As defined by the Securities Act or its replacement legislation.

^b A for-profit entity is considered large if its annual revenue is \$30 million or more or its total assets at balance date are \$60 million or more.

^c Overseas companies are companies that have 25% or more overseas ownership.

^d An opt-out motion would be successful if ≥95% of the owners by share value support the motion.

^e Large is determined by whether its New Zealand business, not the company as a whole, is large.

^f Overseas-incorporated companies doing business in New Zealand, must prepare consolidated financial statements; prepare financial statements for the New Zealand business as though it were a stand-alone entity; and prepare entity financial statements only if there is a requirement to prepare those statements in the home jurisdiction.

^g Not required if operating expenditure <\$15,000.

12. Under the Government's financial reporting framework:

- Consolidated financial statements must be prepared if an entity has one or more subsidiaries;
- Separate financial statements for parent entities are not required; and
- Entities not required to prepare GPFR may opt-in¹⁴ and any entity may opt-up to a higher tier.

13. As is evident from Table 1, the main for-profit entities required to prepare GPFR under the recently announced framework are issuers, large entities and any non-large entities that don't opt-out. This means that for the most part, medium and small for-profit entities will no longer be required to prepare GPFR. The XRB has taken this into account when developing the accounting standards framework for for-profit entities outlined in this Consultation Paper.

¹⁴ An opt-in motion would be successful if ≥ 5% of the owners by share value agree to the motion and such a motion is consistent with the company's constitution.

1.4 Trans-Tasman Harmonisation

14. A key issue considered in developing the accounting standards framework for for-profit entities was harmonisation with Australia.
15. The XRB Board considers harmonisation a particularly important factor in establishing the for-profit framework given both Government policy¹⁵ and the number of for-profit entities with trans-Tasman reporting obligations. The majority of respondents to the Discussion Document confirmed the importance of harmonisation to entities in this sector.
16. In light of this the XRB Board considers it highly desirable that there be a high degree of consistency between the for-profit tier structure and accounting standards in New Zealand and Australia.

¹⁵ The Single Economic Market Outcomes Framework agreed by the New Zealand and Australian Governments in August 2009 includes a specific section on financial reporting. The Outcomes Framework Statements are available at: <http://www.beehive.govt.nz/release/ministers-english-and-swan-progress-trans-tasman-relationship>

2. For-Profit Tier Structure

2.1 Issues to Consider

17. Respondents to the Discussion Document strongly supported the use of tiers to help match the costs and benefits of reporting. In this context there are three key decisions to be made:
- The number of tiers;
 - The criteria to be used for assigning entities to tiers; and
 - The accounting standards that should apply to each tier.
18. This section considers the first two issues. The following two sections consider the accounting standards issue.

2.2 Number of Tiers

19. The Discussion Document suggested that, given the MED's proposed framework, and in particular the removal of the requirement to prepare GPFR for small and medium-sized companies that are not issuers, two for-profit tiers would be adequate. This proposal was widely supported by respondents.
20. Although the final financial reporting framework announced by the Government includes some changes from that outlined in the MED discussion document, it is substantively similar. Given this, the XRB Board's view is that a two-tier approach remains appropriate and its proposal is that the for-profit framework should comprise two tiers.
21. A two tier approach is consistent with the Australian framework which also comprises two tiers.

2.3 Tier Criteria

Public Accountability

22. The Discussion Document suggested that the distinction between publicly accountable entities (as defined by the International Accounting Standards Board (IASB)) and other entities should be used as the criteria to establish the for-profit tiers. This distinction has been used by the IASB in the development of IFRS (for publicly accountable entities) and IFRS for SMEs (for non-publicly accountable entities) and has general acceptance internationally.
23. There was general support amongst respondents to using public accountability as the criterion for allocating entities to tiers. However, many respondents expressed concern that the IASB definition of public accountability¹⁶ is too narrow in the New Zealand context and does not adequately reflect the New Zealand capital market. Of particular concern was the requirement that securities be "traded in a public market".
24. Different regulatory environments exist in different jurisdictions and this generates differing investment mechanisms. It is difficult, if not impossible, for the IASB to reflect all these different mechanisms and legal forms in a single definition. Adoption of the IASB definition in its pure form

¹⁶ The IASB definition is as follows:

"An entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or*
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.*

Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, or cooperative enterprises requiring a nominal membership deposit), they are not considered to be publicly accountable."

is therefore unlikely to be a suitable option for most jurisdictions. The IASB has anticipated this by allowing (and encouraging) individual jurisdictions to determine how best to apply the definition in their local context. The XRB Board's view is that it is appropriate for New Zealand to do this.

25. One option would be to redraft the definition so that it is unique to New Zealand. The XRB Board does not favour such an approach as it is at odds with the goal of international acceptability and does not support trans-Tasman harmonisation. Rather the XRB Board prefers the approach adopted by the Australian Accounting Standards Board (AASB) and reflected in their Standard AASB 1053 *Application of Tiers to Australian Accounting Standards* issued in 2010¹⁷.

Australian Approach

26. AASB 1053 *Application of Tiers to Australian Accounting Standards* clarifies how the IASB definition of public accountability should be applied in the Australian context by deeming particular entities to be publicly accountable. These entities have been so deemed because they are not explicitly mentioned in the IASB definition but, within the Australian regulatory environment, are substantively similar to the type of entities identified by the IASB.
27. Under the AASB's approach the IASB definition must still be applied in the normal manner but, in doing so, account must be taken of the fact that certain types of entities have been "deemed" to be publicly accountable. Deeming these entities removes all doubt as to whether the entities are publicly accountable or not (for the purposes of the structure).
28. A second feature of the Australian approach is that the deemed entities have been described by reference to the legislation that establishes them. In other words they have effectively been defined for accounting standards purposes by reference to their legislative definition.
29. The XRB Board considers the deeming approach is relevant and appropriate to the New Zealand situation. One of the features of the New Zealand environment is that around 80% of securities are not traded in a public market (although some of these may fall under the "managed in a fiduciary capacity" part of the IASB definition). In this context the New Zealand market is quite different from markets (for example in Europe) where a higher proportion of securities are traded in a public market. Adapting the definition to reflect the New Zealand financial market context will ensure that all those entities that are publicly accountable provide appropriate information to users.
30. The deeming approach is an effective way to do this. It has the advantage of removing uncertainty as to whether particular types of entities should be regarded as publicly accountable or not. Although some interpretation of the IASB definition might still be required by some entities, the vast majority of entities considered to be publicly accountable in the New Zealand environment would be specifically deemed to be so. This would create greater certainty as to which standards are applicable. Entities not covered by the deeming provisions would still need to consider whether they are captured by the IASB definition. This would require them to apply that definition in the context of their entity in the manner normally required for accounting standards.

Proposed Approach

31. The rationale for using public accountability to define which entities should be in which tier is that it links to the information needs of existing or potential investors. The publication of relevant financial information for investors is necessary whenever an entity is managing investors' funds, in other words whenever some form of arms-length investment fiduciary relationship (strong or weak) exists. This occurs regardless of whether the securities are traded or not.
32. The XRB Board considers that this should be the criterion for determining which entities should be deemed publicly accountable. At the broad level this comprises the categories specified in the IASB definition, namely (a) all issuers (widely defined) and (b) all institutions that hold funds in a fiduciary capacity for a broad group of outsiders as a primary business objective. In the New Zealand context some entities may be covered by both parts of the definition.

¹⁷ The exposure draft for AASB 1053 had not been issued at the time the Discussion Document was issued and the approach was consequently not considered in the Discussion Document.

33. Applying this rationale to New Zealand institutional types, the XRB Board has identified the following entity types that it considers should be deemed to be publicly accountable:
- a. Issuers, as defined by the Securities Act 1978 (or any Act that replaces it) or any other Act (this includes conduit issuers but excludes entities exempted from being an issuer by section 6 of the Financial Reporting Act)¹⁸;
 - b. Registered Banks, as defined by the Reserve Bank Act 1989¹⁹;
 - c. Deposit Takers, as defined by the Reserve Bank Act 1989;
 - d. Registered Superannuation Schemes, as defined by the Superannuation Schemes Act 1989 (this includes KiwiSaver Schemes).
34. While the particular legal form and nomenclature are different, the four categories above are similar in substance to those deemed to be publicly accountable by the AASB in AASB 1053. They would therefore result in a harmonised trans-Tasman tier definition. The XRB Board considers achieving this to be very important in the for-profit sector.

Retirement Villages

35. The new financial reporting framework announced by the Government includes some changes to the reporting requirements for retirement villages. These changes include removing the presumption that all retirement villages are issuers. Under the new arrangements all retirement villages will continue to be required to prepare GPFR, but only those that are “real” issuers (as defined by the generic definition of issuer in securities legislation²⁰) will be considered to be issuers.
36. These anticipated legislative changes would mean that retirement villages that only issue a licence to occupy will no longer be classified as issuers. This means that only those retirement villages that issue other forms of debt or equity securities will be issuers and therefore deemed to be publically accountable (and in Tier 1) for the purposes of the accounting standards framework in accordance with paragraph 33 above. All other retirement villages would be in Tier 2.

Small Issuers

37. The XRB Board notes that the Financial Reporting Act currently contains an exemption to the definition of issuers for small companies that would otherwise be covered by the definition and therefore required to prepare GPFR²¹. In other words Parliament has already included a small company exemption in its definition of issuer for GPFR purposes, and has thereby already formed a cost-benefit judgement about which entities should be required to comply with issuer regulatory

¹⁸ The XRB Board understands that the Government intends to substantially change the Securities Act definition of “issuer” in new securities legislation (the Financial Markets Conduct Bill) to a principles based definition. The revised definition will also be reflected in amendments to the Financial Reporting Act. This is not expected to impact the proposed approach of deeming issuers (as defined in legislation) to be publicly accountable. However, the XRB will monitor any legislative proposals and would adjust the details of this issuer deeming provision as necessary.

¹⁹ The IASB definition includes “banks” in a generic sense. In the New Zealand context the more relevant term is “registered bank”. For the avoidance of doubt the XRB Board considers it useful to include registered banks in the list of deemed entities notwithstanding the generic term used in the IASB definition.

²⁰ See footnote 18. It is understood this will be included in the amendments to the Financial Reporting Act which will be made to give effect to the Government’s new financial reporting framework. The expected timing of this is outlined in section 5.1.

²¹ Section 6 of the FRA states that none of the following is an issuer for the purposes of the Act:

- (a) the Crown;
- (b) a local authority;
- (c) the Board of Trustees of the National Provident Fund continued in existence under section 12 of the National Provident Fund Restructuring Act 1990;
- (d) the Reserve Bank of New Zealand continued in existence under section 5 of the Reserve Bank of New Zealand Act 1989;
- (e) *[Repealed]*
- (f) a company within the meaning of section 2(1) of the Companies Act 1955 that does not have more than 25 members and that would, but for this section, be an issuer by reason only of the allotment of equity securities;
- (g) a company within the meaning of section 2(1) of the Companies Act 1993 that does not have more than 25 shareholders and that would, but for this section, be an issuer by reason only of the allotment of equity securities.

requirements. The XRB Board's view is that this being the case, no further size exemptions are required.

38. However, some small issuers are not covered by the Financial Reporting Act exemption because they issue debt rather than equity securities. The XRB Board has considered what relief, if any, should be provided for these entities.
39. The XRB Board considers that IFRS has been developed with issuers in mind and IFRS requirements are prima facie appropriate for all issuers. Accordingly the XRB Board's view is that all publicly accountable entities, including those so deemed, should be allocated to Tier 1 regardless of size. It is recognised that this may result in compliance costs being proportionately higher for small issuers but this results from the entity's decision to be an issuer.

Small Superannuation Schemes

40. The XRB Board recognises that there are a significant number of one or two person superannuation schemes that, because they are registered schemes, will be deemed to be publicly accountable in accordance with paragraph 33 above. However, with these schemes the beneficiaries are nearly always actively involved in the investment decisions. This being the case the need for GPFR is lessened and many such schemes prepare special purpose financial statements instead (on the basis of an exemption currently provided in NZ IAS 26 - *Accounting and Reporting by Retirement Benefit Plans*²²).
41. The XRB Board understands that the Government intends to close the Superannuation Schemes Act to any new schemes, and "grandfather" existing schemes. As part of these changes it is likely that self-managed schemes will be recognised as trusts rather than as superannuation schemes. The XRB Board also understands that the Government will consider whether to provide a legislative exemption to prepare general purpose financial reports for the self-managed schemes.
42. The XRB Board considers a legislative exemption an appropriate way to provide relief to small superannuation entities. The XRB Board also considers that given the likely legislative initiative, no further relief under the accounting standards framework is required.

Large For-Profit Public Sector Entities

43. The IASB approach to public accountability is different from the more general notion of public accountability often used in relation to public sector and private not-for-profit entities. This reflects the fact that the IASB has a capital markets focus and its definition of public accountability is therefore capital markets related.
44. Some respondents to the Discussion Document suggested that the public accountability definition should also include large for-profit public sector entities and/or economically significant entities.
45. The XRB Board considers that there is good reason to consider a wider application of the public accountability principle in the New Zealand multi-sector context. This is particularly so given the "primary principle" and "indicators" approach on which the Government's financial reporting framework is based²³. Public accountability is a primary indicator that is applied across all sectors as part of that framework.
46. The XRB Board considers that in the public sector, accountability exists to the public at large (taxpayers and ratepayers) because entities are publicly owned. Where a publicly owned entity

²² The exemption is as follows:

"Superannuation schemes that are not issuers as defined by section 4 of the Financial Reporting Act 1993 and with membership at the end of the reporting period consisting of one person, or two persons where each member is able to obtain special purpose financial information that meets their needs are not required to comply with this Standard. Superannuation schemes using paragraph NZ 1.5 will not be able to assert compliance with International Financial Reporting Standards."

²³ See "The Statutory Framework for Financial Reporting" available at: www.med.govt.nz.

is an issuer/fiduciary institution then it will automatically be in Tier 1. However, where an entity is publicly owned but not an issuer/fiduciary institution then the user needs are more diverse and the relative costs and benefits of allocating these entities to Tier 1 need to be carefully considered.

47. In relation to large²⁴ for-profit public sector entities, the XRB Board agrees that their wider public accountability obligation means that they should be classified as Tier 1 entities as suggested by a number of respondents (including some large State Owned Enterprises). This allocation to Tier 1 should be regardless of whether they fall within the IASB public accountability definition/deemed categories or not.
48. In addition the XRB Board considers it important that the overall framework be “definitionally neutral” – in other words a public sector entity should end up in the same tier regardless of whether it is a profit-oriented entity or a public benefit entity. To do otherwise would create inappropriate incentives on entities to define themselves as for-profit or PBE entities in order to be classified in a lower tier. The PBE Consultation Paper proposes that large public sector PBE entities²⁵ be classified in Tier 1. Assigning large for-profit public sector entities to Tier 1 would ensure consistency with that approach.
49. Classifying large for-profit public sector entities as Tier 1 entities differs from the Australian approach. The only public sector entities classified as Tier 1 under AASB 1053 are the Federal, State, Territory and Local Governments. Government Business Enterprises (GBEs) report under Tier 2 but are permitted to report under Tier 1. However, in Australia (unlike in New Zealand where the authority rests entirely with the XRB) State and Territory Governments also have authority to impose higher reporting requirements than are required by AASB 1053. It is therefore possible for individual jurisdictions to classify GBEs as Tier 1. The XRB Board does not consider this difference in approach to be a significant issue. Large for-profit public sector entities are not generally subject to financial reporting obligations on both sides of the Tasman.
50. The XRB Board considers that, although they are publicly accountable in a general sense, the relative costs and benefits do not warrant classifying non-large for-profit public sector entities as Tier 1 entities. This approach is consistent with Australia.

Economically Significant Entities

51. For-profit entities that are economically significant (i.e. large) but not issuers would not be considered to be publicly accountable under the IASB definition plus deeming approach proposed above.
52. The accountability of economically significant entities is in relation to their economic impact. Their accountability for this is to shareholders, creditors, employees and the general public. The XRB Board considers this accountability to be more diffuse (in terms of user needs) than the accountability of either issuers or large public sector entities. Accordingly it considers the balance of cost-benefits of such reporting to be different.
53. Overall the XRB Board considers that the benefits to users would not justify the costs of economically significant entities being subject to Tier 1 reporting requirements. The XRB Board also notes that the AASB has classified economically significant entities as Tier 2. A similar New Zealand classification would enhance harmonisation.

2.4 Summary of Proposals

54. The XRB Board's proposals in relation to the tier structure for for-profit entities are as follows:
 - There should be two tiers;

²⁴ The Government's financial reporting framework defines companies as large if they have \$30 million revenue or \$60 million assets.

²⁵ A public sector entity is defined as large if it has expenses over \$30 million.

- Tier 1 should comprise the following entities which would be considered to be publicly accountable in New Zealand:
 - Entities that meet the IASB definition of public accountability;
 - The following entity types that are deemed to be publicly accountable in the New Zealand context:
 - i. All issuers, as defined by the Securities Act 1978 (or any Act that replaces it) or any other Act (no matter what size);
 - ii. Registered Banks, as defined by the Reserve Bank Act 1989;
 - iii. Deposit Takers, as defined by the Reserve Bank Act 1989;
 - iv. Registered Superannuation Schemes, as defined by Superannuation Schemes Act 1989 unless exempted from the requirement to prepare GPFR;
 - Large for-profit public sector entities, with “large” defined in accordance with the Government’s financial reporting framework definition (\$30 million revenue or \$60 million assets);
- All non-publicly accountable entities required to prepare GPFR should be in Tier 2 (subject to their ability to “opt-up” i.e. voluntarily adopt Tier 1 requirements).

55. Except in relation to large public sector entities, this approach is very similar to that adopted by the AASB and results in a harmonised trans-Tasman tier structure.

2.5 Questions for Respondents

1. *Do you agree that the deeming approach should be used to supplement the IASB definition of public accountability for defining the for-profit tiers? If not what alternative would you suggest and why?*
2. *Do you agree that all publicly accountable for-profit entities should be in Tier 1 regardless of size? If not what alternative would you suggest and why?*
3. *Do you agree that large for-profit public sector entities should be included in Tier 1? If not what alternative would you suggest and why?*

3. Tier 1 Accounting Standards: Supplemented IFRS

3.1 Harmonised IFRS

56. The Discussion Document reflected on the fact that there is very little difference between New Zealand equivalents to IFRS (NZ IFRS) and (pure) IFRS. It suggested that it would therefore be cost effective to adopt (pure) IFRS for Tier 1 for-profit entities.
57. The vast majority of respondents (90%) agreed that full IFRS is appropriate for Tier 1. However, there were mixed views about the merits of (pure) IFRS compared to maintaining NZ IFRS. Some respondents made the point that regulatory differences mean that individual jurisdictions inevitably need to maintain IFRS equivalents in some form.
58. During 2010-11 the Financial Reporting Standards Board (FRSB) completed its joint project with the AASB to develop a harmonised set of IFRS equivalents. ED 121 *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* and ED 122 *Proposed Separate Disclosure Standards* were issued in 2010. These EDs resulted in harmonising amendments to NZ IFRS and a new domestic standard, FRS-44 *New Zealand Additional Disclosures*. The changes were approved by the ASRB in May 2011. They have an effective date of annual reporting periods beginning on or after 1 July 2011, with earlier application permitted.
59. The harmonising amendments and FRS-44 have led to substantive convergence of IFRS-equivalent accounting standards for-profit entities in New Zealand and Australia. As such they provide a common set of standards for reporting on both sides of the Tasman. This is an important milestone in achieving the Government's harmonisation outcome goals.
60. From a for-profit entity perspective amended NZ IFRS is now also substantively identical to (pure) IFRS. This alignment with pure IFRS has been achieved through the promulgation of FRS-44 *New Zealand Additional Disclosures* which contains the majority of the New Zealand specific additional disclosures, together with other additional standards (such as FRS-42 *Prospective Financial Statements* and FRS-43 *Summary Financial Statements*) that address areas not covered by IFRS. This approach results in the effective adoption of (pure) IFRS while still providing a vehicle for addressing New Zealand specific issues.
61. The XRB Board would characterise this newly adopted approach as NZ IFRS converged with IFRS, supplemented by additional NZ specific standards, and harmonised as appropriate with Australia. Such an approach allows the standard setting efficiency gains the ASRB had in mind when it suggested using pure IFRS in the Discussion Document, to be achieved. This being the case no further change is warranted at this time. The XRB Board therefore proposes that the current converged and harmonised approach be retained for Tier 1 under the new framework.

3.2 Summary of Proposals

62. The XRB Board's proposal is that the accounting standards for Tier 1 for-profit entities should be NZ IFRS converged with IFRS, supplemented by additional New Zealand specific standards, and harmonised with Australia as appropriate. The current NZ IFRSs reflect this.

3.3 Questions for Respondents

4. *Do you agree that the accounting standards applying to Tier 1 for-profit entities should be NZ IFRS converged with IFRS, supplemented by additional New Zealand specific standards, and harmonised with Australia as appropriate? If not what alternative would you suggest and why?*

4. Tier 2 Accounting Standards: RDR

4.1 Response to Discussion Document Proposals

63. The Discussion Document did not propose a specific set of standards for application by Tier 2 for-profit entities. Rather it canvassed the two major options evident at that time: IFRS for SMEs²⁶, or a differential version of IFRS (ideally developed jointly with Australia). The Discussion Document then sought views about the factors the ASRB should take into account when selecting an option.
64. In addition to providing ideas on the factors to be considered, the majority of respondents also indicated which option they preferred, or it was able to be easily deduced from their comments. A large majority (80%) expressed a preference for a differential reporting approach over IFRS for SMEs. The most common reasons given by respondents for this were:
- Harmonisation with Australia;
 - Concerns about the lack of international acceptance of IFRS for SMEs;
 - Concerns about the relative complexity of IFRS for SMEs;
 - Concerns about the appropriateness of some IFRS for SMEs requirements, for example the inability to revalue certain assets;
 - A preference for using the same recognition and measurement requirements in Tier 2 as in Tier 1 with reduced disclosures being the only difference – in order to simplify intra-group accounting and transition between tiers;
 - The fact that there will be a time delay between changes in IFRS and when those changes will be reflected in an updated IFRS for SMEs; and
 - Educational and skills costs of having two suites of standards.

4.2 A Differential Approach

General Approach

65. This feedback was extremely helpful, including the very strong support for a differential reporting approach. The XRB Board also recognises that the AASB has, subsequent to the issuing of the Discussion Document, adopted a Reduced Disclosure Requirements approach – a form of differential reporting - for Tier 2 Australian entities. This development is an important consideration in the context of trans-Tasman harmonisation. In light of these factors the XRB Board has concluded that a differential reporting approach, rather than adopting IFRS for SMEs, is the preferable option at this time.
66. The XRB Board notes, however, that IFRS for SMEs has been released only relatively recently and the extent of its international acceptance is not yet clear. The XRB Board will continue to monitor the development of IFRS for SMEs and has not ruled out its possible adoption in the future.

Two Differential Reporting Approaches

67. In its discussion of the differential reporting option, the Discussion Document defined this option as being broadly along the lines of the existing *Framework for Differential Reporting*. This Framework has a number of disclosure concessions but also contains some recognition and measurement exemptions.

²⁶ The full title of which is 'International Financial Reporting Standards for Small and Medium-sized Enterprises'.

68. In order to qualify to apply the current differential reporting concessions available under either old GAAP or NZ IFRS, entities must have no public accountability and either (i) at balance date, have all of its owners as members of the entity's governing body; or (ii) not be large. While there is some overlap, this group of entities is likely to be significantly different from those that will be in Tier 2 under the proposals outlined in Section 2. The majority of small and medium sized entities which are currently required to prepare GPFR will no longer be required to do so; and the large non-publicly accountable entities which currently don't qualify for differential reporting will now be in Tier 2.
69. Given the likely difference in entities that will be in Tier 2 compared to those applying the current differential reporting concessions, a direct application of the current *Framework for Differential Reporting* is inappropriate. Accordingly the XRB Board has concluded that a revised set of differential reporting requirements is required. It has also concluded that the two most viable options are: differential reporting that includes recognition and measurement exemptions; and a reduced disclosure approach which contains disclosure concessions only.
70. The first option, a revised differential reporting framework, would be similar to the existing differential reporting framework in that it would contain disclosure concessions as well as a limited number of recognition and measurement exemptions. However, detailed aspects of the existing framework would need to be revised to reflect the different composition of entities in Tier 2, particularly the inclusion of large entities. Most notably, a revised differential reporting framework would most likely require a cash flow statement to be presented and deferred taxation to be calculated and reported. The current exemption to these requirements under the *Framework for Differential Reporting* is to recognise the costs to small entities – but small entities will no longer be required to prepare GPFR under the new arrangements, and the exemptions are difficult to justify for large entities.
71. The second option is a Reduced Disclosure Requirements (RDR) approach. This would require the same recognition and measurement as full NZ IFRS (Tier 1) but would allow reduced disclosures. The AASB has adopted this approach with the reduced disclosures based on those under IFRS for SMEs or by applying a cost-benefit test where recognition and measurement under IFRS for SMEs differs from full IFRS.²⁷
72. It should be noted that there are more disclosure exemptions under IFRS for SMEs (and therefore the RDR) than under the current *Framework for Differential Reporting*. However, the XRB Board envisages adopting the same reduced disclosures under either the revised Differential Reporting or RDR options. The difference between the two options would be in relation to the recognition and measurement requirements.

Preferred Approach: Reduced Disclosure Requirements

73. The XRB Board favours the RDR approach primarily because it would retain the recognition and measurement requirements of full NZ IFRS. The XRB Board sees a number of advantages from this including:
- preparers and users need to be familiar with only one set of recognition and measurement requirements which are applied in both tiers;
 - the comparability of financial information between tiers is enhanced;
 - the preparation of consolidated financial statements where a group comprises entities in both tiers is simplified; and
 - the movement of entities between tiers is easier and less costly.

²⁷ AASB 1053 was approved by the AASB in June 2010, with a mandatory application date for annual reporting periods beginning on or after 1 July 2013. Earlier application is permitted for annual reporting periods beginning on or after 1 July 2009.

74. The XRB Board notes that adopting an RDR approach would also be the least costly option at the point of transition as many of the entities that will fall into Tier 2 are likely to be already reporting using full NZ IFRS recognition and measurement.
75. Adopting an RDR approach would also enhance harmonisation with Australia because it would eliminate current Tier 2 reporting differences and, therefore, compliance costs for companies with trans-Tasman reporting obligations. This is an important consideration in the for-profit sector.
76. The XRB Board recognises that there would be costs associated with developing and maintaining the RDR concessions because the reduced disclosure requirements would need to be identified each time a new IFRS (or amendment to an IFRS) is issued. However, these costs are unlikely to be substantial and could be shared with the AASB if the RDR regime is common to Australia and New Zealand – a necessary requirement for harmonisation in any case.
77. With this in mind the ASRB had some initial discussions with the AASB about a process to move to a common set of RDR arrangements in New Zealand and Australia. This would involve:
- the development of a set of NZ RDR based on the Australian RDR, thereby creating an initially harmonised trans-Tasman RDR regime for Tier 2 reporting;
 - agreeing a common set of principles to be applied when making RDR amendments in the future; and
 - both jurisdictions agreeing to work together in the future to jointly agree changes to respective RDR regimes.

The AASB has indicated a willingness to move forward on this basis.

78. The XRB Board recognises that although adopting an RDR approach would result in convergence with Australia it does not necessarily improve harmonisation with other countries, particularly those that have adopted IFRS for SMEs. The option of allowing Tier 2 entities to adopt either the RDR regime or IFRS for SMEs, an option supported by a few of the respondents to the Discussion Document, was therefore considered.
79. Such an approach would allow entities to choose the accounting standards that best suit their circumstances. This would be a particular advantage in the (likely to be relatively rare) situation where a parent entity of a New Zealand subsidiary is required to prepare consolidated financial statements in a country where IFRS for SMEs has been adopted. In these circumstances, the costs of compiling the financial information for the consolidated financial statements would be reduced for the New Zealand subsidiary.
80. On the other hand permitting a choice of either the RDR approach or IFRS for SMEs would increase the complexity of the financial reporting framework. There would be a commensurate increase in costs for preparers and auditors as they would need to understand, apply and audit another set of financial reporting requirements. It would also be more difficult for users because similar entities could be applying different recognition and measurement requirements. Lastly, it would reduce the degree of harmonisation with Australia.
81. On balance, the XRB Board considers that the costs of allowing entities such a choice would exceed the benefits for a country as small as New Zealand.

4.3 Proposed Tier 2 Reduced Disclosure Requirements

82. In order to more fully understand the RDR option, the ASRB requested the (then) FRSB to develop a draft set of RDR concessions for application in New Zealand, based on the AASB approach. The ASRB requested this document be developed for two reasons: to test the applicability of the Australian RDR concessions in the New Zealand environment; and to assist constituents make submissions on the proposed framework by identifying the specific disclosure exemptions from NZ IFRS that would apply under a RDR approach.

83. The proposed Tier 2 RDR concessions are provided in the attachment to this Consultation Paper. The attached document identifies all the disclosure requirements of all NZ IFRS (existing in April 2011) for which disclosure concessions are proposed. The current differential reporting concessions are identified with an asterisk (*) and the proposed RDR concessions identified by the shading. This presentation is to enable constituents to compare the disclosure concessions from NZ IFRS under the current *Framework for Differential Reporting* with the proposed concessions under the RDR. If following this consultation a decision is made to adopt an RDR approach, the final standards would include only the RDR exemptions (although the differential reporting concessions would be retained, probably in a separate document, during the transition period).
84. The proposed RDR concessions are essentially the same as the RDR concessions identified in Australian Accounting Standards, except where differences in the regulatory environments require different concessions. There are very few such differences.
85. At the request of the ASRB, the FRSB developed the proposed RDR concessions in the form of an Exposure Draft and Invitation to Comment. *As such it represents a firm proposal that the XRB is specifically consulting on.* If there is general support for the RDR approach and the specific content of the RDR Exposure Draft, the XRB Board would not envisage undertaking a further consultation round. Constituents are therefore encouraged to comment on the Exposure Draft with this in mind.

4.4 Summary of Proposals

86. The XRB Board's proposals in relation to accounting standards for Tier 2 for-profit entities are that:
- A Reduced Disclosure Requirements (RDR) approach consisting of the same recognition and measurement requirements as Tier 1 (full NZ IFRS) but with reduced disclosures should apply;
 - It is desirable for a common set of RDR concessions to apply in both New Zealand and Australia, and accordingly the reduced disclosures should initially be harmonised with the disclosure concessions applying in Australia and a set of principles and processes agreed with the AASB to enable this harmonisation to be maintained over time; and
 - IFRS for SMEs should continue to be considered as a Tier 2 reporting option for the future.

4.5 Questions for Respondents

5. *Do you agree that:*
- (a) *the accounting standards applying to Tier 2 for-profit entities should be a Reduced Disclosure Requirements approach, consisting of the same recognition and measurement requirements as Tier 1 but with disclosure concessions? If not what alternative would you suggest and why?*
 - (b) *if adopted the Reduced Disclosure Requirements should be harmonised with Australia? If not what alternative would you suggest and why?*
6. *Do you agree with the disclosure concessions contained in the Proposed Tier 2 Reduced Disclosure Requirements attached to this Consultation Paper? If not which specific concessions would you add or delete and why (please indicate the specific standard and specific paragraph numbers)?*

5. Adoption and Transition Arrangements

5.1 Transition Issues

87. The changes to the financial reporting framework announced by the Government will be given effect through amendments to the Financial Reporting Act 1993 (FRA) and other relevant pieces of legislation. Those amendments will include changes to which entities have to prepare GPFR, as outlined in Section 1.3 of this Consultation Paper.
88. It is expected that a Bill containing the amendments will be introduced to Parliament in 2012 with an anticipated commencement date in the middle of 2013, which for the purposes of this Consultation Paper is assumed to be 1 July 2013. Until that time the existing legislative provisions remain in force and entities currently required to prepare GPFR, including small and medium-sized companies, will continue to have a legislative obligation to do so.
89. Between now and 1 July 2013 (or such other date as the legislative amendments come into force) the accounting standards framework needs to appropriately cater for all entities currently required to prepare GPFR. After that date, the accounting standards framework only needs to accommodate those entities then required to report i.e. the framework outlined in Sections 2-4 will then apply. The transition from the current to the new accounting standards framework needs to take this into account.
90. One option would be to leave the existing arrangements (NZ IFRS, *Framework for Differential Reporting*, and the exemption in Standard XRB A1 to apply old GAAP) in place and unchanged until 1 July 2013 and make the new arrangements (new Tiers, RDR) effective for reporting periods beginning on or after that date. The XRB Board recognises that the simplicity and clarity of such an approach has its advantages, in particular keeping things simple for users and preparers.
91. The XRB Board is conscious, however, that the accounting standards framework as it currently stands is not well harmonised with Australia. The revisions to NZ IFRS approved in May 2011 (see paragraph 58) have resolved this for entities applying the full standards because these are substantively harmonised.
92. However, differential reporting differences will continue to exist until (and if) the approach proposed in Section 4 is adopted. Most notable amongst these differences will be: which entities can take advantage of differential concessions; and the form of reporting applying (differential reporting aimed at small and medium-sized entities with recognition and measurement as well as disclosure concessions in New Zealand versus in Australia only reduced disclosures which are more extensive than the NZ *Framework for Differential Reporting*). This is problematic for entities with trans-Tasman reporting obligations.

5.2 Proposed Transition Approach

93. In light of this, the XRB Board favours a transition approach which will retain the status quo until 1 July 2013 (or such later date as the legislative amendments come into force) while also allowing entities to early adopt. This will help minimise the transition period and the costs to those users and preparers of early adopters.
94. The XRB Board proposes the following tentative timing for this transition:
- Harmonised full NZ IFRS now in effect (from 1 July 2011);
 - New tier structure and RDR concessions issued by end of April 2012;
 - Early adoption of RDR concessions permitted for financial years beginning on or after 1 July 2012;
 - New tier structure and RDR concessions effective for financial years beginning on or after 1 July 2013.

95. This proposed transition approach would have the following implications for entities:
- Publicly accountable entities would be unaffected – they are required to comply with NZ IFRS under current arrangements and would be in Tier 1 and required to comply with NZ IFRS under the proposed new arrangements²⁸.
 - Non-publicly accountable entities that will be required to prepare GPFR under the Government's new financial reporting framework (i.e. Tier 2 entities - predominantly large entities; and entities with more than 10 shareholders that don't opt-out from the reporting requirement) would be able to early adopt the RDR concessions from 1 July 2012. This will allow them to take advantage of the reduced disclosure requirements. It is expected that the majority of these entities will currently be complying with full NZ IFRS so early adoption will allow early relief.
 - Other entities currently required to prepare GPFR but which will not be required to do so under the Government's new financial reporting framework would be able to report in accordance with the existing requirements (NZ IFRS *Framework for Differential Reporting* or old GAAP or the Financial Reporting Order as applicable). These entities would also be able to adopt the RDR regime from 1 July 2012 if they so desired but in most cases there would be little advantage in them doing so. These entities will mostly cease being required to prepare GPFR when the FRA Amendments come into force.
 - Any non-publicly accountable entities that will be required to prepare GPFR under the Government's new financial reporting framework (i.e. Tier 2 entities) that have not early adopted the RDR regime will be required to do so for financial years beginning on or after 1 July 2013.
96. Given the relatively short period for which it would continue to apply, the XRB Board's proposal is that it would not maintain the *Framework for Differential Reporting* after 1 July 2012 i.e. it would not be updated for any IFRS that become effective after that date. This means that the NZ IFRS *Framework Differential Reporting* will effectively be "frozen" at that point in time, in much the same way as old GAAP (including the Old GAAP *Framework for Differential Reporting*) has been since 2002.
97. The XRB Board recognises that under this proposed approach, a number of different accounting standard frameworks will be effective for a period of 12 months or so: NZ IFRS, the RDR concessions, NZ IFRS *Framework for Differential Reporting*, old GAAP (including the Old GAAP *Framework for Differential Reporting*) and the Financial Reporting Order. However, in practice this would be only one more than currently (the addition of the RDR regime) and so the resulting additional complexity is relatively small. The XRB Board considers that the advantages of allowing early adoption outweigh the complexity costs.
98. The XRB Board also recognises that there would be a risk for entities if they decide to early adopt the RDR concessions. If they move to the RDR and are then, as a result of the final form of the legislation, subsequently not classified in this tier, they would need to transition twice. This is a factor that entities would need to take into account before deciding to early adopt.

5.3 Summary of Proposals

99. The XRB Board's proposals in relation to transition arrangements for the new for-profit accounting standards framework are to:
- Retain the existing accounting standards framework until 1 July 2013 or such other date as the legislative amendments come into force;
 - Make the effective date for the other aspects of the new accounting standards framework (consisting of the new tier structure and the RDR concessions) as annual reporting

²⁸ Except for some retirement villages which may no longer be issuers and therefore no longer in Tier 1 or required to apply full NZ IFRS – see paragraphs 35 and 36.

periods beginning on or after 1 July 2013 or such later date as the legislative amendments come into force; and

- Allow early adoption of the new accounting standards framework for annual reporting periods beginning on or after 1 July 2012.

5.4 Questions for Respondents

7. (a) *Do you agree that the effective date for the new tier structure and the Reduced Disclosure Requirements should be 1 July 2013 or such later date as the amendments to the Financial Reporting Act come into force? If not what date do you suggest?*

(b) *Do you agree that early adoption of the new tier structure and RDR should be permitted from 1 July 2012? If not what alternative would you propose?*
8. *Do you agree that entities currently required to prepare GPFR, but which will not be required to do so under the Government's new financial reporting framework, should be able to continue to report in accordance with the existing NZ IFRS Framework for Differential Reporting or old GAAP (including the Old GAAP Framework for Differential Reporting) or the Financial Reporting Order (as applicable) until 1 July 2013 (or such other date as the legislative amendments come into force)?*

Attachment



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Exposure Draft and Invitation to Comment

Proposed Reduced Disclosure Requirements for Tier 2 For-Profit Entities

14 September 2011

Executive Summary

This Exposure Draft proposes Reduced Disclosure Requirements (RDR) which:

- would be applied by Tier 2 for-profit entities under the proposed new financial reporting framework, which are not necessarily the same entities that currently qualify for differential reporting;
- would contain only disclosure concessions; and
- is substantially the same as the Reduced Disclosure Requirements developed by the Australian Accounting Standards Board for application by Tier 2 entities in Australia.

Commissioned by the Accounting Standards Review Board

**Prepared by the Financial Reporting Standards Board
of the New Zealand Institute of Chartered Accountants**

Issued by the External Reporting Board

Exposure Draft and Invitation to Comment

Proposed Reduced Disclosure Requirements for Tier 2 For-Profit Entities

Introduction

This Exposure Draft (ED) was commissioned by the Accounting Standards Review Board (ASRB), prepared by the (then) Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants and has been issued by the External Reporting Board (XRB). The proposals in this ED should be read in conjunction with the Consultation Paper entitled *Accounting Standards Framework for General Purpose Financial Reporting by For-Profit Entities*, which has been issued for comment by the XRB Board.

This ED proposes Reduced Disclosure Requirements (RDR) for Tier 2 for-profit entities. The proposed RDR comprise disclosure concessions for Tier 2 for-profit entities and would be applicable when legislative amendments have been made to give effect to the financial reporting framework announced by the Government. At this point in time it is anticipated that the proposed RDR would be effective for annual reporting periods beginning on or after 1 July 2013 with early application permitted from 1 July 2012.

The proposed RDR are based on the Australian RDR that was developed and approved in June 2010. Australian entities in Tier 2 are permitted to apply Australian RDR for annual reporting periods beginning on or after 1 July 2009.

Entities to which the proposed RDR would apply

The RDR would apply to those entities that, under the new financial reporting framework, do not have public accountability, as defined for the New Zealand environment, but are required to prepare general purpose financial reports (GPFR). (See paragraph 23 of the Consultation Paper for the definition of public accountability, paragraph 33 for New Zealand entities that are deemed to have public accountability and paragraph 54 for all the entities that fall into Tier 1.)

These entities are not the same as those that currently qualify for differential reporting under the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (Diff Rep Framework). For example, most small and medium-sized companies that currently qualify for differential reporting will no longer be required to prepare GPFR under the Government's new financial reporting framework and some large non-publicly accountable entities which currently do not qualify for differential reporting will fall into Tier 2 under the XRB Board's proposals.

Development of proposed RDR

Paragraph 86 of the Consultation Paper sets out the following proposals regarding financial reporting by Tier 2 for-profit entities:

- a RDR approach consisting of the same recognition and measurement requirements as Tier 1 (full NZ IFRS) but with reduced disclosures; and
- a desirability for a common set of RDR concessions to operate in New Zealand and Australia with the reduced disclosures initially being harmonised with the disclosure concessions applying in Australia and then a set of principles and processes agreed with the AASB to enable this harmonisation to be maintained over time.

The proposed RDR concessions set out in this ED are based substantially on the RDR developed by the Australian Accounting Standards Board (AASB) and approved by them in June 2010. In considering the applicability of the AASB RDR, the FRSB adopted a rebuttable presumption that both the principles and the disclosure concessions under the Australian regime are appropriate for the New Zealand environment. Adoption of the proposed RDR would therefore result in increased trans-Tasman harmonisation in respect of the financial reporting requirements for for-profit entities in Tier 2.

Principles applied when developing RDR

The following principles were applied by the AASB in determining the disclosures required under Australian RDR:

- (a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and
- (b) using the 'user needs' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

Application of the above principles to the proposed New Zealand RDR has resulted in the following:

- Where the disclosure requirements under a full NZ IFRS and the *IFRS for SMEs* are the same or similar, those disclosure requirements are retained using the wording of the relevant full NZ IFRS.
- Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full NZ IFRS, that disclosure is not retained under the RDR. Furthermore, where the *IFRS for SMEs* is less onerous than the relevant full IFRS, the less onerous disclosure is adopted. This is on the basis that the IASB has already applied the user needs and cost-benefit considerations and concluded that an exemption or reduced disclosure is appropriate.
- In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure is not included.
- Where a disclosure is encouraged, whether under full NZ IFRS or the *IFRS for SMEs*, the disclosure is not included.

In considering these principles and using the rebuttable presumption, the FRSB found no reason why either the principles or the disclosure concessions in New Zealand should not be the same as those in Australia other than those resulting from timing differences regarding approval of the concessions.

Identification of the disclosure concessions under RDR

This ED includes only the NZ IFRSs for which reduced disclosure concessions are proposed, or for which there are currently differential reporting concessions. If no concessions are proposed in respect of a NZ IFRS (e.g. NZ IFRS 4 *Insurance Contracts*, NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*) those standards are not included in this ED.

The full disclosure requirements included in this ED are those included in the 2011 bound volume of NZ IFRSs published by the New Zealand Institute of Chartered Accountants, and FRS-44 *New Zealand Additional Disclosures*²⁹. These NZ IFRSs include all amendments approved by the ASRB up to and including 31 October 2010 but excluding consequential amendments arising from NZ IFRS 9 as issued in November 2009 and NZ IFRS 9 as issued in November 2010.

The proposed RDR concessions in this ED are based on the Australian RDR concessions approved by the AASB in June 2010. RDR concessions in respect of IFRSs (or amended IFRSs) issued since then will be developed once a decision has been made regarding this proposed RDR.

The proposed concessions under the RDR are identified by means of grey shading of the required disclosure or part of the requirement. Where a less onerous disclosure is adopted, the equivalent disclosure in the full NZ IFRS is shaded and an additional paragraph is added. Additional paragraphs are boxed and the paragraph number is preceded by 'RDR' to indicate that the disclosure is a requirement of the proposed regime. The current differential reporting concessions are also identified by means of an asterisk (*) to enable constituents to easily compare the current differential reporting disclosure concessions with the concessions proposed under the RDR regime.

²⁹ FRS-44 was approved by the ASRB in May 2011 as part of the joint project by the AASB and the FRSB to harmonise Australian and New Zealand equivalents to IFRSs with IFRSs.

Major differences between the proposed RDR and the Diff Rep Framework

Volume of disclosure concessions

Generally speaking, there are more disclosure concessions under the proposed RDR than there are under the current differential reporting framework.

However, NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* is an exception. Currently qualifying entities are not required to comply with any of the disclosure requirements of NZ IFRS 5. Under the proposed RDR, entities which apply NZ IFRS 5 would be required to disclose some information required by the Standard.

Reconciliations

Fewer reconciliations between opening and closing balances are required under the current differential reporting framework than under the RDR proposals. The concessions under the proposed RDR approach require the reconciliation but not require comparative figures.

Statement of Cash Flows

Entities that qualify for differential reporting are not required to prepare a Statement of Cash Flows. This Statement would be required under the proposed RDR.

Differences between the proposed RDR and Australian RDR

There is only one major difference between the proposed RDR concessions and the Australian RDR. This is paragraph 23 of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. This paragraph is a concession under Australian RDR that provides relief for those Tier 2 for-profit entities that previously prepared special purpose financial statements. This paragraph is not proposed as a concession in New Zealand because it is not considered relevant - Tier 2 for-profit entities would likely either be complying with full NZ IFRSs or would be availing themselves of differential reporting concessions rather than preparing special purpose financial statements.

There are also a few minor differences between the proposed RDR and the Australian regime but these are the result of timing differences. Any such differences between the two regimes will be addressed prior to final adoption of the regime in New Zealand.

Summary of proposals

This document proposes Reduced Disclosure Requirements (RDR) which:

- would be applied by Tier 2 for-profit entities under the proposed new financial reporting framework (which are not necessarily the same entities that currently qualify for differential reporting);
- would contain only disclosure concessions; and
- is substantially the same as the Reduced Disclosure Requirements developed by the Australian Accounting Standards Board for application by Tier 2 entities in Australia.

Invitation to comment

The XRB Board welcome comments on the proposals in this ED. In particular, views are sought on the following questions:

1. *Do you agree that:*

- (a) the accounting standards applying to Tier 2 for-profit entities should be a Reduced Disclosure Requirements approach, consisting of the same recognition and measurement requirements as Tier 1 but with disclosure concessions? If not what alternative would you suggest and why?*
- (b) if adopted, the Reduced Disclosure Requirements should be harmonised with Australia? If not what alternative would you suggest and why?*

2. *Do you agree with the disclosure concessions contained in the proposed Tier 2 Reduced Disclosure Requirements in this attachment to the XRB Consultation Paper? If not, which specific concessions would you add or delete and why? (Please indicate the specific standard and specific paragraph numbers.)*

A response form, which lists the standards and interpretations for which disclosure concessions are proposed, is attached at the end of this ED. Constituents may prefer to indicate on this response form their agreement or disagreement with the proposals for each pronouncement as a whole.

Comments will be considered by the New Zealand Accounting Standards Board (NZASB), a sub-board of the External Reporting Board.

Comments should be addressed to:

Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142
New Zealand
E-mail: submissions@xrb.govt.nz

Comments are due by **Friday 16 December 2011**.

It would be appreciated if respondents send their submissions in electronic form (preferably in Microsoft Word format) as that allows for the efficient collation and analysis of comments. Submissions will be made available to the public unless otherwise requested.

Respondents are requested to indicate, on their submission, on whose behalf (for example, own behalf, a group of people or an entity) the submission is being made.

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NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

Comparative information

- 21 To comply with NZ IFRS 1, an entity's first New Zealand equivalents to IFRSs 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.

RDR 21.1 In respect of entities applying the New Zealand Reduced Disclosure Requirements, to comply with NZ IFRS 1 an entity's first New Zealand Reduced Disclosure Requirements financial statements shall include at least two 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.

Note: Paragraph 21 of NZ IFRS 1 is currently footnoted as follows:

‘...at least three* statements of financial position...’

* Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Regime* (2005) are not required to provide a statement of financial position as at the beginning of the earliest comparative period.

Non-NZ IFRS 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 IFRSs. This Standard does not require such summaries to comply with the recognition and measurement requirements of NZ IFRSs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by NZ IAS 1. 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 IFRSs; and
 - (b) disclose the nature of the main adjustments that would make it comply with NZ IFRSs. An entity need not quantify those adjustments.

Explanation of transition to NZ IFRSs

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

Reconciliations

- 24 To comply with paragraph 23, an entity's first New Zealand equivalents to IFRSs financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with NZ IFRSs for both of the following dates:
 - (i) the date of transition to NZ IFRSs; 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 IFRSs 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 New Zealand equivalents to IFRSs statement of financial position, the disclosures that NZ IAS 36 *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 IFRSs.

- 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.
- 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 does not apply to the changes in accounting policies an entity makes when it adopts NZ IFRSs or to changes in those policies until after it presents its first New Zealand equivalents to IFRSs financial statements. Therefore, NZ IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first New Zealand equivalents to IFRSs financial statements.
- 27A If during the period covered by its first New Zealand equivalents to IFRSs financial statements an entity changes its accounting policies or its use of the exemptions contained in this NZ IFRS, it shall explain the changes between its first NZ IFRS interim financial report and its first NZ IFRS 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 New Zealand equivalents to IFRSs 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 New Zealand equivalents to IFRSs 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 New Zealand equivalents to IFRSs financial statements shall disclose, for each line item in the opening New Zealand equivalents to IFRSs 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 New Zealand equivalents to IFRSs statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements (see paragraph D15), the entity's first NZ IFRSs 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 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.

Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with NZ IAS 34 for part of the period covered by its first New Zealand equivalents to IFRSs financial statements, the entity shall satisfy the following requirements in addition to the requirements of NZ IAS 34:
- (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 IFRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with NZ IFRSs 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 for part of the period covered by its first New Zealand equivalents to IFRSs 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, 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 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 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.

NZ IFRS 2 *Share-based Payment*

Disclosures

- 44 **An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.**
- 45 To give effect to the principle in paragraph 44, the entity shall disclose at least the following:
- (a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to satisfy the principle in paragraph 44.
 - (b) the number and weighted average exercise prices of share options for each of the following groups of options:
 - (i) outstanding at the beginning of the period;
 - (ii) granted during the period;
 - (iii) forfeited during the period;
 - (iv) exercised during the period;
 - (v) expired during the period;
 - (vi) outstanding at the end of the period; and
 - (vii) exercisable at the end of the period.
 - (c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.

- (d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

46 An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

RDR 46.1 For equity-settled share-based payment arrangements, entities applying the New Zealand Reduced Disclosure Requirements shall disclose information about how it measured the fair value of goods or services received or the fair value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it. [IFRS for SMEs 26.19]

RDR 46.2 For cash-settled share-based payment arrangements, entities applying the New Zealand Reduced Disclosure Requirements shall disclose information about how the liability was measured. [IFRS for SMEs 26.20]

47 If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:

- (a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:
- (i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
 - (ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
 - (iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.
- (b) for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:
- (i) if fair value was not measured on the basis of an observable market price, how it was determined;
 - (ii) whether and how expected dividends were incorporated into the measurement of fair value; and
 - (iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.
- (c) for share-based payment arrangements that were modified during the period:
- (i) an explanation of those modifications;
 - (ii) the incremental fair value granted (as a result of those modifications); and
 - (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

48 If the entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, eg whether fair value was measured at a market price for those goods or services.

49 If the entity has rebutted the presumption in paragraph 13, it shall disclose that fact, and give an explanation of why the presumption was rebutted.

50 An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

RDR 50.1 Entities applying the New Zealand Reduced Disclosure Requirements shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position:

- (a) the total expense recognised in profit or loss for the period; and
- (b) the total carrying amount at the end of the period of liabilities arising from share-based payment transactions. [IFRS for SMEs 26.23]

- 51 To give effect to the principle in paragraph 50, the entity shall disclose at least the following:
- (a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;
 - (b) for liabilities arising from share-based payment transactions:
 - (i) the total carrying amount at the end of the period; and
 - (ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (eg vested share appreciation rights).
- 52 If the information required to be disclosed by this Standard does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them.

NZ IFRS 3 *Business Combinations*

Disclosures

- 59 **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:**
- (a) **during the current reporting period; or**
 - (b) **after the end of the reporting period but before the financial statements are authorised for issue.**
- 60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64–B66.
- 61 **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.**
- 62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.
- 63 If the specific disclosures required by this and other NZ IFRSs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

RDR 63.1 Entities applying the New Zealand Reduced Disclosure Requirements should refer to paragraphs B64–B67 for the disclosures that are not required.

Note: Paragraphs 60 and 62 of NZ IFRS 3 are footnoted as follows:

Para 60 – See Appendix B paragraphs B64–B66 for the concessions granted to qualifying entities.

Para 62 – See Appendix B paragraph B67 for the concessions granted to qualifying entities.

Disclosures (application of paragraphs 59 and 61)

- B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:
- (a) the name and a description of the acquiree.
 - (b) the acquisition date.
 - (c) the percentage of voting equity interests acquired.
 - *(d) the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
 - *(e) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

- (f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
- (i) cash;
 - (ii) other tangible or intangible assets, including a business or subsidiary of the acquirer;
 - (iii) liabilities incurred, for example, a liability for contingent consideration; and
 - (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests.
- (g) for contingent consideration arrangements and indemnification assets:
- (i) the amount recognised as of the acquisition date;
 - (ii) a description of the arrangement and the basis for determining the amount of the payment; and
 - *(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
- *(h) for acquired receivables:
- (i) the fair value of the receivables;
 - (ii) the gross contractual amounts receivable; and
 - (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.
- The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.
- (i) the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.
- (j) for each contingent liability recognised in accordance with paragraph 23, the information required in paragraph 85 of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:
- (i) the information required by paragraph 86 of NZ IAS 37; and
 - (ii) the reasons why the liability cannot be measured reliably.
- *(k) the total amount of goodwill that is expected to be deductible for tax purposes.
- (l) for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph 51:
- (i) a description of each transaction;
 - (ii) how the acquirer accounted for each transaction;
 - (iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and
 - (iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- (m) the disclosure of separately recognised transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.
- (n) in a bargain purchase (see paragraphs 34–36):
- (i) the amount of any gain recognised in accordance with paragraph 34 and the line item in the statement of comprehensive income in which the gain is recognised; and
 - (ii) a description of the reasons why the transaction resulted in a gain.
- (o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
- (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and
 - *(ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.

- (p) in a business combination achieved in stages:
 - (i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
 - (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised.

(q) the following information:

- (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and
- *(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This NZ IFRS uses the term ‘impracticable’ with the same meaning as in NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

B65 For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)–(q).

RDR B65.1 For individually immaterial business combinations occurring during the reporting period that are material collectively, an acquirer applying the New Zealand Reduced Disclosure Requirements shall disclose in aggregate the information required by paragraphs B64(f), B64(g), B64(i), B64(n)(i), B64(o)(i) and B64(p) and the first sentence of paragraph B64(j).

B66 If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer shall disclose the information required by paragraph B64 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

Note: Para B66 is currently footnoted as follows:

Qualifying entities are required to disclose only the information required by paragraph B64(a)–(c) and (f).

B67 To meet the objective in paragraph 61, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

- *(a) if the initial accounting for a business combination is incomplete (see paragraph 45) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally:
 - (i) the reasons why the initial accounting for the business combination is incomplete;
 - (ii) the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and
 - (iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49.
- (b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
 - (i) any changes in the recognised amounts, including any differences arising upon settlement;
 - *(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
 - *(iii) the valuation techniques and key model inputs used to measure contingent consideration.
- *(c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of NZ IAS 37 for each class of provision.

Note: Paragraph B67(c) is footnoted as follows

See NZ IAS 37 paragraph 84 for concessions granted to qualifying entities.

- * (d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
- (i) the gross amount and accumulated impairment losses at the beginning of the reporting period.
 - (ii) additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
 - (iii) adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.
 - (iv) goodwill included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale.
 - (v) impairment losses recognised during the reporting period in accordance with NZ IAS 36. (NZ IAS 36 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)
 - (vi) net exchange rate differences arising during the reporting period in accordance with NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*.
 - (vii) any other changes in the carrying amount during the reporting period.
 - (viii) the gross amount and accumulated impairment losses at the end of the reporting period.
- (e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:
- (i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and
 - (ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

RDR B67.1 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliation specified in paragraph B67(d) for prior periods. [IFRS for SMEs 19.26]

NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Presentation and disclosure

- *30 An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

Presenting discontinued operations

- *31 A *component* of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.
- *32 A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
- (a) represents a separate major line of business or geographical area of operations,
 - (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
 - (c) is a subsidiary acquired exclusively with a view to resale.
- *33 An entity shall disclose:
- (a) a single amount in the statement of comprehensive income comprising the total of:
 - (i) the post-tax profit or loss of discontinued operations; and
 - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

- (b) an analysis of the single amount in (a) into:
 - (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;
 - (ii) the related income tax expense as required by paragraph 81(h) of NZ IAS 12;
 - (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
 - (iv) the related income tax expense as required by paragraph 81(h) of NZ IAS 12.

The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income it shall be presented in a section identified as relating to discontinued operations, ie separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

- (c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).
- (d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of comprehensive income.

*33A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of NZ IAS 1 (as revised in 2007), a section identified as relating to discontinued operations is presented in that separate statement.

*34 An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

*35 Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

- (a) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.
- (b) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.
- (c) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

*36 If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 33–35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

*36A An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required in paragraphs 33–36 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32.

Gains or losses relating to continuing operations

*37 Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

Presentation of a non-current asset or disposal group classified as held for sale

*38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial

position or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

*39 If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (see paragraph 1), disclosure of the major classes of assets and liabilities is not required.

*40 An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

Additional disclosures

*41 An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

- (a) a description of the non-current asset (or disposal group);
- (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;
- (d) if applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with NZ IFRS 8 *Operating Segments*.

*42 If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

NZ IFRS 7 *Financial Instruments: Disclosures*

Classes of financial instruments and level of disclosure

6 When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

Significance of financial instruments for financial position and performance

7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Statement of financial position

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as defined in NZ IAS 39, shall be disclosed either in the statement of financial position or in the notes:

- (a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with NZ IAS 39;
- (b) held-to-maturity investments;
- (c) loans and receivables;
- (d) available-for-sale financial assets;
- (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with NZ IAS 39; and
- (f) financial liabilities measured at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss

- 9 If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) at the end of the reporting period.
 - (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
 - (c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to *market risk*; or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.
 - (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.
- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of NZ IAS 39, it shall disclose:
- (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:
 - (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or
 - (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.
 - (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.
- 11 The entity shall disclose:
- (a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a).
 - (b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Reclassification

- 12 If the entity has reclassified a financial asset (in accordance with paragraphs 51–54 of NZ IAS 39) as one measured:
- (a) at cost or amortised cost, rather than at fair value; or
 - (b) at fair value, rather than at cost or amortised cost,
- it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.
- 12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of NZ IAS 39 or out of the available-for-sale category in accordance with paragraph 50E of NZ IAS 39, it shall disclose:
- (a) the amount reclassified into and out of each category;
 - (b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;

- (c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;
- (d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;
- (e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and
- (f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

Derecognition

- 13 An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15–37 of NZ IAS 39). The entity shall disclose for each class of such financial assets:
- (a) the nature of the assets;
 - (b) the nature of the risks and rewards of ownership to which the entity remains exposed;
 - (c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and
 - (d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Collateral

- *14 An entity shall disclose:
- (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of NZ IAS 39; and
 - (b) the terms and conditions relating to its pledge.
- *15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:
- (a) the fair value of the collateral held;
 - (b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and
 - (c) the terms and conditions associated with its use of the collateral.

Allowance account for credit losses

- *16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Compound financial instruments with multiple embedded derivatives

- 17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of NZ IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

Defaults and breaches

- 18 For loans payable recognised at the end of the reporting period, an entity shall disclose:
- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

- (b) the carrying amount of the loans payable in default at the end of the reporting period; and
- (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

RDR 18.1 For *loans payable* recognised at the end of the reporting period for which there is a breach of terms or default of principal, interest, sinking fund, or redemption of terms that has not been remedied by the end of the reporting period, an entity preparing general purpose financial statements under the New Zealand Reduced Disclosure Requirements shall disclose the following:

- (a) details of that breach or default;
- (b) the carrying amount of the related loans payable at the end of the reporting period; and
- (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue. [IFRS for SMEs 11.47]

19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statement of comprehensive income

Items of income, expense, gains or losses

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

- (a) net gains or net losses on:
 - (i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with NZ IAS 39;
 - (ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;
 - (iii) held-to-maturity investments;
 - (iv) loans and receivables; and
 - (v) financial liabilities measured at amortised cost;
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;
- (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) financial assets or financial liabilities that are not at fair value through profit or loss; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
- (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of NZ IAS 39; and
- (e) the amount of any impairment loss for each class of financial asset.

Other disclosures

Accounting policies

21 In accordance with paragraph 117 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge accounting

- 22 An entity shall disclose the following separately for each type of hedge described in NZ IAS 39 (ie fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):
- (a) a description of each type of hedge;
 - (b) a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
 - (c) the nature of the risks being hedged.
- *23 For cash flow hedges, an entity shall disclose:
- (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
 - (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
 - (c) the amount that was recognised in other comprehensive income during the period;
 - (d) the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; and
 - (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
- *24 An entity shall disclose separately:
- (a) in fair value hedges, gains or losses:
 - (i) on the hedging instrument; and
 - (ii) on the hedged item attributable to the hedged risk.
 - (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges.
 - (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Fair value

- *25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.
- *26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.
- *27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose the change and the reasons for making it.

RDR 27.1 An entity applying the New Zealand Reduced Disclosure Requirements shall disclose, for all financial assets and financial liabilities that are measured at fair value, the basis for determining fair value, for example quoted market price in an active market or a valuation technique. When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. [IFRS for SMEs 11.43]

- *27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:
- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
 - (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and
 - (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its

entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

*27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

- (a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.
- (b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.
- (c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
 - (i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);
 - (ii) total gains or losses recognised in other comprehensive income;
 - (iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
 - (iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
- (e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

*28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of NZ IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of NZ IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

- (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of NZ IAS 39); and
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

*29 Disclosures of fair value are not required:

- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
- (b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with NZ IAS 39 because its fair value cannot be measured reliably; or
- (c) for a contract containing a discretionary participation feature (as described in NZ IFRS 4) if the fair value of that feature cannot be measured reliably.

- *30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:
- (a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
 - (b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
 - (c) information about the market for the instruments;
 - (d) information about whether and how the entity intends to dispose of the financial instruments; and
 - (e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Nature and extent of risks arising from financial instruments

- *31 **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.**
- *32 The disclosures required by paragraphs 33–42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, *liquidity risk* and market risk.
- 32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Qualitative disclosures

- *33 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) the exposures to risk and how they arise;
 - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
 - (c) any changes in (a) or (b) from the previous period.

Quantitative disclosures

- *34 For each type of risk arising from financial instruments, an entity shall disclose:
- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in NZ IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer.
 - (b) the disclosures required by paragraphs 36–42, to the extent not provided in accordance with (a).
 - (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).
- *35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk

- *36 An entity shall disclose by class of financial instrument:
- (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with NZ IAS 32); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.
 - (b) a description of collateral held as security and of other credit enhancements and their financial effect (eg a quantification of the extent to which collateral and other credit enhancements mitigate credit risk)

in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

- (c) information about the credit quality of financial assets that are neither *past due* nor impaired.
- (d) [deleted by IASB]

Financial assets that are either past due or impaired

*37 An entity shall disclose by class of financial asset:

- (a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and
- (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired.
- (c) [deleted by IASB]

Collateral and other credit enhancements obtained

*38 When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose for such assets held at the reporting date:

- (a) the nature and carrying amount of the assets; and
- (b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity risk

*39 An entity shall disclose:

- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

Market risk

Sensitivity analysis

*40 Unless an entity complies with paragraph 41, it shall disclose:

- (a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
- (b) the methods and assumptions used in preparing the sensitivity analysis; and
- (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

*41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:

- (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
- (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other market risk disclosures

- *42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Classes of financial instruments and level of disclosure (paragraph 6)

- B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in NZ IAS 39 (which determine how financial instruments are measured and where changes in fair value are recognised).
- B2 In determining classes of financial instrument, an entity shall, at a minimum:
- (a) distinguish instruments measured at amortised cost from those measured at fair value.
 - (b) treat as a separate class or classes those financial instruments outside the scope of this Standard.
- B3 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

Significance of financial instruments for financial position and performance

Financial liabilities at fair value through profit or loss (paragraphs 10 and 11)

- B4 If an entity designates a financial liability as at fair value through profit or loss, paragraph 10(a) requires it to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the liability's credit risk. Paragraph 10(a)(i) permits an entity to determine this amount as the amount of change in the liability's fair value that is not attributable to changes in market conditions that give rise to market risk. If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, this amount can be estimated as follows:
- (a) First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.
 - (b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).
 - (c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be disclosed.

This example assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in interest rates are not significant. If the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed in accordance with paragraph 10(a).

Other disclosure - accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial assets or financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of NZ IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or loss in NZ IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in NZ IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.
- (b) the criteria for designating financial assets as available for sale.
- (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of NZ IAS 39).
- (d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses:
 - (i) the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
 - (ii) the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 16).
- (e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.
- (f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)).
- (g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 36(d)).

Paragraph 122 of NZ IAS 1 (as revised in 2007) also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

B6 The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

Quantitative disclosures (paragraph 34)

B7 Paragraph 34(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most

relevant and reliable information. NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* discusses relevance and reliability.

B8 Paragraph 34(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

- (a) a description of how management determines concentrations;
- (b) a description of the shared characteristic that identifies each concentration (eg counterparty, geographical area, currency or market); and
- (c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Note: Paragraphs B7 and B8 are differential reporting concessions even though they are not specifically identified as such because paragraph 34 is a differential reporting concession.

Maximum credit risk exposure (paragraph 36(a))

B9 Paragraph 36(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

- (a) any amounts offset in accordance with NZ IAS 32; and
- (b) any impairment losses recognised in accordance with NZ IAS 39.

B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

- (a) granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.
- (b) entering into derivative contracts, eg foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount.
- (c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.
- (d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

B10A In accordance with paragraph 34(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

- (a) occur significantly earlier than indicated in the data, or
- (b) be for significantly different amounts from those indicated in the data (eg for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).

B11 In preparing the maturity analyses required by paragraph 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

- (a) not later than one month;
- (b) later than one month and not later than three months;

- (c) later than three months and not later than one year; and
- (d) later than one year and not later than five years.

B11A In complying with paragraph 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) financial instrument. For such an instrument, an entity shall apply paragraph 39(a).

B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

- (a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.
- (b) all loan commitments.

B11C Paragraph 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

- (a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.
- (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.
- (c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and
- (e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

- (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;
- (b) holds deposits at central banks to meet liquidity needs;
- (c) has very diverse funding sources;
- (d) has significant concentrations of liquidity risk in either its assets or its funding sources;
- (e) has internal control processes and contingency plans for managing liquidity risk;
- (f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);
- (g) has instruments that could require the posting of collateral (eg margin calls for derivatives);
- (h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or
- (i) has instruments that are subject to master netting agreements.

Market risk – sensitivity analysis (paragraphs 40 and 41)

- B17 Paragraph 40(a) requires a sensitivity analysis for each type of market risk to which the entity is exposed. In accordance with paragraph B3, an entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:
- (a) an entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading.
 - (b) an entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.
- If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.
- B18 Paragraph 40(a) requires the sensitivity analysis to show the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable (eg prevailing market interest rates, currency rates, equity prices or commodity prices). For this purpose:
- (a) entities are not required to determine what the profit or loss for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on profit or loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on profit or loss (ie interest expense) for the current year if interest rates had varied by reasonably possible amounts.
 - (b) entities are not required to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.
- B19 In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:
- (a) the economic environments in which it operates. A reasonably possible change should not include remote or ‘worst case’ scenarios or ‘stress tests’. Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5 per cent and an entity determines that a fluctuation in interest rates of ± 50 basis points is reasonably possible. It would disclose the effect on profit or loss and equity if interest rates were to change to 4.5 per cent or 5.5 per cent. In the next period, interest rates have increased to 5.5 per cent. The entity continues to believe that interest rates may fluctuate by ± 50 basis points (ie that the rate of change in interest rates is stable). The entity would disclose the effect on profit or loss and equity if interest rates were to change to 5 per cent or 6 per cent. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by ± 50 basis points, unless there is evidence that interest rates have become significantly more volatile.
 - (b) the time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.
- B20 Paragraph 41 permits an entity to use a sensitivity analysis that reflects interdependencies between risk variables, such as a value-at-risk methodology, if it uses this analysis to manage its exposure to financial risks. This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain. Such an entity might comply with paragraph 41(a) by disclosing the type of value-at-risk model used (eg whether the model relies on Monte Carlo simulations), an explanation about how the model works and the main assumptions (eg the holding period and confidence level). Entities might also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.
- B21 An entity shall provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments.

Interest rate risk

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg loans and receivables and debt instruments issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

Currency risk

B23 *Currency risk* (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

B24 A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.

Other price risk

B25 Other price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. To comply with paragraph 40, an entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.

B26 Two examples of financial instruments that give rise to equity price risk are (a) a holding of equities in another entity and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments classified as at fair value through profit or loss and impairments of available-for-sale financial assets) is disclosed separately from the sensitivity of equity (that arises, for example, from instruments classified as available for sale).

B28 Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

NZ IFRS 8 *Operating Segments*

Operating segments

5 An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

6 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this NZ IFRS, an entity's post-employment benefit plans are not operating segments.

7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

8 For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a

variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

- 9 Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 5 apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.
- 10 The characteristics in paragraph 5 may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organisation. For example, in some entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the entity shall determine which set of components constitutes the operating segments by reference to the core principle.

Reportable segments

- 11 An entity shall report separately information about each operating segment that:
- (a) has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and
 - (b) exceeds the quantitative thresholds in paragraph 13.
- Paragraphs 14–19 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

- 12 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this NZ IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
- (a) the nature of the products and services;
 - (b) the nature of the production processes;
 - (c) the type or class of customer for their products and services;
 - (d) the methods used to distribute their products or provide their services; and
 - (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds

- 13 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
 - (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
 - (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

- 14 An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.
- 15 If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.
- 16 Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 28. The sources of the revenue included in the 'all other segments' category shall be described.
- 17 If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 13.
- 18 If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.
- 19 There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 13–18 increases above ten, the entity should consider whether a practical limit has been reached.

Disclosure

- 20 **An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.**
- 21 To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of comprehensive income is presented:
- general information as described in paragraph 22;
 - information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 23–27; and
 - reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 28.

Reconciliations of the amounts in the statement of financial position for reportable segments to the amounts in the entity's statement of financial position are required for each date at which a statement of financial position is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

General information

- 22 An entity shall disclose the following general information:
- factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and
 - types of products and services from which each reportable segment derives its revenues.

Information about profit or loss, assets and liabilities

- 23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision

maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

- (a) revenues from external customers;
- (b) revenues from transactions with other operating segments of the same entity;
- (c) interest revenue;
- (d) interest expense;
- (e) depreciation and amortisation;
- (f) material items of income and expense disclosed in accordance with paragraph 97 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007);
- (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
- (h) income tax expense or income; and
- (i) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

- 24 An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets:
- (a) the amount of investment in associates and joint ventures accounted for by the equity method, and
 - (b) the amounts of additions to non-current assets³⁰ other than financial instruments, deferred tax assets, post-employment benefit assets (see NZ IAS 19 *Employee Benefits* paragraphs 54–58) and rights arising under insurance contracts.

Measurement

- 25 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.
- 26 If the chief operating decision maker uses only one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment profit or loss, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.
- 27 An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:
- (a) the basis of accounting for any transactions between reportable segments.
 - (b) the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

³⁰ For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

- (c) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.
- (d) the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly utilised liabilities that are necessary for an understanding of the reported segment information.
- (e) the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.
- (f) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

28 An entity shall provide reconciliations of all of the following:

- (a) the total of the reportable segments' revenues to the entity's revenue.
- (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.
- (c) the total of the reportable segments' assets to the entity's assets.
- (d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.
- (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Restatement of previously reported information

29 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

30 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Entity-wide disclosures

31 Paragraphs 32–34 apply to all entities subject to this NZ IFRS including those entities that have a single reportable segment. Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this NZ IFRS.

Information about products and services

- 32 An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

- 33 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

- (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.
- (b) non-current assets³¹ other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major customers

- 34 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this NZ IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.

NZ IAS 1 *Presentation of Financial Statements*

Complete set of financial statements

- 10 A complete set of financial statements comprises:
- (a) a statement of financial position as at the end of the period;
 - (b) a statement of comprehensive income for the period;
 - (c) a statement of changes in equity for the period;
 - *(d) a statement of cash flows for the period;
 - (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
 - *(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in this Standard.

³¹ For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

General features

Fair presentation and compliance with IFRSs

15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *NZ Framework*. The application of NZ IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

RDR 15.1 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity applying the New Zealand Reduced Disclosure Requirements. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of the New Zealand Reduced Disclosure Requirements, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. [IFRS for SMEs 3.2]

16 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.

RDR 16.1 An entity whose financial statements comply with the New Zealand Reduced Disclosure Requirements shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with the New Zealand Reduced Disclosure Requirements unless they comply with all the requirements of the New Zealand Reduced Disclosure Requirements. Entities applying the New Zealand Reduced Disclosure Requirements would not be able to state compliance with IFRSs.

Comparative information

38 Except when NZ IFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

- (a) the end of the current period,
- (b) the end of the previous period (which is the same as the beginning of the current period), and
- (c) the beginning of the earliest comparative period.

Note: Qualifying entities that apply an accounting policy retrospectively or make a retrospective restatement of items or reclassify items, are required to prepare only the two statements of financial position required at the end of the current period and at the end of the previous period. [NZ IAS 1 NZ 6.5]

40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

41 When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

- (a) the nature of the reclassification;
- *(b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

- 42 **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**
- (a) **the reason for not reclassifying the amounts, and**
 - (b) **the nature of the adjustments that would have been made if the amounts had been reclassified.**
- 43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.
- 44 NZ IAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Statement of financial position

Information to be presented in the statement of financial position

- 54 **As a minimum, the statement of financial position shall include line items that present the following amounts:**
- (a) **property, plant and equipment;**
 - (b) **investment property;**
 - (c) **intangible assets;**
 - (d) **financial assets (excluding amounts shown under (e), (h) and (i));**
 - (e) **investments accounted for using the equity method;**
 - (f) **biological assets;**
 - (g) **inventories;**
 - (h) **trade and other receivables;**
 - (i) **cash and cash equivalents;**
 - * (j) **the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;**
 - (k) **trade and other payables;**
 - (l) **provisions;**
 - (m) **financial liabilities (excluding amounts shown under (k) and (l));**
 - (n) **liabilities and assets for current tax, as defined in NZ IAS 12 *Income Taxes*;**
 - (o) **deferred tax liabilities and deferred tax assets, as defined in NZ IAS 12;**
 - * (p) **liabilities included in disposal groups classified as held for sale in accordance with NZ IFRS 5;**
 - (q) **non-controlling interest, presented within equity; and**
 - (r) **issued capital and reserves attributable to owners of the parent.**
- 55 **An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**
- 56 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**
- 57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:
- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

- 58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
- (a) the nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.

- 59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with NZ IAS 16.

Current/non-current distinction

- 60 **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.**

- *61 **Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:**

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

- 62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

- 63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

- 64 In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

- 65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NZ IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Information to be presented either in the statement of financial position or in the notes

- 77 **An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

- 78 The detail provided in subclassifications depends on the requirements of NZ IFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:

- (a) items of property, plant and equipment are disaggregated into classes in accordance with NZ IAS 16;
- (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
- (c) inventories are disaggregated, in accordance with NZ IAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) provisions are disaggregated into provisions for employee benefits and other items; and
- (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

- 79 An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:
- (a) for each class of share capital:
 - ***(i)** the number of shares authorised;
 - (ii)** the number of shares issued and fully paid, and issued but not fully paid;
 - ***(iii)** par value per share, or that the shares have no par value;
 - (iv)** a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
 - (v)** the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
 - (vi)** shares in the entity held by the entity or by its subsidiaries or associates; and
 - (vii)** shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
 - (b)** a description of the nature and purpose of each reserve within equity.
- 80 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

80A If an entity has reclassified

- (a)** a puttable financial instrument classified as an equity instrument, or
 - (b)** an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument
- between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of comprehensive income

- 81 An entity shall present all items of income and expense recognised in a period:
- (a)** in a single statement of comprehensive income, or
 - (b)** in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

Information to be presented in the statement of comprehensive income

- 82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:
- (a)** revenue;
 - (b)** finance costs;
 - (c)** share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (d)** tax expense;
 - ***(e)** a single amount comprising the total of:
 - (i)** the post-tax profit or loss of discontinued operations and
 - (ii)** the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
 - (f)** profit or loss;
 - (g)** each component of other comprehensive income classified by nature (excluding amounts in (h));
 - (h)** share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
 - (i)** total comprehensive income.

- 83 An entity shall disclose the following items in the statement of comprehensive income as allocations for the period:**
- (a) profit or loss for the period attributable to:**
 - (i) non-controlling interest, and**
 - (ii) owners of the parent.**
 - (b) total comprehensive income for the period attributable to:**
 - (i) non-controlling interest, and**
 - (ii) owners of the parent.**
- 84 An entity may present in a separate income statement (see paragraph 81) the line items in paragraph 82(a)–(f) and the disclosures in paragraph 83(a).**
- 85 An entity shall present additional line items, headings and subtotals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity’s financial performance.**
- 86 Because the effects of an entity’s various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of comprehensive income and in the separate income statement (if presented), and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.
- 87 An entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income or the separate income statement (if presented), or in the notes.**

Profit or loss for the period

- 88 An entity shall recognise all items of income and expense in a period in profit or loss unless an NZ IFRS requires or permits otherwise.**
- 89 Some NZ IFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current period. NZ IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other NZ IFRSs require or permit components of other comprehensive income that meet the NZ *Framework*’s definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

- 90 An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes.**

Note: Para 90 is currently footnoted to refer to paragraph NZ 6.1 for the differential reporting concessions available in respect of paragraph 90.

Qualifying entities which account for income taxes under the taxes payable method are not required to disclose the amount of income tax relating to each component of other comprehensive income as required by paragraph 90.

- (a) Where components of other comprehensive income are presented net of related tax effects, the aggregate amount of income tax relating to components of other comprehensive income shall be disclosed in the notes.
- (b) Where components of other comprehensive income are presented before related tax effects with one amount shown for the aggregate amount of income tax relating to those components, the amount of income tax relating to each component of other comprehensive income is not required to be disclosed.

- 91 An entity may present components of other comprehensive income either:
- (a) net of related tax effects, or
 - (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93 Other NZ IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94 An entity may present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see NZ IAS 21), on derecognition of available-for-sale financial assets (see NZ IAS 39) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of NZ IAS 39 in relation to cash flow hedges).

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with NZ IAS 16 or NZ IAS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of NZ IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see NZ IAS 16 and NZ IAS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see NZ IAS 19).

Information to be presented in the statement of comprehensive income or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- *(e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

Note: Qualifying entities not required to disclose write-downs of inventories to net realisable value or reversals of such write-downs. [NZ IAS 1 NZ 6.3]

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of comprehensive income or in the separate income statement (if presented).

101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.

102 The first form of analysis is the 'nature of expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103 The second form of analysis is the ‘function of expense’ or ‘cost of sales’ method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue		X
Cost of sales		(X)
Gross profit		X
Other income		X
Distribution costs		(X)
Administrative expenses		(X)
Other expenses		(X)
Profit before tax		X

104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

105 The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the presentation that is reliable and more relevant. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 104, ‘employee benefits’ has the same meaning as in NZ IAS 19.

Statement of changes in equity

Information to be presented in the statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with NZ IAS 8; and
- (c) [deleted by IASB]
- (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and

- (iii) **transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.**

Note: Qualifying entities are not required to present a statement of changes in equity in accordance with Paragraph 106 in the following circumstances:

- (a) there have been no transactions between the entity and the entity's owners in their capacity as owners during the current or previous period; and
- (b) there have been no adjustments to the opening balance of retained earnings for the current or previous period.

Must state that paragraph 106 not complied with and explain why. [NZ IAS 1 NZ 6.2]

Information to be presented in the statement of comprehensive income or in the notes

106A For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106(d)(ii)).

107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

110 NZ IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another NZ IFRS require otherwise. NZ IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an NZ IFRS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

111 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. NZ IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

112 The notes shall:

- (a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;**
- (b) **disclose the information required by NZ IFRSs that is not presented elsewhere in the financial statements; and**
- (c) **provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.**

113 An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in the separate income

statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes.

- 114 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:
- (a) statement of compliance with IFRSs (see paragraph 16);
 - (b) summary of significant accounting policies applied (see paragraph 117);
 - (c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
 - (d) other disclosures, including:
 - (i) contingent liabilities (see NZ IAS 37) and unrecognised contractual commitments, and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see NZ IFRS 7).
- 115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.
- 116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

- 117 **An entity shall disclose in the summary of significant accounting policies:**
- (a) **the measurement basis (or bases) used in preparing the financial statements, and**
 - (b) **the other accounting policies used that are relevant to an understanding of the financial statements.**
- 118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
- 119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in NZ IFRSs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see NZ IAS 31 *Interests in Joint Ventures*). Some NZ IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, NZ IAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.
- 120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.
- 121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by NZ IFRSs but the entity selects and applies in accordance with NZ IAS 8.
- *122 **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**

- 123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:
- (a) whether financial assets are held-to-maturity investments;
 - (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
 - (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
 - (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

- 124 Some of the disclosures made in accordance with paragraph 122 are required by other NZ IFRSs. For example, NZ IAS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. NZ IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

- *125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

- (a) their nature, and**
- (b) their carrying amount as at the end of the reporting period.**

- 126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

- 127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

- 128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

- 129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

- (a) the nature of the assumption or other estimation uncertainty;
- (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

- 130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

- 131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
- 132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.
- 133 Other NZ IFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, NZ IAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. NZ IFRS 7 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. NZ IAS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

135 To comply with paragraph 134, the entity discloses the following:

- *(a) qualitative information about its objectives, policies and processes for managing capital, including:
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- *(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
- *(c) any changes in (a) and (b) from the previous period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

*136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable financial instruments classified as equity

136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

- (a) **summary quantitative data about the amount classified as equity;**
- (b) **its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;**
- (c) **the expected cash outflow on redemption or repurchase of that class of financial instruments; and**
- (d) **information about how the expected cash outflow on redemption or repurchase was determined.**

Other disclosures

- 137 An entity shall disclose in the notes:
- (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
 - (b) the amount of any cumulative preference dividends not recognised.
- 138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:
- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
 - (b) a description of the nature of the entity's operations and its principal activities;
 - (c) the name of the parent and the ultimate parent of the group; and
 - (d) if it is a limited life entity, information regarding the length of its life.

NZ IAS 2 Inventories

Disclosure

- 36 The financial statements shall disclose:
- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
 - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
 - *(c) the carrying amount of inventories carried at fair value less costs to sell;
 - *(d) the amount of inventories recognised as an expense during the period;
 - *(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;
 - *(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;
 - *(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and
 - (h) the carrying amount of inventories pledged as security for liabilities.

Note: Qualifying entities are not required to disclose the carrying amount of inventories in classifications appropriate to the entity as required in paragraph 36(b). Still required to disclose the total carrying amount of inventories in accordance with paragraph 36(b) and NZ IAS 1 paragraph 54(g). [NZ IAS 2 NZ 5.2]

NZ IAS 7 Statement of Cash Flows

Underlined text identifies the content inserted in NZ IAS 7 as a result of the *Harmonisation Amendments* (the trans-Tasman harmonisation project).

Reporting Cash Flows from Operating Activities

- 18 An entity shall report cash flows from operating activities using:
- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.
 - (b) The indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
- 19 Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the

indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the entity; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of comprehensive income for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits or associates; and
- (c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenue and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

Changes in ownership interests in Subsidiaries and Other Businesses

39 **The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.**

40 **An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:**

- (a) the total consideration paid or received;**
- (b) the portion of consideration consisting of cash and cash equivalents;**
- (c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and**
- (d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.**

41 The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

42 The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities.

42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see NZ IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

43 **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of

cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- (a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- (b) the acquisition of an entity by means of an equity issue; and
- (c) the conversion of debt to equity.

Components of cash and cash equivalents

45 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position.

46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with NZ IAS 1 *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
- (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- (d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see NZ IFRS 8 *Operating Segments*).

51 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

52 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Changes in accounting policies

Disclosure

- 28 When initial application of an NZ IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the title of the NZ IFRS;
 - (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
 - (c) the nature of the change in accounting policy;
 - (d) when applicable, a description of the transitional provisions;
 - (e) when applicable, the transitional provisions that might have an effect on future periods;
 - (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if NZ IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
 - (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

RDR 28.1 An entity applying the New Zealand Reduced Disclosure Requirements shall disclose an explanation if it is impracticable to determine the amounts required to be disclosed by paragraph 28(f)(i) or 28(g). [IFRS for SMEs 10.13]

- 29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the nature of the change in accounting policy;
 - (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
 - (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if NZ IAS 33 applies to the entity, for basic and diluted earnings per share;
 - (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

***30** When an entity has not applied a new NZ IFRS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new NZ IFRS will have on the entity's financial statements in the period of initial application.

31 In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new NZ IFRS;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the NZ IFRS is required;
- (d) the date as at which it plans to apply the NZ IFRS initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the NZ IFRS is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in accounting estimates

32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- (e) warranty obligations.

33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or**
- (b) the period of the change and future periods, if the change affects both.**

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Disclosure

- 39 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.
- 40 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

Errors

- 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with New Zealand equivalents to IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).
- 42 **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:**
- (a) **restating the comparative amounts for the prior period(s) presented in which the error occurred; or**
 - (b) **if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.**

Limitations on retrospective restatement

- 43 **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**
- 44 **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**
- 45 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**
- 46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.
- 47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of prior period errors

- 49 **In applying paragraph 42, an entity shall disclose the following:**
- (a) **the nature of the prior period error;**
 - (b) **for each prior period presented, to the extent practicable, the amount of the correction:**
 - (i) **for each financial statement line item affected; and**
 - (ii) **if NZ IAS 33 applies to the entity, for basic and diluted earnings per share;**
 - (c) **the amount of the correction at the beginning of the earliest prior period presented; and**

- (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

NZ IAS 10 *Events after the Reporting Period*

Dividends

- 12 If an entity declares dividends to holders of equity instruments (as defined in NZ IAS 32 *Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.
- 13 If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with NZ IAS 1 *Presentation of Financial Statements*.

Disclosure

Updating Disclosure about Conditions at the end of the Reporting Period

- 19 If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.
- 20 In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under NZ IAS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting Events after the Reporting Period

- 21 If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:
- (a) the nature of the event; and
 - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
- 22 The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:
- (a) a major business combination after the reporting period (NZ IFRS 3 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;
 - (b) announcing a plan to discontinue an operation;
 - (c) major purchases of assets, classification of assets as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;
 - (d) the destruction of a major production plant by a fire after the reporting period;
 - (e) announcing, or commencing the implementation of, a major restructuring (see NZ IAS 37);
 - (f) major ordinary share transactions and potential ordinary share transactions after the reporting period (NZ IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under NZ IAS 33);
 - (g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;
 - (h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see NZ IAS 12 *Income Taxes*);

- (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
- (j) commencing major litigation arising solely out of events that occurred after the reporting period.

NZ IAS 11 *Construction Contracts*

Disclosure

***39 An entity shall disclose:**

- (a) **the amount of contract revenue recognised as revenue in the period;**
- (b) **the methods used to determine the contract revenue recognised in the period; and**
- (c) **the methods used to determine the stage of completion of contracts in progress.**

Note: Para 39 concession available if using 'completed contract method'.

40 An entity shall disclose each of the following for contracts in progress at the end of the reporting period:

- (a) **the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;**
- (b) **the amount of advances received; and**
- (c) **the amount of retentions.**

41 Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed.

42 An entity shall present:

- (a) **the gross amount due from customers for contract work as an asset; and**
- (b) **the gross amount due to customers for contract work as a liability.**

43 The gross amount due from customers for contract work is the net amount of:

- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

44 The gross amount due to customers for contract work is the net amount of:

- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings

for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

45 An entity discloses any contingent liabilities and contingent assets in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from such items as warranty costs, claims, penalties or possible losses.

NZ IAS 12 *Income Taxes*

Disclosure

79 The major components of tax expense (income) shall be disclosed separately.

80 Components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods;
- (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
- (f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
- (g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and
- (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with NZ IAS 8, because they cannot be accounted for retrospectively.

Note: Qualifying entities using the income taxes payable method are not required to comply with paragraphs 80(c), (d), (f) and (g) insofar as they relate to deferred tax.

81 The following shall also be disclosed separately:

- (a) the aggregate current and deferred tax relating to items charged or credited directly to equity (see paragraph 62A);
- (ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and NZ IAS 1 (as revised in 2007));
- (b) [Deleted by IASB]
- (c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
 - (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
 - (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;
- (d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
- (e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position;
- *(f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 39);
- *(g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
 - (i) the amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented;
 - (ii) the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position;
- *(h) in respect of discontinued operations, the tax expense relating to:
 - (i) the gain or loss on discontinuance; and
 - (ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented*;
- (i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements;
- (j) if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and

* Refer to NZ IFRS 5 for the concessions available to qualifying entities.

- (k) if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.

Note: Qualifying entities using the income taxes payable method not required to comply with:

- (a) para 81(a) re disclosure of deferred tax relating to items charged or credited directly to equity;
- (b) para 81(e) re disclosure of deductible temporary differences for which no deferred tax asset is recognised;
- (c) para 81(j);
- (d) para 81(k);

RDR 81.1 An entity applying the New Zealand Reduced Disclosure Requirements shall disclose the aggregate amount of current and deferred income tax relating to items recognised in other comprehensive income. [IFRS for SMEs 29.32(a)]

82 An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- (a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- (b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

82A In the circumstances described in paragraph 52A [tax rate on undistributed profits], an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.

83 [Deleted by IASB]

84 The disclosures required by paragraph 81(c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

85 In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

86 The average effective tax rate is the tax expense (income) divided by the accounting profit.

87 It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.

87A Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.

87B It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign subsidiaries. However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a parent and some of its subsidiaries may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends to shareholders from consolidated retained earnings. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional

potential income tax consequences not practicably determinable. In the parent's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the parent's retained earnings.

87C An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in subsidiaries, branches and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.

88 An entity discloses any tax-related contingent liabilities and contingent assets in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see NZ IAS 10 *Events After the Reporting Period*).

NZ IAS 16 *Property, Plant and Equipment*

Disclosure

- 73 The financial statements shall disclose, for each class of property, plant and equipment:
- (a) the measurement bases used for determining the gross carrying amount;
 - (b) the depreciation methods used;
 - (c) the useful lives or the depreciation rates used;
 - (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
 - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:³²
 - (i) additions;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals;
 - (iii) acquisitions through business combinations;
 - (iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with NZ IAS 36;
 - (v) impairment losses recognised in profit or loss in accordance with NZ IAS 36;
 - (vi) impairment losses reversed in profit or loss in accordance with NZ IAS 36;
 - (vii) depreciation;
 - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
 - (ix) other changes.

Note: Qualifying entities are not required to provide the reconciliation as required by paragraph 73(e). However, entities using this exemption must still comply with paragraphs 73(e)(v) to 73(e)(vii) which require disclosure by each class of property, plant and equipment of impairment losses recognised, impairment losses reversed and depreciation.

RDR 73.1 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliation specified in paragraph 73(e) for prior periods. [IFRS for SMEs 17.31]

- 74 The financial statements shall also disclose:
- (a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

³² Refer to paragraph NZ 5.5 of this Standard for a description of the concession available to qualifying entities.

- * (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;**
 - (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and**
 - * (d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.**
- 75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:
- (a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and
 - (b) accumulated depreciation at the end of the period.
- 76 In accordance with NZ IAS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
- (a) residual values;
 - (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
 - (c) useful lives; and
 - (d) depreciation methods.
- 77 **If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:**
- (a) the effective date of the revaluation;**
 - (b) whether an independent valuer was involved;**
 - (c) the methods and significant assumptions applied in estimating the items' fair values;**
 - (d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;**
 - * (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and**
 - (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.**
- 78 In accordance with NZ IAS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)–(vi).
- 79 Users of financial statements may also find the following information relevant to their needs:
- (a) the carrying amount of temporarily idle property, plant and equipment;
 - (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
 - (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with NZ IFRS 5; and
 - (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.
- Therefore, entities are encouraged to disclose these amounts.

NZ IAS 17 Leases

Leases in the financial statements of lessees

Finance leases

Disclosures

- 31 Lessees shall, in addition to meeting the requirements of NZ IFRS 7 *Financial Instruments: Disclosures*, make the following disclosures for finance leases:
- (a) for each class of asset, the net carrying amount at the end of the reporting period.
 - (b) a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - * (c) contingent rents recognised as an expense in the period.
 - (d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.
 - * (e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:
 - (i) the basis on which contingent rent payable is determined;
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Note: Paragraph 31(b) RDR is same as current differential reporting concession.

- 32 In addition, the requirements for disclosure in accordance with NZ IAS 16, NZ IAS 36, NZ IAS 38, NZ IAS 40 and NZ IAS 41 apply to lessees for assets leased under finance leases.

Operating leases

Disclosures

- 35 Lessees shall, in addition to meeting the requirements of NZ IFRS 7, make the following disclosures for operating leases:
- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - (b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.
 - (c) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.
 - * (d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
 - (i) the basis on which contingent rent payable is determined;
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Leases in the financial statements of lessors

Finance leases

Disclosures

- 47 Lessors shall, in addition to meeting the requirements in NZ IFRS 7, disclose the following for finance leases:
- * (a) a reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - (b) unearned finance income.
 - (c) the unguaranteed residual values accruing to the benefit of the lessor.
 - * (d) the accumulated allowance for uncollectible minimum lease payments receivable.
 - * (e) contingent rents recognised as income in the period.
 - * (f) a general description of the lessor's material leasing arrangements.
- 48 As an indicator of growth it is often useful also to disclose the gross investment less unearned income in new business added during the period, after deducting the relevant amounts for cancelled leases.

Operating leases

Disclosures

- *56 Lessors shall, in addition to meeting the requirements of NZ IFRS 7, disclose the following for operating leases:
- (a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - (b) total contingent rents recognised as income in the period.
 - (c) a general description of the lessor's leasing arrangements.

NZ IAS 18 Revenue

Disclosure

- 35 An entity shall disclose:
- (a) the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
 - * (b) the amount of each significant category of revenue recognised during the period including revenue arising from:
 - (i) the sale of goods;
 - (ii) the rendering of services;
 - (iii) interest;
 - (iv) royalties;

- (v) dividends; and
- *(c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

NZ IAS 19 *Employee Benefits*

Short-term employee benefits

Disclosure

- 23 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

Multi-employer plans

- 29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:
- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
 - (b) disclose the information required by paragraph 120A.
- 30 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:
- (a) account for the plan under paragraphs 44–46 as if it were a defined contribution plan;
 - (b) disclose:
 - (i) the fact that the plan is a defined benefit plan; and
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
 - (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
 - (i) any available information about that surplus or deficit;
 - (ii) the basis used to determine that surplus or deficit; and
 - (iii) the implications, if any, for the entity.

Defined benefit plans that share risks between various entities under common control

- 34 Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans ...
- 34A An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with NZ IAS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with NZ IAS 19 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

- 34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
 - (b) the policy for determining the contribution to be paid by the entity.
 - (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with paragraphs 120–121.
 - (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with paragraphs 120A(b)–(e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.

Post-employment benefits: defined contribution plans

Disclosure

- 46 An entity shall disclose the amount recognised as an expense for defined contribution plans.
- 47 Where required by NZ IAS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

Disclosure

- 120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.
- 120A An entity shall disclose the following information about defined benefit plans:
- (a) the entity's accounting policy for recognising actuarial gains and losses.
 - (b) a general description of the type of plan.
 - * (c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) current service cost,
 - (ii) interest cost,
 - (iii) contributions by plan participants,
 - (iv) actuarial gains and losses,
 - (v) foreign current exchange rate changes on plans measured in a currency different from the entity's presentation currency,
 - (vi) benefits paid,
 - (vii) past service cost,
 - (viii) business combinations,
 - (ix) curtailments, and
 - (x) settlements,
 - * (d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.
 - * (e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) expected return on plan assets,
 - (ii) actuarial gains and losses,

- (iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,
 - (iv) contributions by the employer,
 - (v) contributions by plan participants,
 - (vi) benefits paid, [IFRS for SMEs 28.41(f) equivalent to para 120A(e)(iv) and (v) plus 'other changes']
 - (vii) business combinations and
 - (viii) settlements.
- (f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the statement of financial position, showing at least:
- (i) the net actuarial gains or losses not recognised in the statement of financial position (see paragraph 92);
 - (ii) the past service cost not recognised in the statement of financial position (see paragraph 96);
 - (iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);
 - (iv) the fair value at the end of the reporting period of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
 - (v) the other amounts recognised in the statement of financial position.
- (g) the total expense recognised in profit or loss for each of the following, and the line item(s) in which they are included:
- (i) current service cost;
 - (ii) interest cost;
 - (iii) expected return on plan assets;
 - (iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A;
 - (v) actuarial gains and losses;
 - (vi) past service cost;
 - (vii) the effect of any curtailment or settlement; and
 - (viii) the effect of the limit in paragraph 58(b).
- (h) the total amount recognised in other comprehensive income for each of the following:
- (i) actuarial gains and losses; and
 - (ii) the effect of the limit in paragraph 58(b).
- (i) for entities that recognise actuarial gains and losses in other comprehensive income in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in other comprehensive income.
- * (j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
- * (k) the amounts included in the fair value of plan assets for:
- (i) each category of the entity's own financial instruments; and
 - (ii) any property occupied by, or other assets used by, the entity.
- (l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.
- (m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.
- (n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
- (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;

- (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;
- (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
- (v) medical cost trend rates; and
- (vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

***(o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:**

- (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
- (ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(p) the amounts for the current annual period and previous four annual periods of:

- (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
- (ii) the experience adjustments arising on:
 - (A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period and
 - (B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period.

(q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the end of the reporting period.

RDR 120A.1 An entity applying the New Zealand Reduced Disclosure Requirements shall disclose a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes. These disclosures may be made in total, separately for each plan, or in such groupings as are considered to be most useful. [IFRS for SMEs 28.41(e)]

RDR 120A.2 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraphs 120A(e) and NZ 120A.1 for prior periods. [IFRS for SMEs 28.41]

121 Paragraph 120A(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 52. Further detail is not required.

122 When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

- (a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or
- (b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

123 Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

124 Where required by NZ IAS 24 an entity discloses information about:

- (a) related party transactions with post-employment benefit plans; and
- (b) post-employment benefits for key management personnel.

- 125 Where required by NZ IAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

Disclosure

- 131 Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with NZ IAS 1. When required by NZ IAS 24, an entity discloses information about other long-term employee benefits for key management personnel.

Termination benefits

Disclosure

- 141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by NZ IAS 37 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
- 142 As required by NZ IAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
- 143 Where required by NZ IAS 24 an entity discloses information about termination benefits for key management personnel.

NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Disclosure

- 51 In paragraphs 53 and 55–57 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.
- 52 An entity shall disclose:
- *(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with NZ IAS 39; and
 - (b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.
- 53 When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.
- 54 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.
- 55 When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with NZ IFRSs and IFRSs only if they comply with all the requirements of each applicable NZ IFRS and IFRS including the translation method set out in paragraphs 39 and 42.
- 56 An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with NZ IFRSs and the disclosures set out in paragraph 57 are required.

- 57** When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:
- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with IFRSs;
 - (b) disclose the currency in which the supplementary information is displayed; and
 - (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

Note: Qualifying entities are permitted to translate foreign currency transactions settled during the accounting period at the settlement rate.

NZ IAS 23 *Borrowing Costs*

Disclosure

- *26** An entity shall disclose:
- (a) the amount of borrowing costs capitalised during the period; and
 - (b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Note: Qualifying entities are permitted to expense all borrowing costs.

NZ IAS 24 *Related Party Disclosures*

Disclosures

All entities

- 13** Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
- 14** To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.
- 15** The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in NZ IAS 27, NZ IAS 28 *Investments in Associates* and NZ IAS 31 *Interests in Joint Ventures*.
- 16** Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
- *17** An entity shall disclose key management personnel compensation in total and for each of the following categories:
- (a) short-term employee benefits;
 - (b) post-employment benefits;
 - (c) other long-term benefits;
 - (d) termination benefits; and
 - (e) share-based payment.
- 18** If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect

of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments, and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:

- (a) the parent;
- (b) entities with joint control or significant influence over the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties.

20 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in NZ IAS 1 *Presentation of Financial Statements* for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

21 The following are examples of transactions that are disclosed if they are with a related party:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) leases;
- (e) transfers of research and development;
- (f) transfers under licence agreements;
- (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) provision of guarantees or collateral;
- (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts³³ (recognised and unrecognised); and
- (j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.

22 Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties.

23 Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

24 **Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.**

³³ NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

NZ IAS 27 *Consolidated and Separate Financial Statements*

Disclosure

- 41 The following disclosures shall be made in consolidated financial statements:
- (a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;
 - (b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;
 - (c) the end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent's financial statements, and the reason for using a different date or period;
 - (d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances;
 - (e) a schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent; and
 - (f) if control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph 34, and:
 - (i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and
 - (ii) the line item(s) in the statement of comprehensive income in which the gain or loss is recognised (if not presented separately in the statement of comprehensive income).
- 42 When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:
- (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with New Zealand equivalents to International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b).
- 43 When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:
- (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b);
- and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard or NZ IAS 28 and NZ IAS 31 to which they relate.

<p>RDR 43.1 A parent, venturer with an interest in a jointly controlled entity or an investor in an associate, that prepares financial statements applying the New Zealand Reduced Disclosure Requirements shall disclose a description of the methods used to account for the investments in subsidiaries, jointly controlled entities and associates. [IFRS for SMEs 9.27(b)]</p>
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NZ IAS 28 *Investments in Associates*

Disclosure

- 37 The following disclosures shall be made:
- (a) the fair value of investments in associates for which there are published price quotations;
 - *(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;**
 - (c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;**
 - (d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;**
 - (e) the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different date or different period;**
 - (f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;**
 - (g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**
 - (h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and**
 - (i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.**
- 38 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.
- 39 The investor's share of changes recognised in other comprehensive income by the associate shall be recognised by the investor in other comprehensive income.
- 40 In accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the investor shall disclose:
- (a) its share of the contingent liabilities of an associate incurred jointly with other investors; and
 - (b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

NZ IAS 31 *Interests in Joint Ventures*

Disclosure

- 54 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
- (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
 - (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

- (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
- 55 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:
- (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
- (b) its share of the capital commitments of the joint ventures themselves.
- 56 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
- 57 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

NZ IAS 33 *Earnings per Share*

Definitions

- 5 The following terms are used in this Standard with the meanings specified:
- Antidilution** is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
- A contingent share agreement** is an agreement to issue shares that is dependent on the satisfaction of specified conditions.
- Contingently issuable ordinary shares** are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.
- Dilution** is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
- Options, warrants and their equivalents** are financial instruments that give the holder the right to purchase ordinary shares.
- An ordinary share** is an equity instrument that is subordinate to all other classes of equity instruments.
- A potential ordinary share** is a financial instrument or other contract that may entitle its holder to ordinary shares.
- Put options on ordinary shares** are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.
- 6 Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends.
- 7 Examples of potential ordinary shares are:
- (a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
- (b) options and warrants;
- (c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.
- 8 Terms defined in NZ IAS 32 *Financial Instruments: Presentation* are used in this Standard with the meanings specified in paragraph 11 of NZ IAS 32, unless otherwise noted. NZ IAS 32 defines financial instrument, financial asset, financial liability, equity instrument and fair value, and provides guidance on applying those definitions.

Measurement

Basic Earnings per Share

- 9 An entity shall *calculate* basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.
- 10 Basic earnings per share shall be calculated by dividing profit or loss attributable to *ordinary* equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.
- 11 The objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

Earnings

- 12 For the *purpose* of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:
- (a) profit or loss from continuing operations attributable to the parent entity; and
 - (b) profit or loss attributable to the parent entity
- shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.
- 13 All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see NZ IAS 1).
- 14 The after-tax amount of preference dividends that is deducted from profit or loss is:
- (a) the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and
 - (b) the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.
- 15 Preference shares that provide for a low initial dividend to compensate an entity for selling the preference shares at a discount, or an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium, are sometimes referred to as increasing rate preference shares. Any original issue discount or premium on increasing rate preference shares is amortised to retained earnings using the effective interest method and treated as a preference dividend for the purposes of calculating earnings per share.
- 16 Preference shares may be repurchased under an entity's tender offer to the holders. The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents a return to the holders of the preference shares and a charge to retained earnings for the entity. This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
- 17 Early conversion of convertible preference shares may be induced by an entity through favourable changes to the original conversion terms or the payment of additional consideration. The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders, and is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.
- 18 Any excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

Shares

- 19 For the *purpose* of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.
- 20 Using the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares

being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

21 Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:

- (a) ordinary shares issued in exchange for cash are included when cash is receivable;
- (b) ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included when dividends are reinvested;
- (c) ordinary shares issued as a result of the conversion of a debt instrument to ordinary shares are included from the date that interest ceases to accrue;
- (d) ordinary shares issued in place of interest or principal on other financial instruments are included from the date that interest ceases to accrue;
- (e) ordinary shares issued in exchange for the settlement of a liability of the entity are included from the settlement date;
- (f) ordinary shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and
- (g) ordinary shares issued for the rendering of services to the entity are included as the services are rendered.

The timing of the inclusion of ordinary shares is determined by the terms and conditions attaching to their issue. Due consideration is given to the substance of any contract associated with the issue.

22 Ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its statement of comprehensive income the acquiree's profits and losses from that date.

23 Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into.

24 Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (ie the events have occurred). Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.

25 Outstanding ordinary shares that are contingently returnable (ie subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

26 The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

27 Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:

- (a) a capitalisation or bonus issue (sometimes referred to as a stock dividend);
- (b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
- (c) a share split; and
- (d) a reverse share split (consolidation of shares).

28 In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. For example, on a two-for-one bonus issue, the number of ordinary shares outstanding before the issue is multiplied by three to obtain the new total number of ordinary shares, or by two to obtain the number of additional ordinary shares.

29 A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase at fair value, the reduction in the number of ordinary shares outstanding is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of

ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognised.

Diluted Earnings per Share

- 30 An *entity* shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.
- 31 For the purpose of calculating diluted earnings per share, an entity shall adjust *profit* or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.
- 32 The objective of diluted earnings per share is consistent with that of basic earnings per share – to provide a measure of the interest of each ordinary share in the performance of an entity – while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:
- (a) profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and
 - (b) the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings

- 33 For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with paragraph 12, by the after-tax effect of:
- (a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated in accordance with paragraph 12;
 - (b) any interest recognised in the period related to dilutive potential ordinary shares; and
 - (c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- 34 After the potential ordinary shares are converted into ordinary shares, the items identified in paragraph 33(a)(c) no longer arise. Instead, the new ordinary shares are entitled to participate in profit or loss attributable to ordinary equity holders of the parent entity. Therefore, profit or loss attributable to ordinary equity holders of the parent entity calculated in accordance with paragraph 12 is adjusted for the items identified in paragraph 33(a)–(c) and any related taxes. The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method (see paragraph 9 of NZ IAS 39 *Financial Instruments: Recognition and Measurement*).
- 35 The conversion of potential ordinary shares may lead to consequential changes in income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in profit or reduction in loss may lead to an increase in the expense related to a non-discretionary employee profit-sharing plan. For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity is adjusted for any such consequential changes in income or expense.

Shares

- 36 For the *purpose* of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.
- 37 Dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.

- 38 Potential ordinary shares are weighted for the period they are outstanding. Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.
- 39 The number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. When more than one basis of conversion exists, the calculation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.
- 40 A subsidiary, joint venture or associate may issue to parties other than the parent, venturer or investor potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity). If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

Dilutive Potential Ordinary Shares

- 41 **Potential ordinary shares shall be treated as dilutive when, and only when, their *conversion to ordinary shares* would decrease earnings per share or increase loss per share from continuing operations.**
- 42 An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. Profit or loss from continuing operations attributable to the parent entity is adjusted in accordance with paragraph 12 and excludes items relating to discontinuing operations.
- 43 Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.
- 44 In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive, ie dilutive potential ordinary shares with the lowest ‘earnings per incremental share’ are included in the diluted earnings per share calculation before those with a higher earnings per incremental share. Options and warrants are generally included first because they do not affect the numerator of the calculation.

Options, warrants and their equivalents

- 45 **For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.**
- 46 Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Therefore, to calculate diluted earnings per share, potential ordinary shares are treated as consisting of both the following:
- (a) a contract to issue a certain number of the ordinary shares at their average market price during the period. Such ordinary shares are assumed to be fairly priced and to be neither dilutive nor antidilutive. They are ignored in the calculation of diluted earnings per share.
 - (b) a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share.
- 47 Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants (ie they are ‘in the money’). Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.

47A For share options and other share-based payment arrangements to which NZ IFRS 2 *Share-based Payment* applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.

48 Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Convertible instruments

49 The dilutive effect of convertible instruments shall be reflected in diluted earnings per share in accordance with paragraphs 33 and 36.

50 Convertible preference shares are antidilutive whenever the amount of the dividend on such shares declared in or accumulated for the current period per ordinary share obtainable on conversion exceeds basic earnings per share. Similarly, convertible debt is antidilutive whenever its interest (net of tax and other changes in income or expense) per ordinary share obtainable on conversion exceeds basic earnings per share.

51 The redemption or induced conversion of convertible preference shares may affect only a portion of the previously outstanding convertible preference shares. In such cases, any excess consideration referred to in paragraph 17 is attributed to those shares that are redeemed or converted for the purpose of determining whether the remaining outstanding preference shares are dilutive. The shares redeemed or converted are considered separately from those shares that are not redeemed or converted.

Contingently issuable shares

52 As in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (ie the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.

53 If attainment or maintenance of a specified amount of earnings for a period is the condition for contingent issue and if that amount has been attained at the end of the reporting period but must be maintained beyond the end of the reporting period for an additional period, then the additional ordinary shares are treated as outstanding, if the effect is dilutive, when calculating diluted earnings per share. In that case, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the amount of earnings at the end of the reporting period were the amount of earnings at the end of the contingency period. Because earnings may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

54 The number of ordinary shares contingently issuable may depend on the future market price of the ordinary shares. In that case, if the effect is dilutive, the calculation of diluted earnings per share is based on the number of ordinary shares that would be issued if the market price at the end of the reporting period were the market price at the end of the contingency period. If the condition is based on an average of market prices over a period of time that extends beyond the end of the reporting period, the average for the period of time that has lapsed is used. Because the market price may change in a future period, the calculation of basic earnings per share does not include such contingently issuable ordinary shares until the end of the contingency period because not all necessary conditions have been satisfied.

55 The number of ordinary shares contingently issuable may depend on future earnings and future prices of the ordinary shares. In such cases, the number of ordinary shares included in the diluted earnings per share calculation is based on both conditions (ie earnings to date and the current market price at the end of the reporting period). Contingently issuable ordinary shares are not included in the diluted earnings per share calculation unless both conditions are met.

56 In other cases, the number of ordinary shares contingently issuable depends on a condition other than earnings or market price (for example, the opening of a specific number of retail stores). In such cases, assuming that the present status of the condition remains unchanged until the end of the contingency period, the contingently issuable ordinary shares are included in the calculation of diluted earnings per share according to the status at the end of the reporting period.

57 Contingently issuable potential ordinary shares (other than those covered by a contingent share agreement, such as contingently issuable convertible instruments) are included in the diluted earnings per share calculation as follows:

- (a) an entity determines whether the potential ordinary shares may be assumed to be issuable on the basis of the conditions specified for their issue in accordance with the contingent ordinary share provisions in paragraphs 52–56; and
- (b) if those potential ordinary shares should be reflected in diluted earnings per share, an entity determines their impact on the calculation of diluted earnings per share by following the provisions for options and warrants in paragraphs 45–48, the provisions for convertible instruments in paragraphs 49–51, the provisions for contracts that may be settled in ordinary shares or cash in paragraphs 58–61, or other provisions, as appropriate.

However, exercise or conversion is not assumed for the purpose of calculating diluted earnings per share unless exercise or conversion of similar outstanding potential ordinary shares that are not contingently issuable is assumed.

Contracts that may be settled in ordinary shares or cash

58 **When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.**

59 When such a contract is presented for accounting purposes as an asset or a liability, or has an equity component and a liability component, the entity shall adjust the numerator for any changes in profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument. That adjustment is similar to the adjustments required in paragraph 33.

60 **For contracts that may be settled in ordinary shares or cash at the holder's option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share.**

61 An example of a contract that may be settled in ordinary shares or cash is a debt instrument that, on maturity, gives the entity the unrestricted right to settle the principal amount in cash or in its own ordinary shares. Another example is a written put option that gives the holder a choice of settling in ordinary shares or cash.

Purchased options

62 Contracts such as purchased put options and purchased call options (ie options held by the entity on its own ordinary shares) are not included in the calculation of diluted earnings per share because including them would be antidilutive. The put option would be exercised only if the exercise price were higher than the market price and the call option would be exercised only if the exercise price were lower than the market price.

Written put options

63 **Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money' during the period (ie the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:**

- (a) **it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;**
- (b) **it shall be assumed that the proceeds from the issue are used to satisfy the contract (ie to buy back ordinary shares); and**
- (c) **the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share.**

Retrospective Adjustments

64 **If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the end of the reporting period but before the financial statements are authorised for**

issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies, accounted for retrospectively.

65 An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.

Presentation

66 **An entity shall present in the statement of comprehensive income basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.**

67 Earnings per share is presented for every period for which a statement of comprehensive income is presented. If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in the statement of comprehensive income.

67A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of NZ IAS 1 (as revised in 2007), it presents basic and diluted earnings per share, as required in paragraphs 66 and 67, in that separate statement.

68 **An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.**

68A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of NZ IAS 1 (as revised in 2007), it presents basic and diluted earnings per share for the discontinued operation, as required in paragraph 68, in that separate statement or in the notes.

69 *An entity shall present basic and diluted earnings per share, even if the amounts are negative (ie a loss per share).*

Disclosure

70 **An entity shall disclose the following:**

- (a) **the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.**
- (b) **the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.**
- (c) **instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.**
- (d) **a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, that occur after the end of the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.**

71 Examples of transactions in paragraph 70(d) include:

- (a) an issue of shares for cash;
- (b) an issue of shares when the proceeds are used to repay debt or preference shares outstanding at the end of the reporting period;
- (c) the redemption of ordinary shares outstanding;

- (d) the conversion or exercise of potential ordinary shares outstanding at the end of the reporting period into ordinary shares;
- (e) an issue of options, warrants, or convertible instruments; and
- (f) the achievement of conditions that would result in the issue of contingently issuable shares.

Earnings per share amounts are not adjusted for such transactions occurring after the end of the reporting period because such transactions do not affect the amount of capital used to produce profit or loss for the period.

72 Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions that affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to profit or loss attributable to ordinary equity holders. The disclosure of the terms and conditions of such financial instruments and other contracts is encouraged, if not otherwise required (see NZ IFRS 7 *Financial Instruments: Disclosures*).

73 If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.

73A Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the separate income statement (as described in paragraph 81 of NZ IAS 1 (as revised in 2007)), other than one required by this Standard.

Appendix A Application Guidance

This Appendix is an integral part of the Standard.

Profit or loss attributable to the parent entity

A1 For the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

Rights issues

A2 The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for full value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. Therefore, as noted in paragraph 27(b), such a rights issue includes a bonus element. If a rights issue is offered to all existing shareholders, the number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue is the number of ordinary shares outstanding before the issue, multiplied by the following factor:

$$\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate market value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights.

Control number

- A3 To illustrate the application of the control number notion described in paragraphs 42 and 43, assume that an entity has profit from continuing operations attributable to the parent entity of CU4,800,³⁴ a loss from discontinued operations attributable to the parent entity of (CU7,200), a loss attributable to the parent entity of (CU2,400), and 2,000 ordinary shares and 400 potential ordinary shares outstanding. The entity's basic earnings per share is CU2.40 for continuing operations, (CU3.60) for discontinued operations and (CU1.20) for the loss. The 400 potential ordinary shares are included in the diluted earnings per share calculation because the resulting CU2.00 earnings per share for continuing operations is dilutive, assuming no profit or loss impact of those 400 potential ordinary shares. Because profit from continuing operations attributable to the parent entity is the control number, the entity also includes those 400 potential ordinary shares in the calculation of the other earnings per share amounts, even though the resulting earnings per share amounts are antidilutive to their comparable basic earnings per share amounts, ie the loss per share is less [(CU3.00) per share for the loss from discontinued operations and (CU1.00) per share for the loss].

Average market price of ordinary shares

- A4 For the purpose of calculating diluted earnings per share, the average market price of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares during the period. Theoretically, every market transaction for an entity's ordinary shares could be included in the determination of the average market price. As a practical matter, however, a simple average of weekly or monthly prices is usually adequate.
- A5 Generally, closing market prices are adequate for calculating the average market price. When prices fluctuate widely, however, an average of the high and low prices usually produces a more representative price. The method used to calculate the average market price is used consistently unless it is no longer representative because of changed conditions. For example, an entity that uses closing market prices to calculate the average market price for several years of relatively stable prices might change to an average of high and low prices if prices start fluctuating greatly and the closing market prices no longer produce a representative average price.

Options, warrants and their equivalents

- A6 Options or warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the options or warrants. However, exercise is not assumed unless conversion of similar outstanding convertible instruments, if any, is also assumed.
- A7 Options or warrants may permit or require the tendering of debt or other instruments of the entity (or its parent or a subsidiary) in payment of all or a portion of the exercise price. In the calculation of diluted earnings per share, those options or warrants have a dilutive effect if (a) the average market price of the related ordinary shares for the period exceeds the exercise price or (b) the selling price of the instrument to be tendered is below that at which the instrument may be tendered under the option or warrant agreement and the resulting discount establishes an effective exercise price below the market price of the ordinary shares obtainable upon exercise. In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the debt or other instruments are assumed to be tendered. If tendering cash is more advantageous to the option or warrant holder and the contract permits tendering cash, tendering of cash is assumed. Interest (net of tax) on any debt assumed to be tendered is added back as an adjustment to the numerator.
- A8 Similar treatment is given to preference shares that have similar provisions or to other instruments that have conversion options that permit the investor to pay cash for a more favourable conversion rate.
- A9 The underlying terms of certain options or warrants may require the proceeds received from the exercise of those instruments to be applied to redeem debt or other instruments of the entity (or its parent or a subsidiary). In the calculation of diluted earnings per share, those options or warrants are assumed to be exercised and the proceeds applied to purchase the debt at its average market price rather than to purchase ordinary shares. However, the excess proceeds received from the assumed exercise over the amount used for the assumed purchase of debt are considered (ie assumed to be used to buy back ordinary shares) in the diluted earnings per share calculation. Interest (net of tax) on any debt assumed to be purchased is added back as an adjustment to the numerator.

³⁴ In this guidance, monetary amounts are denominated in 'currency units' (CU).

Written put options

A10 To illustrate the application of paragraph 63, assume that an entity has outstanding 120 written put options on its ordinary shares with an exercise price of CU35. The average market price of its ordinary shares for the period is CU28. In calculating diluted earnings per share, the entity assumes that it issued 150 shares at CU28 per share at the beginning of the period to satisfy its put obligation of CU4,200. The difference between the 150 ordinary shares issued and the 120 ordinary shares received from satisfying the put option (30 incremental ordinary shares) is added to the denominator in calculating diluted earnings per share.

Instruments of subsidiaries, joint ventures or associates

A11 Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, venturer or investor (the reporting entity) are included in the calculation of diluted earnings per share as follows:

- (a) instruments issued by a subsidiary, joint venture or associate that enable their holders to obtain ordinary shares of the subsidiary, joint venture or associate are included in calculating the diluted earnings per share data of the subsidiary, joint venture or associate. Those earnings per share are then included in the reporting entity's earnings per share calculations based on the reporting entity's holding of the instruments of the subsidiary, joint venture or associate.
- (b) instruments of a subsidiary, joint venture or associate that are convertible into the reporting entity's ordinary shares are considered among the potential ordinary shares of the reporting entity for the purpose of calculating diluted earnings per share. Likewise, options or warrants issued by a subsidiary, joint venture or associate to purchase ordinary shares of the reporting entity are considered among the potential ordinary shares of the reporting entity in the calculation of consolidated diluted earnings per share.

A12 For the purpose of determining the earnings per share effect of instruments issued by a reporting entity that are convertible into ordinary shares of a subsidiary, joint venture or associate, the instruments are assumed to be converted and the numerator (profit or loss attributable to ordinary equity holders of the parent entity) adjusted as necessary in accordance with paragraph 33. In addition to those adjustments, the numerator is adjusted for any change in the profit or loss recorded by the reporting entity (such as dividend income or equity method income) that is attributable to the increase in the number of ordinary shares of the subsidiary, joint venture or associate outstanding as a result of the assumed conversion. The denominator of the diluted earnings per share calculation is not affected because the number of ordinary shares of the reporting entity outstanding would not change upon assumed conversion.

Participating equity instruments and two-class ordinary shares

A13 The equity of some entities includes:

- (a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).
- (b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

A14 For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. For those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings. To calculate basic and diluted earnings per share:

- (a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).
- (b) the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

- (c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

Partly paid shares

- A15 Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share.
- A16 To the extent that partly paid shares are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. The unpaid balance is assumed to represent proceeds used to purchase ordinary shares. The number of shares included in diluted earnings per share is the difference between the number of shares subscribed and the number of shares assumed to be purchased.

NZ IAS 34 Interim Financial Reporting

Content of an interim financial report

- 5 NZ IAS 1 (as revised in 2007) defines a complete set of financial statements³⁵ as including the following components:
- (a) a statement of financial position as at the end of the period;
 - (b) a statement of comprehensive income for the period;
 - (c) a statement of changes in equity for the period;
 - (d) a statement of cash flows for the period;
 - (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
 - (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Note: Qualifying entities are not required to prepare a statement of financial position at the beginning of the earliest comparative period.

Other disclosures

- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.
- (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.
 - (b) explanatory comments about the seasonality or cyclicity of interim operations.
 - (c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.
 - (d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
 - (e) issues, repurchases, and repayments of debt and equity securities.
 - (f) dividends paid (aggregate or per share) separately for ordinary shares and other shares.

³⁵ Refer to NZ IAS 1 paragraphs 10 and NZ 10.1 for details of the concessions available to qualifying entities and public benefit entities in respect of a complete set of financial statements.

- (g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if NZ IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):
- (i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.
 - (ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.
 - (iii) a measure of segment profit or loss.
 - (iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements.
 - (v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.
 - (vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.
- (h) material events after the interim period that have not been reflected in the financial statements for the interim period.
- (i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by NZ IFRS 3 *Business Combinations*.

Note: Para 16A was formerly para 16 but has some amendments inserted by *Improvements to NZ IFRSs* issued in July 2010.

Disclosure of compliance with IFRSs

- 19 If an entity's interim financial report is in compliance with IAS 34, that fact shall be disclosed. An interim financial report shall not be described as complying with IFRSs unless it complies with all of the requirements of IFRSs. [Paragraph 19 of IAS 34 amended by the FRSB to clarify that the paragraph refers to IAS 34.]

RDR 19.1 If an entity's financial report is in compliance with this Standard as it applies to entities applying the New Zealand Reduced Disclosure Requirements, that fact shall be disclosed. An interim financial report shall not be described as complying with the New Zealand Reduced Disclosure Requirements unless it complies with all of the requirements of the New Zealand Reduced Disclosure Requirements.

Note: The *IFRS for SMEs* doesn't have a section on Interim Financial Reporting so there is no similar requirement to RDR 19.1 in the *IFRS for SMEs*.

Periods for which interim financial statements are required to be presented

- 20 Interim reports shall include interim financial statements (condensed or complete) for periods as follows:
- (a) statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.
 - (b) statements of comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by NZ IAS 1 (as revised in 2007), an interim report may present for each period either a single statement of comprehensive income, or a statement displaying components of

profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

- (c) **statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**
- (d) **statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

21 For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful. Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in the preceding paragraph.

NZ IAS 36 *Impairment of Assets*

Note: Qualifying entities are not required to comply with paragraph 10 which requires an entity to undertake an annual assessment of impairment of an intangible asset with an indefinite useful life or an intangible asset not yet available for use or goodwill acquired by a business combination. Qualifying entities are required to test for impairment the assets identified in paragraph 10 only when there is an indication that the assets identified may be impaired at the end of the reporting period, in accordance with the requirement in paragraph 9.

Disclosure

126 **An entity shall disclose the following for each class of assets:**

- (a) **the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are included.**
- (b) **the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are reversed.**
- (c) **the amount of impairment losses on revalued assets recognised in other comprehensive income during the period.**
- (d) **the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.**

127 A class of assets is a grouping of assets of similar nature and use in an entity's operations.

128 The information required in paragraph 126 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required by NZ IAS 16.

***129 An entity that reports segment information in accordance with NZ IFRS 8 shall disclose the following for each reportable segment:**

- (a) **the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period.**
- (b) **the amount of reversals of impairment losses recognised in profit or loss and in other comprehensive income during the period.**

***130 An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**

- (a) **the events and circumstances that led to the recognition or reversal of the impairment loss.**
- (b) **the amount of the impairment loss recognised or reversed.**
- (c) **for an individual asset:**
 - (i) **the nature of the asset; and**
 - (ii) **if the entity reports segment information in accordance with NZ IFRS 8, the reportable segment to which the asset belongs.**

- (d) for a cash-generating unit:**
 - (i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in NZ IFRS 8);**
 - (ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with NZ IFRS 8, by reportable segment; and**
 - (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.**
- (e) whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use.**
- (f) if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).**
- (g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**

***131 An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:**

- (a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.**
- (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

132 An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period. However, paragraph 134 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

133 If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

- (a) the carrying amount of goodwill allocated to the unit (group of units).**
- (b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).**

***(c) the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs to sell).**

***(d) if the unit's (group of units') recoverable amount is based on value in use:**

- (i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.**
- (ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**
- (iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.**

(iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.

(v) the discount rate(s) applied to the cash flow projections.

*(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) a description of management's approach to determining the value (or values) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

(iii) the period over which management has projected cash flows.

(iv) the growth rate used to extrapolate cash flow projections.

(v) the discount rate(s) applied to the cash flow projections.

*(f) if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:

(i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount.

(ii) the value assigned to the key assumption.

(iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

135 If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

(a) the aggregate carrying amount of goodwill allocated to those units (groups of units).

(b) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).

*(c) a description of the key assumption(s).

*(d) a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

*(e) if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:

(i) the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.

(ii) the value(s) assigned to the key assumption(s).

- (iii) **the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

*136 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 24 or 99, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.

137 Illustrative Example 9 illustrates the disclosures required by paragraphs 134 and 135.

NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Application of the recognition and measurement rules

Restructuring

- 70 The following are examples of events that may fall under the definition of restructuring:
- (a) sale or termination of a line of business;
 - (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
 - (c) changes in management structure, for example, eliminating a layer of management; and
 - (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.
- 71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.
- 72 **A constructive obligation to restructure arises only when an entity:**
- (a) **has a detailed formal plan for the restructuring identifying at least:**
 - (i) **the business or part of a business concerned;**
 - (ii) **the principal locations affected;**
 - (iii) **the location, function, and approximate number of employees who will be compensated for terminating their services;**
 - (iv) **the expenditures that will be undertaken; and**
 - (v) **when the plan will be implemented; and**
 - (b) **has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**
- 73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (i.e. setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.
- 74 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.
- 75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the reporting period:
- (a) started to implement the restructuring plan; or
 - (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under NZ IAS 10 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

Disclosure

- 84** For each class of provision, an entity shall disclose:
- (a) the carrying amount at the beginning and end of the period;
 - * (b) additional provisions made in the period, including increases to existing provisions;**
 - * (c) amounts used (ie incurred and charged against the provision) during the period;**
 - (d) unused amounts reversed during the period; and
 - * (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**
- Comparative information is not required.
- 85** An entity shall disclose the following for each class of provision:
- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
 - (b) an indication of the uncertainties about the amount or timing of those outflows. **Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and**
 - (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**
- 86** Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
- (a) an estimate of its financial effect, measured under paragraphs 36–52;
 - (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
 - (c) the possibility of any reimbursement.
- 87** In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.
- 88** Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84–86 in a way that shows the link between the provision and the contingent liability.
- 89** **Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52.**
- 90** It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.
- 91** **Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.**
- 92** **In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

NZ IAS 38 *Intangible Assets*

Notes:

- 1 Qualifying entities are permitted to expense research and development costs in the period they are incurred.
- 2 When amortising software in accordance with para 97, qualifying entities are permitted to use the income tax rates in allocating the depreciable amount of the software over its useful life.

Disclosure

General

118 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- (b) the amortisation methods used for intangible assets with finite useful lives;
- (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- ***(d)** the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included;
- ***(e)** a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
 - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals;
 - (iii) increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with NZ IAS 36 (if any);
 - (iv) impairment losses recognised in profit or loss during the period in accordance with NZ IAS 36 (if any);
 - (v) impairment losses reversed in profit or loss during the period in accordance with NZ IAS 36 (if any);
 - (vi) any amortisation recognised during the period;
 - (vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and**
 - (viii) other changes in the carrying amount during the period.**

RDR 118.1 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliation specified in paragraph 118(e) for prior periods. [IFRS for SMEs 18.27]

119 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

- (a) brand names;
- (b) mastheads and publishing titles;
- (c) computer software;
- (d) licences and franchises;
- (e) copyrights, patents and other industrial property rights, service and operating rights;
- (f) recipes, formulae, models, designs and prototypes; and
- (g) intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

- 120 An entity discloses information on impaired intangible assets in accordance with NZ IAS 36 in addition to the information required by paragraph 118(e)(iii)–(v).
- 121 NZ IAS 8 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- (a) the assessment of an intangible asset’s useful life;
 - (b) the amortisation method; or
 - (c) residual values.
- 122 **An entity shall also disclose:**
- (a) **for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.**
 - (b) **a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity’s financial statements.**
 - ***(c) for intangible assets acquired by way of a government grant and initially recognised at fair value (see paragraph 44):**
 - (i) **the fair value initially recognised for these assets;**
 - (ii) **their carrying amount; and**
 - (iii) **whether they are measured after recognition under the cost model or the revaluation model.**
 - (d) **the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.**
 - (e) **the amount of contractual commitments for the acquisition of intangible assets.**
- 123 When an entity describes the factor(s) that played a significant role in determining that the useful life of an intangible asset is indefinite, the entity considers the list of factors in paragraph 90.

Intangible assets measured after recognition using the revaluation model

- 124 **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**
- (a) **by class of intangible assets:**
 - (i) **the effective date of the revaluation;**
 - (ii) **the carrying amount of revalued intangible assets; and**
 - ***(iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74;**
 - ***(b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders; and**
 - (c) **the methods and significant assumptions applied in estimating the assets’ fair values.**
- 125 It may be necessary to aggregate the classes of revalued assets into larger classes for disclosure purposes. However, classes are not aggregated if this would result in the combination of a class of intangible assets that includes amounts measured under both the cost and revaluation models.

Research and development expenditure

- 126 **An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.**

- 127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 66 and 67 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 126).

Other information

- 128 An entity is encouraged, but not required, to disclose the following information:
- (a) a description of any fully amortised intangible asset that is still in use; and
 - (b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard. [Reference to IAS 38 *Intangible Assets* issued in 1998 in paragraph 128(b) deleted in NZ IAS 38.]

NZ IAS 40 *Investment Property*

Underlined text identifies the content inserted in NZ IAS 40 as a result of the *Harmonisation Amendments* (the trans-Tasman harmonisation project).

Disclosure

Fair value model and cost model

- 74 The disclosures below apply in addition to those in NZ IAS 17. In accordance with NZ IAS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.
- 75 **An entity shall disclose:**
- (a) **whether it applies the fair value model or, the cost model.**
 - (b) **if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.**
 - (c) **when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.**
 - (d) **the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.**
 - (e) **the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.**
 - ***(f) the amounts recognised in profit or loss for:**
 - (i) **rental income from investment property;**
 - (ii) **direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and**
 - (iii) **direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.**
 - (iv) **the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).**
 - ***(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.**
 - ***(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**

Fair value model

- 76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
- (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;
 - (b) additions resulting from acquisitions through business combinations;
 - (c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals;
 - (d) net gains or losses from fair value adjustments;
 - (e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
 - (f) transfers to and from inventories and owner-occupied property; and
 - (g) other changes.

RDR 76.1 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliation specified in paragraph 76 for prior periods. [IFRS for SMEs 16.10]

- 77 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.
- 78 In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in NZ IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:
- (a) a description of the investment property;
 - (b) an explanation of why fair value cannot be determined reliably;
 - (c) if possible, the range of estimates within which fair value is highly likely to lie; and
 - (d) on disposal of investment property not carried at fair value:
 - (i) the fact that the entity has disposed of investment property not carried at fair value;
 - (ii) the carrying amount of that investment property at the time of sale; and
 - (iii) the amount of gain or loss recognised.

Cost model

- 79 In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably and measures that investment property using the cost model in NZ IAS 16, it shall also disclose:
- (a) the depreciation methods used;
 - (b) the useful lives or the depreciation rates used; and
 - (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
 - (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - *(ii) additions resulting from acquisitions through business combinations;
 - *(iii) assets classified as held for sale or included in a disposal group in accordance with NZ IFRS 5 and other disposals;

- (iv) depreciation;**
- (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with NZ IAS 36;**
- *(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**
- *(vii) transfers to and from inventories and owner-occupied property; and**
- (viii) other changes; and**
- (e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:**
 - (i) a description of the investment property;**
 - (ii) an explanation of why fair value cannot be determined reliably; and**
 - (iii) if possible, the range of estimates within which fair value is highly likely to lie.**

NZ IAS 41 *Agriculture*

Note: Paragraphs 40, 47, 48, 51 and 56 are concessions for qualifying entities using the cost model.

Disclosure

39 [Deleted by IASB]

General

- 40 An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.**
- 41 An entity shall provide a description of each group of biological assets.**
- 42 The disclosure required by paragraph 41 may take the form of a narrative or quantified description.
- 43 An entity is encouraged to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate. For example, an entity may disclose the carrying amounts of consumable biological assets and bearer biological assets by group. An entity may further divide those carrying amounts between mature and immature assets. These distinctions provide information that may be helpful in assessing the timing of future cash flows. An entity discloses the basis for making any such distinctions.
- 44 Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. Examples of consumable biological assets are livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, and trees being grown for lumber. Bearer biological assets are those other than consumable biological assets; for example, livestock from which milk is produced, grape vines, fruit trees, and trees from which firewood is harvested while the tree remains. Bearer biological assets are not agricultural produce but, rather, are self-regenerating.
- 45 Biological assets may be classified either as mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets).
- *46 If not disclosed elsewhere in information published with the financial statements, an entity shall describe:**
- (a) the nature of its activities involving each group of biological assets; and**
 - (b) non-financial measures or estimates of the physical quantities of:**
 - (i) each group of the entity's biological assets at the end of the period; and**
 - (ii) output of agricultural produce during the period.**
- 47 An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.**

48 An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.

49 An entity shall disclose:

(a) the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;

(b) the amount of commitments for the development or acquisition of biological assets; and

*(c) financial risk management strategies related to agricultural activity.

***50** An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:

(a) the gain or loss arising from changes in fair value less costs to sell;

(b) increases due to purchases;

(c) decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5;

(d) decreases due to harvest;

(e) increases resulting from business combinations;

(f) net exchange differences arising on the translation of financial statements into a *different* presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and

(g) other changes.

RDR 50.1 An entity applying the New Zealand Reduced Disclosure Requirements is not required to disclose the reconciliation specified in paragraph 50 for prior periods. [Not in IFRS for SMEs but consistent not to require reconciliations for prior periods]

***51** The fair value less costs to sell of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, an entity is encouraged to disclose, by group or otherwise, the amount of change in fair value less costs to sell included in profit or loss due to physical changes and due to price changes. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

52 Biological transformation results in a number of types of physical change—growth, degeneration, production, and procreation, each of which is observable and measurable. Each of those physical changes has a direct relationship to future economic benefits. A change in fair value of a biological asset due to harvesting is also a physical change.

53 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with NZ IAS 1 *Presentation of Financial Statements*. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.

Additional disclosures for biological assets where fair value cannot be measured reliably

54 If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30) at the end of the period, the entity shall disclose for such biological assets:

(a) a description of the biological assets;

*(b) an explanation of why fair value cannot be measured reliably;

*(c) if possible, the range of estimates within which fair value is highly likely to lie;

(d) the depreciation method used;

(e) the useful lives or the depreciation rates used; and

(f) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

***55** If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 30), an entity shall disclose any gain

or loss recognised on disposal of such biological assets and the reconciliation required by paragraph 50 shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in profit or loss related to those biological assets:

- (a) impairment losses;
- (b) reversals of impairment losses; and
- (c) depreciation.

*56 If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

- (a) a description of the biological assets;
- (b) an explanation of why fair value has become reliably measurable; and
- (c) the effect of the change.

Government grants

57 An entity shall disclose the following related to agricultural activity covered by this Standard:

- (a) the nature and extent of government grants recognised in the financial statements;
- (b) unfulfilled conditions and other contingencies attaching to government grants; and
- (c) significant decreases expected in the level of government grants.

FRS-44 New Zealand Additional Disclosures

FRS-44 was approved by the ASRB in April 2011. This Standard contains New Zealand specific disclosures which have been relocated (some with amended wording) from other NZ IFRSs into one Standard. The disclosures in respect of Prospective Financial Statements and Statements of Service Performance are not proposed as concessions so have not been included below.

Disclosures

Compliance with NZ IFRSs

5 An entity whose financial statements comply with NZ IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with NZ IFRSs unless they comply with all the requirements of NZ IFRSs.

Compliance with applicable financial reporting standards

6 If an entity's interim financial report is in compliance with NZ IAS 34 Interim Financial Reporting that fact shall be disclosed. An interim financial report shall not assert compliance with NZ IFRSs, and other applicable Financial Reporting Standards, as appropriate for that entity, unless the financial statements comply with all the relevant requirements of those standards.

Reporting framework

7 An entity shall disclose in the notes:

- (a) the statutory basis or other reporting framework, if any, under which the financial statements are prepared;
- (b) whether, for the purposes of complying with NZ GAAP, it is a profit-oriented or public benefit entity;
- (c) a statement whether the financial statements have been prepared in accordance with NZ GAAP; and
- (d) if, for the purposes of complying with NZ GAAP, it is a qualifying entity and has applied differential reporting concessions.

Audit fees

- 8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:
- (a) the audit or review of the financial statements; and
 - (b) all other services performed during the reporting period.
- 8.2 For 8.1 (b) above, an entity shall describe the nature of other services.

[Based on: NZ IAS 1 paragraph NZ 105.1]

Imputation credits

- 9.1 The term ‘imputation credits’ is used in paragraphs 9.2 and 9.4 to also mean ‘franking credits’. The disclosures required by paragraphs 9.2 and 9.4 shall be made separately in respect of any New Zealand imputation credits and any Australian imputation credits.
- 9.2 An entity shall disclose the amount of imputation credits available for use in subsequent reporting periods.
- 9.3 For the purposes of determining the amount required to be disclosed in accordance with paragraph 9.2, entities may have:
- (a) imputation credits that will arise from the payment of the amount of the provision for income tax;
 - (b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
 - (c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.
- 9.4 Where there are different classes of investors with different entitlements to imputation credits, disclosures shall be made about the nature of those entitlements for each class where this is relevant to an understanding of them.

[Based on: NZ IAS 12 paragraph NZ 81.1]

Reconciliation of net operating cash flow to profit (loss)

- 10 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit (loss).

[Based on: NZ IAS 7 paragraph NZ 20.1]

NZ IFRIC 2 Members’ Shares in Co-operative Entities and Similar Instruments

Disclosure

- 13 When a change in the redemption prohibition leads to a transfer between financial liabilities and equity, the entity shall disclose separately the amount, timing and reason for the transfer.

NZ IFRIC 4 Determining whether an Arrangement contains a Lease

Separating payments for the lease from other payments

12 – 14 ...

- 15 If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:
- (a) in the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the underlying asset that was identified in paragraphs 7 and 8 as the subject of the lease. Subsequently the liability shall be reduced as payments are made and an imputed finance charge on the liability recognised using the purchaser’s incremental borrowing rate of interest.*

* ie the lessee’s incremental borrowing rate of interest as defined in paragraph 4 of NZ IAS 17.

- (b) in the case of an operating lease, treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of NZ IAS 17, but
 - (i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and
 - (ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.

NZ IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Disclosure

- 11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- 12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of NZ IAS 37.
- 13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of NZ IAS 37.

NZ IFRIC 15 *Agreements for the Construction of Real Estate*

Disclosures

- *20 When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of NZ IAS 18 continuously as construction progresses (see paragraph 17 of the Interpretation), it shall disclose:
 - (a) how it determines which agreements meet all the criteria in paragraph 14 of NZ IAS 18 continuously as construction progresses;
 - (b) the amount of revenue arising from such agreements in the period; and
 - (c) the methods used to determine the stage of completion of agreements in progress.
- 21 For the agreements described in paragraph 20 that are in progress at the reporting date, the entity shall also disclose:
 - (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date; and
 - (b) the amount of advances received.

NZ IFRIC 17 *Distributions of Non-cash Assets to Owners*

Presentation and disclosures

- *15 An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.
- *16 An entity shall disclose the following information, if applicable:
 - (a) the carrying amount of the dividend payable at the beginning and end of the period; and
 - (b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.
- 17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:
 - (a) the nature of the asset to be distributed;
 - (b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

- * (c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by NZ IFRS 7 paragraph 27(a) and (b).

NZ SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

Disclosure

- *10 All aspects of an arrangement that does not, in substance, involve a lease under NZ IAS 17 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An entity shall disclose the following in each period that an arrangement exists:
- (a) a description of the arrangement including:
 - (i) the underlying asset and any restrictions on its use;
 - (ii) the life and other significant terms of the arrangement;
 - (iii) the transactions that are linked together, including any options; and
 - (b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of comprehensive income in which it is included.
- *11 The disclosures required in accordance with paragraph 10 of this Interpretation shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (eg power plants).

NZ SIC 29 *Disclosures—Service Concession Arrangements*

Consensus

- 6 All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor shall disclose the following in each period:
- (a) a description of the arrangement;
 - (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (eg the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
 - (c) the nature and extent (eg quantity, time period or amount as appropriate) of:
 - (i) rights to use specified assets;
 - (ii) obligations to provide or rights to expect provision of services;
 - (iii) obligations to acquire or build items of property, plant and equipment;
 - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
 - (v) renewal and termination options; and
 - (vi) other rights and obligations (eg major overhauls);
 - (d) changes in the arrangement occurring during the period; and
 - (e) how the service arrangement has been classified.
- 6A An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.
- 7 The disclosures required in accordance with paragraph 6 of this Interpretation should be provided individually for each service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications and water treatment services).

**Response form for Exposure Draft and Invitation to Comment
Proposed Reduced Disclosure Requirements for Tier 2 For-profit Entities**

Name of respondent:	
Organisation represented:	

Standard		Agree with proposals	Disagree with proposals
NZ IFRS 1	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>		
NZ IFRS 2	<i>Share-based Payment</i>		
NZ IFRS 3	<i>Business Combinations</i>		
NZ IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>		
NZ IFRS 7	<i>Financial Instruments: Disclosures</i>		
NZ IFRS 8	<i>Operating Segments</i>		
NZ IAS 1	<i>Presentation of Financial Statements</i>		
NZ IAS 2	<i>Inventories</i>		
NZ IAS 7	<i>Statement of Cash Flows</i>		
NZ IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>		
NZ IAS 10	<i>Events after the Reporting Period</i>		
NZ IAS 11	<i>Construction Contracts</i>		
NZ IAS 12	<i>Income Taxes</i>		
NZ IAS 16	<i>Property, Plant and Equipment</i>		
NZ IAS 17	<i>Leases</i>		
NZ IAS 18	<i>Revenue</i>		
NZ IAS 19	<i>Employee Benefits</i>		
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>		
NZ IAS 23	<i>Borrowing costs</i>		
NZ IAS 24	<i>Related Party Disclosures</i>		
NZ IAS 27	<i>Consolidated and Separate Financial Statements</i>		
NZ IAS 28	<i>Investments in Associates</i>		
NZ IAS 31	<i>Interests in Joint Ventures</i>		
NZ IAS 33	<i>Earnings per Share</i>		
NZ IAS 34	<i>Interim Financial Reporting</i>		
NZ IAS 36	<i>Impairment of Assets</i>		
NZ IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>		
NZ IAS 38	<i>Intangible Assets</i>		
NZ IAS 40	<i>Investment Property</i>		

Standard		Agree with proposals	Disagree with proposals
NZ IAS 41	<i>Agriculture</i>		
FRS-44	<i>New Zealand Additional Disclosures</i>		
NZ IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>		
NZ IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>		
NZ IFRIC 5	<i>Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>		
NZ IFRIC 15	<i>Agreements for the Construction of Real Estate</i>		
NZ IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>		
NZ SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>		
NZ SIC-29	<i>Disclosures—Service Concession Arrangements</i>		