



NZ ACCOUNTING
STANDARDS
BOARD

New Zealand Equivalent to International Financial Reporting Standard 9 Financial instruments (NZ IFRS 9) (2010)

Issued November 2010 and incorporates amendments up to and including 30 September 2014 other than consequential amendments resulting from early adoption of NZ IFRS 15 *Revenue from Contracts with Customers*

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

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

This Standard is superseded by NZ IFRS 9 issued in September 2014.

An entity may elect to apply this Standard if, and only if, the entity's date of initial application is before 1 February 2015. If an entity elects to apply this Standard, it shall disclose that fact and at the same time apply the amendments in Appendix C.

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New Zealand Equivalent to International Financial Reporting Standard 9 *Financial Instruments* (2010) (NZ IFRS 9 (2010)) is set out in paragraphs 1.1–7.3.2 and Appendices A–C. NZ IFRS 9 (2010) is based on International Financial Reporting Standard 9 *Financial Instruments* (NZ IFRS 9) as published by the International Accounting Standards Board (IASB) in 2010. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in italics the first time they appear in the NZ IFRS. Definitions of other terms are given in the Glossary. NZ IFRS 9 (2010) should be read in the context of its objective and the IASB’s Basis for Conclusions on IFRS 9 as issued in November 2010 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*. NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Introduction

Reasons for issuing the IFRS

- IN1 IAS 39 *Financial Instruments: Recognition and Measurement* sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The International Accounting Standards Board (IASB) inherited IAS 39 from its predecessor body, the International Accounting Standards Committee.
- IN2 Many users of financial statements and other interested parties told the IASB that the requirements in IAS 39 were difficult to understand, apply and interpret. They urged the IASB to develop a new standard for the financial reporting of financial instruments that was principle-based and less complex. Although the IASB amended IAS 39 several times to clarify requirements, add guidance and eliminate internal inconsistencies, it had not previously undertaken a fundamental reconsideration of reporting for financial instruments.
- IN3 In 2005 the IASB and the US Financial Accounting Standards Board (FASB) began working towards a long-term objective to improve and simplify the reporting for financial instruments. This work resulted in the publication of a discussion paper, *Reducing Complexity in Reporting Financial Instruments*, in March 2008. Focusing on the measurement of financial instruments and hedge accounting, the paper identified several possible approaches for improving and simplifying the accounting for financial instruments. The responses to the paper indicated support for a significant change in the requirements for reporting financial instruments. In November 2008 the IASB added this project to its active agenda, and in December 2008 the FASB also added the project to its agenda.
- IN4 In April 2009, in response to the input received on its work responding to the financial crisis, and following the conclusions of the G20 leaders and the recommendations of international bodies such as the Financial Stability Board, the IASB announced an accelerated timetable for replacing IAS 39. As a result, in July 2009 the IASB published an exposure draft *Financial Instruments: Classification and Measurement*, followed by the first chapters of IFRS 9 *Financial Instruments* in November 2009.

The IASB's approach to replacing IAS 39

- IN5 The IASB intends that IFRS 9 will ultimately replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the IASB divided its project to replace IAS 39 into three main phases. As the IASB completes each phase, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that replace the requirements in IAS 39.
- IN6 The three main phases of the IASB's project to replace IAS 39 are:
- (a) **Phase 1: Classification and measurement of financial assets and financial liabilities.** In November 2009 the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. Those chapters require all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortised cost or fair value. In October 2010 the IASB added to IFRS 9 the requirements related to the classification and measurement of financial liabilities. Those additional requirements are described further in paragraph IN7.
 - (b) **Phase 2: Impairment methodology.** In June 2009 the IASB published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets. This formed the basis of an exposure draft, *Financial Instruments: Amortised Cost and Impairment*, published in November 2009. The IASB also set up a panel of credit and risk experts to consider and advise on the operational issues arising from an expected cash flow approach. The IASB is redeliberating the proposals in the exposure draft to address the comments received from respondents, and suggestions from the expert advisory panel and other outreach activities.
 - (c) **Phase 3: Hedge accounting.** The IASB is considering how to improve and simplify the hedge accounting requirements of IAS 39. It expects to publish proposals for a comprehensive new approach before the end of 2010.
- IN7 In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities:
- (a) Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. Under IAS 39 most liabilities were subsequently measured at

amortised cost or bifurcated into a host, which is measured at amortised cost, and an embedded derivative, which is measured at fair value. Liabilities that are held for trading (including all derivative liabilities) were measured at fair value. Although the IASB had originally proposed a symmetrical approach for financial assets and financial liabilities in the exposure draft published in 2009, the IASB decided to retain most of the requirements in IAS 39 for classifying and measuring financial liabilities because constituents told the IASB that those requirements were working well in practice. Consistently with its objective to replace IAS 39 in its entirety, the IASB relocated those requirements from IAS 39 to IFRS 9.

- (b) Consistently with the requirements in IFRS 9 for investments in equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input (and derivative assets linked to those investments), the exception from fair value measurement was eliminated for derivative liabilities that are linked to and must be settled by delivery of such an equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.
- (c) The requirements related to the fair value option for financial liabilities were changed to address own credit risk. Those improvements respond to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading. The improvements followed from the proposals published in May 2010 in the exposure draft *Fair Value Option for Financial Liabilities*.

IN8 In addition to the three phases described above, the IASB published in March 2009 an exposure draft *Derecognition* (proposed amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*). However, in June 2010 the IASB revised its strategy and work plan and decided to retain the existing requirements in IAS 39 for the derecognition of financial assets and financial liabilities but to finalise improved disclosure requirements. The new requirements were issued in October 2010 as an amendment to IFRS 7 and have an effective date of 1 July 2011. Later in October 2010 the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were carried forward unchanged to IFRS 9.

IN9 As a result of the added requirements described in paragraphs IN7 and IN8, IFRS 9 and its Basis for Conclusions were restructured. Many paragraphs were renumbered and some were re-sequenced. New paragraphs were added to accommodate the guidance that was carried forward unchanged from IAS 39. Also, new sections were added to IFRS 9 as placeholders for the guidance that will result from subsequent phases of this project. Otherwise, the restructuring did not change the requirements in IFRS 9 issued in 2009. The Basis for Conclusions on IFRS 9 has been expanded to include material from the Basis for Conclusions on IAS 39 that discusses guidance that was carried forward without being reconsidered. Minor necessary edits have been made to that material.

IN10 The IASB and the FASB are committed to achieving increased comparability internationally in the accounting for financial instruments. However, those efforts have been complicated by the differing project timetables established to respond to the respective stakeholder groups. In May 2010 the FASB published a proposed Accounting Standards Update (ASU) on accounting for financial instruments that contained proposals for a new comprehensive standard on financial instruments, including proposals on the classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. The proposed ASU had a comment deadline of 30 September 2010 and the FASB has begun to redeliberate its proposals. The IASB asked its constituents to provide feedback to the FASB on the proposals in the FASB's exposure draft because this is a joint project with an objective of increasing international comparability. Feedback from IFRS constituents will be helpful to the FASB as it redeliberates its proposals. Moreover, after the FASB redeliberates its proposals, the IASB will use that feedback to consider what steps (if any) should be taken to reconcile any remaining differences between IFRSs and US GAAP. Any possible changes as a result of that comparison will be subject to the IASB's normal due process.

Effective date and transition

IN11 *Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures* (Amendments to NZ IFRS 9 (2009), NZ IFRS 9 (2010) and NZ IFRS 7), issued in February 2012, amended the effective date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010) so that NZ IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015¹. Early application is permitted. The amendments also modified the relief from

¹ NZ IFRS 9 as issued in September 2014 superseded this Standard. An entity shall apply NZ IFRS 9 as issued in September 2014 for annual periods beginning on or after 1 January 2018. However, for annual periods beginning before 1 January 2018, an entity may elect to apply this Standard if, and only if, the entity's date of initial application is before 1 February 2015.

NZ IFRS 9 (2010)

restating prior periods. The NZASB has published amendments to NZ IFRS 7 to require additional disclosures on transition from NZ IAS 39 to NZ IFRS 9. Entities that initially apply NZ IFRS 9 in periods:

- (a) beginning before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7;
- (b) beginning on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7 or to restate prior periods; and
- (c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7. The entity need not restate prior periods.

New Zealand specific changes

IN12 In adopting IFRS 9 (2010) for application as NZ IFRS 9 (2010) no changes have been made to the requirements of IFRS 9 (2010) for Tier 1 for-profit entities.

IN13 Tier 1 for-profit entities that comply with NZ IFRS 9 (2010) will simultaneously be in compliance with IFRS 9 (2010).

Reduced Disclosure Regime

IN14 Tier 2 for-profit entities must comply with all the provisions in NZ IFRS 9 (2010).

New Zealand Equivalent to International Financial Reporting Standard 9

Financial Instruments (NZ IFRS 9 (2010))

Chapter 1 Objective

- 1.1 The objective of this NZ IFRS is to establish principles for the financial reporting of *financial assets* and *financial liabilities* that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Chapter 2 Scope

- NZ 2 This Standard applies only to Tier 1 and Tier 2 for-profit entities.
- 2.1 An entity shall apply this NZ IFRS to all items within the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

Chapter 3 Recognition and derecognition

3.1 Initial recognition

- 3.1.1 An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs B3.1.1 and B3.1.2). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1.1–4.1.5 and measure it in accordance with paragraphs 5.1.1 and 5.1.2. When an entity first recognises a financial liability, it shall classify it in accordance with paragraphs 4.2.1 and 4.2.2 and measure it in accordance with paragraph 5.1.1.

Regular way purchase or sale of financial assets

- 3.1.2 A *regular way purchase or sale* of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting (see paragraphs B3.1.3–B3.1.6).

3.2 Derecognition of financial assets

- 3.2.1 In consolidated financial statements, paragraphs 3.2.2–3.2.9, B3.1.1, B3.1.2 and B3.2.1–B3.2.17 are applied at a consolidated level. Hence, an entity first consolidates all subsidiaries in accordance with NZ IFRS 10 *Consolidated Financial Statements* and then applies those paragraphs to the resulting group.
- 3.2.2 Before evaluating whether, and to what extent, *derecognition* is appropriate under paragraphs 3.2.3–3.2.9, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows.
- (a) Paragraphs 3.2.3–3.2.9 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.
- (i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs 3.2.3–3.2.9 are applied to the interest cash flows.
- (ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of

all cash flows of a debt instrument, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows provided that the transferring entity has a fully proportionate share.

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of interest cash flows from a financial asset, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows provided that the transferring entity has a fully proportionate share.

(b) In all other cases, paragraphs 3.2.3–3.2.9 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90 per cent of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90 per cent of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8 per cent of the principal amount of the receivables, paragraphs 3.2.3–3.2.9 are applied to the financial asset (or a group of similar financial assets) in its entirety.

In paragraphs 3.2.3–3.2.12, the term ‘financial asset’ refers to either a part of a financial asset (or a part of a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.

3.2.3 An entity shall derecognise a financial asset when, and only when:

- (a) the contractual rights to the cash flows from the financial asset expire, or
- (b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

(See paragraph 3.1.2 for regular way sales of financial assets.)

3.2.4 An entity transfers a financial asset if, and only if, it either:

- (a) transfers the contractual rights to receive the cash flows of the financial asset, or
- (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 3.2.5.

3.2.5 When an entity retains the contractual rights to receive the cash flows of a financial asset (the ‘original asset’), but assumes a contractual obligation to pay those cash flows to one or more entities (the ‘eventual recipients’), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.

- (a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- (b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- (c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in NZ IAS 7 *Statement of Cash Flows*) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

3.2.6 When an entity transfers a financial asset (see paragraph 3.2.4), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- (a) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (b) if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset.

(c) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:

(i) if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

(ii) if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset (see paragraph 3.2.16).

3.2.7 The transfer of risks and rewards (see paragraph 3.2.6) is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (eg because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (eg because the entity has sold a financial asset subject only to an option to buy it back at its *fair value* at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement, such as a loan sub-participation, that meets the conditions in paragraph 3.2.5).

3.2.8 Often it will be obvious whether the entity has transferred or retained substantially all risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the entity's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison are made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

3.2.9 Whether the entity has retained control (see paragraph 3.2.6(c)) of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

Transfers that qualify for derecognition

3.2.10 If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 3.2.13.

3.2.11 If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.

3.2.12 On derecognition of a financial asset in its entirety, the difference between:

(a) the carrying amount (measured at the date of derecognition) and

(b) the consideration received (including any new asset obtained less any new liability assumed)

shall be recognised in profit or loss.

3.2.13 If the transferred asset is part of a larger financial asset (eg when an entity transfers interest cash flows that are part of a debt instrument, see paragraph 3.2.2(a)) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:

(a) the carrying amount (measured at the date of derecognition) allocated to the part derecognised and

- (b) **the consideration received for the part derecognised (including any new asset obtained less any new liability assumed)**

shall be recognised in profit or loss.

- 3.2.14 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be measured. When the entity has a history of selling parts similar to the part that continues to be recognised or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value. When there are no price quotes or recent market transactions to support the fair value of the part that continues to be recognised, the best estimate of the fair value is the difference between the fair value of the larger financial asset as a whole and the consideration received from the transferee for the part that is derecognised.

Transfers that do not qualify for derecognition

- 3.2.15 **If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.**

Continuing involvement in transferred assets

- 3.2.16 **If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. For example:**
- (a) **When the entity's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the entity could be required to repay ('the guarantee amount').**
 - (b) **When the entity's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price (see paragraph B3.2.13).**
 - (c) **When the entity's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the entity's continuing involvement is measured in the same way as that which results from non-cash settled options as set out in (b) above.**
- 3.2.17 **When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this NZ IFRS, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:**
- (a) **the *amortised cost* of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost, or**
 - (b) **equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.**
- 3.2.18 **The entity shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.**
- 3.2.19 **For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 5.7.1, and shall not be offset.**
- 3.2.20 **If an entity's continuing involvement is in only a part of a financial asset (eg when an entity retains an option to repurchase part of a transferred asset, or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the entity retains control), the entity**

allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, the requirements of paragraph 3.2.14 apply. The difference between:

- (a) the carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognised and
- (b) the consideration received for the part no longer recognised

shall be recognised in profit or loss.

- 3.2.21 If the transferred asset is measured at amortised cost, the option in this NZ IFRS to designate a financial liability as at fair value through profit or loss is not applicable to the associated liability.

All transfers

- 3.2.22 If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any income arising from the transferred asset with any expense incurred on the associated liability (see NZ IAS 32 *Financial Instruments: Presentation* paragraph 42).

- 3.2.23 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

- (a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position (eg as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.
- (b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.
- (c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral.
- (d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

3.3 Derecognition of financial liabilities

- 3.3.1 An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

- 3.3.2 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

- 3.3.3 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

- 3.3.4 If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

Chapter 4 Classification

4.1 Classification of financial assets

- 4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value on the basis of both:
- (a) the entity's business model for managing the financial assets and
 - (b) the contractual cash flow characteristics of the financial asset.
- 4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:
- (a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
 - (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.
- 4.1.3 For the purpose of applying paragraph 4.1.2(b), interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.
- 4.1.4 A financial asset shall be measured at fair value unless it is measured at amortised cost in accordance with paragraph 4.1.2.

Option to designate a financial asset at fair value through profit or loss

- 4.1.5 Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32).
- 4.1.6 NZ IFRS 7 *Financial Instruments: Disclosures* requires the entity to provide disclosures about financial assets it has designated as at fair value through profit or loss.

4.2 Classification of financial liabilities

- 4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost using the *effective interest method*, except for:
- (a) *financial liabilities at fair value through profit or loss*. Such liabilities, including *derivatives* that are liabilities, shall be subsequently measured at fair value.
 - (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 3.2.15 and 3.2.17 apply to the measurement of such financial liabilities.
 - (c) *financial guarantee contracts* as defined in Appendix A. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:
 - (i) the amount determined in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and
 - (ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, cumulative amortisation recognised in accordance with NZ IAS 18 *Revenue*.
 - (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:
 - (i) the amount determined in accordance with NZ IAS 37 and
 - (ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, cumulative amortisation recognised in accordance with NZ IAS 18.

- (e) contingent consideration of an acquirer in a business combination to which NZ IFRS 3 *Business Combinations* applies. Such contingent consideration shall subsequently be measured at fair value.

Option to designate a financial liability at fair value through profit or loss

- 4.2.2 An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either
- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
 - (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel (as defined in NZ IAS 24 *Related Party Disclosures*), for example the entity’s board of directors and chief executive officer.
- 4.2.3 NZ IFRS 7 requires the entity to provide disclosures about financial liabilities it has designated as at fair value through profit or loss.

4.3 Embedded derivatives

- 4.3.1 An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a *financial instrument* but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

Hybrid contracts with financial asset hosts

- 4.3.2 If a hybrid contract contains a host that is an asset within the scope of this NZ IFRS, an entity shall apply the requirements in paragraphs 4.1.1–4.1.5 to the entire hybrid contract.

Other hybrid contracts

- 4.3.3 If a hybrid contract contains a host that is not an asset within the scope of this NZ IFRS, an embedded derivative shall be separated from the host and accounted for as a derivative under this NZ IFRS if, and only if:
- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host (see paragraphs B4.3.5 and B4.3.8);
 - (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
 - (c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).
- 4.3.4 If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate NZ IFRSs. This NZ IFRS does not address whether an embedded derivative shall be presented separately in the statement of financial position.
- 4.3.5 Despite paragraphs 4.3.3 and 4.3.4, if a contract contains one or more embedded derivatives and the host is not an asset within the scope of this NZ IFRS, an entity may designate the entire hybrid contract as at fair value through profit or loss unless:
- (a) the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or

(b) it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

4.3.6 If an entity is required by this NZ IFRS to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

4.3.7 If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions, the fair value of the embedded derivative is the difference between the fair value of the hybrid contract and the fair value of the host. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 4.3.6 applies and the hybrid contract is designated as at fair value through profit or loss.

4.4 Reclassification

4.4.1 When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with paragraphs 4.1.1–4.1.4.

4.4.2 An entity shall not reclassify any financial liability.

4.4.3 The following changes in circumstances are not reclassifications for the purposes of paragraphs 4.4.1 and 4.4.2:

- (a) A derivative that was previously a designated and effective *hedging instrument* in a cash flow hedge or net investment hedge no longer qualifies as such.
- (b) A derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge.

Chapter 5 Measurement

5.1 Initial measurement

5.1.1 At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.1A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.

5.1.2 When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date (see paragraphs B3.1.3–B3.1.6).

5.2 Subsequent measurement of financial assets

5.2.1 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at fair value or amortised cost (see paragraphs 9 and AG5–AG8 of NZ IAS 39).

5.2.2 An entity shall apply the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39 to financial assets measured at amortised cost.

5.2.3 An entity shall apply the hedge accounting requirements in paragraphs 89–102 of NZ IAS 39 to a financial asset that is designated as a *hedged item* (see paragraphs 78–84 and AG98–AG101 of NZ IAS 39).

5.3 Subsequent measurement of financial liabilities

5.3.1 After initial recognition, an entity shall measure a financial liability in accordance with paragraphs 4.2.1–4.2.2 (see paragraphs 5.4.1–5.4.3 and B5.4.1–B5.4.17 and paragraphs 9 and AG5–AG8 of NZ IAS 39 for amortised cost).

5.3.2 An entity shall apply the hedge accounting requirements in paragraphs 89–102 of NZ IAS 39 to a financial liability that is designated as a hedged item (see paragraphs 78–84 and AG98–AG101 of NZ IAS 39)

5.4.1–5.4.3 [Deleted by IASB]

5.5 Amortised cost measurement – not used

5.6 Reclassification of financial assets

5.6.1 If an entity reclassifies financial assets in accordance with paragraph 4.4.1, it shall apply the reclassification prospectively from the *reclassification date*. The entity shall not restate any previously recognised gains, losses or interest.

5.6.2 If, in accordance with paragraph 4.4.1, an entity reclassifies a financial asset so that it is measured at fair value, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.

5.6.3 If, in accordance with paragraph 4.4.1, an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

5.7 Gains and losses

5.7.1 A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- (a) it is part of a hedging relationship (see paragraphs 89–102 of NZ IAS 39);
- (b) it is an investment in an *equity instrument* and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 5.7.5; or
- (c) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's *credit risk* in other comprehensive income in accordance with paragraph 5.7.7.

5.7.2 A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 89–102 of NZ IAS 39) shall be recognised in profit or loss when the financial asset is derecognised, impaired or reclassified in accordance with paragraph 5.6.2, and through the amortisation process. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 89–102 of NZ IAS 39) shall be recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

5.7.3 A gain or loss on financial assets or financial liabilities that are hedged items (see paragraphs 78–84 and AG98–AG101 of NZ IAS 39) shall be recognised in accordance with paragraphs 89–102 of NZ IAS 39.

5.7.4 If an entity recognises financial assets using settlement date accounting (see paragraph 3.1.2 and paragraphs B3.1.3 and B3.1.6), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets measured at amortised cost (other than impairment losses). For assets measured at fair value, however, the change in fair value shall be recognised in profit or loss or in other comprehensive income, as appropriate under paragraph 5.7.1.

Investments in equity instruments

5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this NZ IFRS that is not *held for trading* and is also not contingent consideration of an acquirer in a business combination to which NZ IFRS 3 applies.

5.7.6 If an entity makes the election in paragraph 5.7.5, it shall recognise in profit or loss dividends from that investment when the entity's right to receive payment of the dividend is established in accordance with NZ IAS 18.

Liabilities designated as at fair value through profit or loss

- 5.7.7** An entity shall present a gain or loss on a financial liability designated as at fair value through profit or loss as follows:
- (a) The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income (see paragraphs B5.7.13–B5.7.20), and
 - (b) the remaining amount of change in the fair value of the liability shall be presented in profit or loss unless the treatment of the effects of changes in the liability’s credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss (in which case paragraph 5.7.8 applies). Paragraphs B5.7.5–B5.7.7 and B5.7.10–B5.7.12 provide guidance on determining whether an accounting mismatch would be created or enlarged.
- 5.7.8** If the requirements in paragraph 5.7.7 would create or enlarge an accounting mismatch in profit or loss, an entity shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.
- 5.7.9** Despite the requirements in paragraphs 5.7.7 and 5.7.8, an entity shall present in profit or loss all gains and losses on loan commitments and financial guarantee contracts that are designated as at fair value through profit or loss.

Chapter 6 Hedge accounting – not used

Chapter 7 Effective date and transition

7.1 Effective date

- 7.1.1** NZ IFRS 9 as issued in September 2014 superseded this Standard. An entity shall apply NZ IFRS 9 as issued in September 2014 for annual periods beginning on or after 1 January 2018. However, for annual periods beginning before 1 January 2018, an entity may elect to apply this Standard if, and only if, the entity’s date of initial application is before 1 February 2015. If an entity elects to apply this Standard and has not already applied NZ IFRS 9 as issued in 2009, it must apply all of the requirements in this Standard at the same time (but see also paragraphs 7.1.1A and 7.3.2). If an entity applies this Standard, it shall disclose that fact and at the same time apply the amendments in Appendix C.
- 7.1.1A** Despite the requirements in paragraph 7.1.1, for annual periods beginning before 1 January 2018, an entity may elect to apply the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.13 and B5.7.5–B5.7.20 without applying the other requirements in this Standard. If an entity elects to apply only those paragraphs, it shall disclose that fact and provided on an ongoing basis the disclosures set out in paragraphs 10–11 of NZ IFRS 7 (as amended by this Standard).
- 7.1.2** NZ IFRS 10 and NZ IFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 3.2.1, B3.2.1–B3.2.3, B4.3.12(c), B5.7.15, C11 and C30 and deleted paragraphs C18–C23 and the related headings. An entity shall apply those amendments when it applies NZ IFRS 10 and NZ IFRS 11.
- 7.1.3** NZ IFRS 13 *Fair Value Measurement*, issued in June 2011, amended paragraphs 3.2.14, 4.3.7, 5.1.1, 5.2.1, 5.6.2, 7.2.5, 7.2.11, 7.2.12, amended the definition of fair value in Appendix A, amended paragraphs B3.2.11, B3.2.17, B5.1.1, B5.4.14, B5.4.16, B5.7.20, C3, C11, C30, C49 and C53, deleted paragraphs 5.4.2, B5.4.1–B5.4.13 and added paragraphs 5.1.1A, B5.1.2A and B5.2.2A. An entity shall apply those amendments when it applies NZ IFRS 13.
- NZ 7.1.3.1** *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.
- 7.1.4** *Annual Improvements to NZ IFRSs 2010–2012 Cycle*, issued in February 2014, amended paragraphs 4.2.1 and 5.7.5 as a consequential amendment derived from the amendment to NZ IFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to NZ IFRS 3 applies.

7.2 Transition

- 7.2.1 An entity shall apply this NZ IFRS retrospectively, in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 7.2.4–7.2.15. This NZ IFRS shall not be applied to items that have already been derecognised at the date of initial application.
- 7.2.2 For the purposes of the transition provisions in paragraphs 7.2.1 and 7.2.3–7.2.16, the date of initial application is the date when an entity first applies the requirements of this NZ IFRS. The date of initial application may be:
- (a) any date between the issue of this NZ IFRS and 31 December 2010, for entities initially applying this NZ IFRS before 1 January 2011; or
 - (b) the beginning of the first reporting period in which the entity adopts this NZ IFRS, for entities initially applying this NZ IFRS on or after 1 January 2011.
- 7.2.3 If the date of initial application is not at the beginning of a reporting period, the entity shall disclose that fact and the reasons for using that date of initial application.
- 7.2.4 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.1.2(a) on the basis of the facts and circumstances that exist at the date of initial application. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.
- 7.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.1.4 or paragraph 4.1.5 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.
- 7.2.6 At the date of initial application, an entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application:
- (a) in the opening retained earnings of the reporting period of initial application if the entity initially applies this NZ IFRS at the beginning of a reporting period, or
 - (b) in profit or loss if the entity initially applies this NZ IFRS during a reporting period.
- 7.2.7 At the date of initial application, an entity may designate:
- (a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5, or
 - (b) an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5.
- Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.
- 7.2.8 At the date of initial application, an entity:
- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset does not meet the condition in paragraph 4.1.5.
 - (b) may revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset meets the condition in paragraph 4.1.5.
- Such revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.
- 7.2.9 At the date of initial application, an entity:
- (a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 4.2.2(a).
 - (b) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation does not satisfy that condition at the date of initial application.
 - (c) may revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation satisfies that condition at the date of initial application.
- Such designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

- 7.2.10 If it is impracticable (as defined in NZ IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39, the entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period as its amortised cost if the entity restates prior periods. If it is impracticable (as defined in NZ IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39, the fair value of the financial asset or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this NZ IFRS.
- 7.2.11 If an entity previously accounted for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (or a derivative asset that is linked to and must be settled by delivery of such an equity instrument) at cost in accordance with NZ IAS 39, it shall measure that instrument at fair value at the date of initial application. Any difference between the previous carrying amount and fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.
- 7.2.12 If an entity previously accounted for a derivative liability that is linked to and must be settled by delivery of an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) at cost in accordance with NZ IAS 39, it shall measure that derivative liability at fair value at the date of initial application. Any difference between the previous carrying amount and fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.
- 7.2.13 At the date of initial application, an entity shall determine whether the treatment in paragraph 5.7.7 would create or enlarge an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of initial application. This NZ IFRS shall be applied retrospectively on the basis of that determination.
- 7.2.14 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this NZ IFRS for reporting periods:
- (a) beginning before 1 January 2012 need not restate prior periods and is not required to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7;
 - (b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7 or to restate prior periods; and
 - (c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7. The entity need not restate prior periods.
- If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this NZ IFRS.
- 7.2.15 If an entity prepares interim financial reports in accordance with NZ IAS 34 *Interim Financial Reporting* the entity need not apply the requirements in this NZ IFRS to interim periods prior to the date of initial application if it is impracticable (as defined in NZ IAS 8).

Entities that have applied early NZ IFRS 9 issued in 2009

- 7.2.16 An entity shall apply the transition requirements in paragraphs 7.2.1–7.2.15 at the relevant date of initial application. In other words, an entity shall apply paragraphs 7.2.4–7.2.11 if it applies NZ IFRS 9 (issued in 2009) or, not having done so, when it applies NZ IFRS 9 (issued in 2010) in its entirety. An entity is not permitted to apply those paragraphs more than once.

7.3 Withdrawal of NZ IFRIC 9 and NZ IFRS 9 (2009)

- 7.3.1 This NZ IFRS supersedes NZ IFRIC 9 *Reassessment of Embedded Derivatives*. The requirements added to NZ IFRS 9 in November 2010 incorporated the requirements previously set out in paragraphs 5 and 7 of NZ IFRIC 9. As a consequential amendment, NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards* incorporated the requirements previously set out in paragraph 8 of NZ IFRIC 9.
- 7.3.2 This NZ IFRS supersedes NZ IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 2018, an entity may elect to apply NZ IFRS 9 issued in 2009 if, and only if, the entity's date of initial application is before 1 February 2015.

Appendix A Defined terms

This appendix is an integral part of the NZ IFRS.

derecognition	The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.
derivative	<p>A financial instrument or other contract within the scope of this NZ IFRS (see paragraph 2.1) with all three of the following characteristics.</p> <p>(a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').</p> <p>(b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.</p> <p>(c) It is settled at a future date.</p>
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See NZ IFRS 13.)
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial liability at fair value through profit or loss	<p>A financial liability that meets either of the following conditions.</p> <p>(a) It meets the definition of held for trading.</p> <p>(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss in accordance with paragraph 4.2.2 or 4.3.5.</p>
held for trading	<p>A financial asset or financial liability that:</p> <p>(a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;</p> <p>(b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or</p> <p>(c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).</p>
reclassification date	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

NZ IFRS 9 (2010)

The following terms are defined in paragraph 11 of NZ IAS 32, paragraph 9 of NZ IAS 39 or Appendix A of NZ IFRS 7 and are used in this NZ IFRS with the meanings specified in NZ IAS 32, NZ IAS 39 or NZ IFRS 7:

- (a) amortised cost of a financial asset or financial liability
- (b) credit risk
- (c) effective interest method
- (d) equity instrument
- (e) financial asset
- (f) financial instrument
- (g) financial liability
- (h) hedged item
- (i) hedging instrument
- (j) transaction costs.

Appendix B

Application guidance

This appendix is an integral part of the NZ IFRS.

Recognition and derecognition (chapter 3)

Initial recognition (section 3.1)

- B3.1.1 As a consequence of the principle in paragraph 3.1.1, an entity recognises all of its contractual rights and obligations under derivatives in its statement of financial position as assets and liabilities, respectively, except for derivatives that prevent a transfer of financial assets from being accounted for as a sale (see paragraph B3.2.14). If a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset (see paragraph B3.2.15).
- B3.1.2 The following are examples of applying the principle in paragraph 3.1.1:
- Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.
 - Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but, rather, delays recognition until the ordered goods or services have been shipped, delivered or rendered. If a firm commitment to buy or sell non-financial items is within the scope of this NZ IFRS in accordance with paragraphs 5–7 of NZ IAS 39, its net fair value is recognised as an asset or liability on the commitment date (see (c) below). In addition, if a previously unrecognised firm commitment is designated as a hedged item in a fair value hedge, any change in the net fair value attributable to the hedged risk is recognised as an asset or liability after the inception of the hedge (see paragraphs 93 and 94 of NZ IAS 39).
 - A forward contract that is within the scope of this NZ IFRS (see paragraph 2.1) is recognised as an asset or a liability on the commitment date, rather than on the date on which settlement takes place. When an entity becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero. If the net fair value of the right and obligation is not zero, the contract is recognised as an asset or liability.
 - Option contracts that are within the scope of this NZ IFRS (see paragraph 2.1) are recognised as assets or liabilities when the holder or writer becomes a party to the contract.
 - Planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

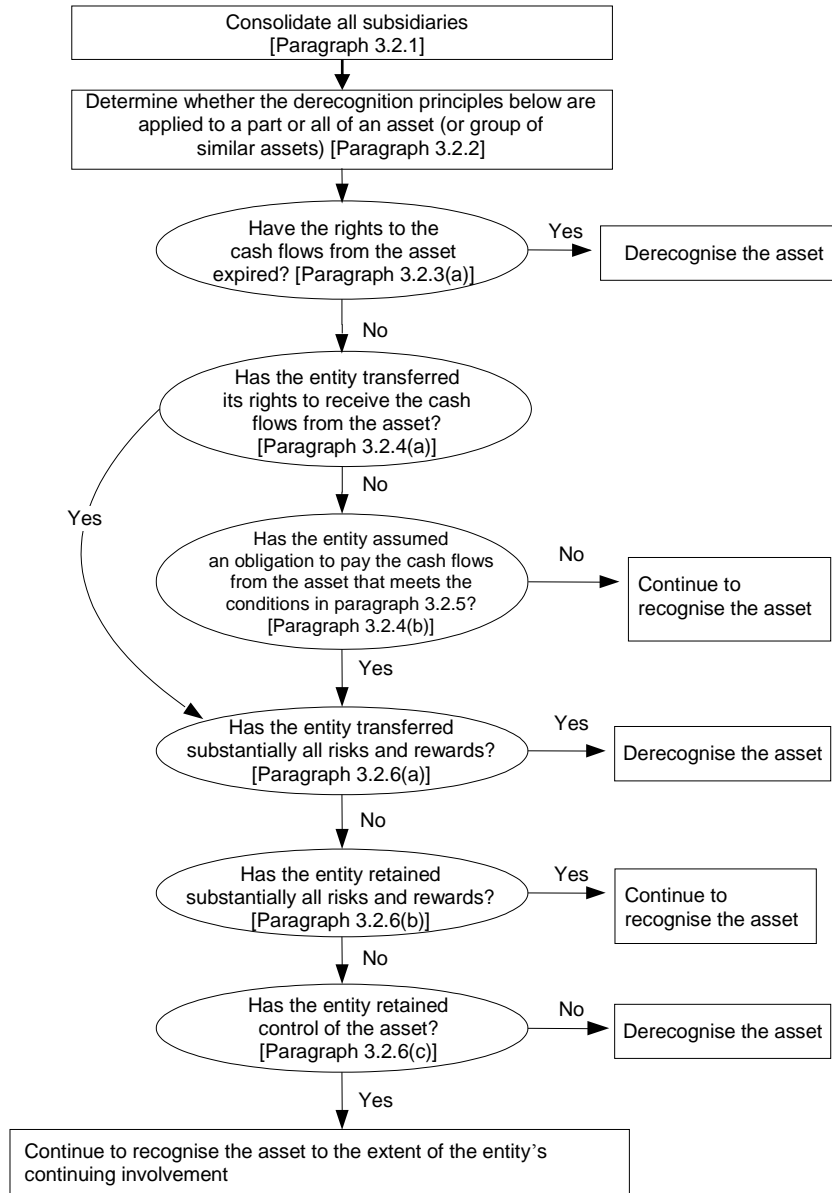
Regular way purchase or sale of financial assets

- B3.1.3 A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting as described in paragraphs B3.1.5 and B3.1.6. An entity shall apply the same method consistently for all purchases and sales of financial assets that are classified in the same way in accordance with this NZ IFRS. For this purpose assets that are mandatorily measured at fair value through profit or loss form a separate classification from assets designated as measured at fair value through profit or loss. In addition, investments in equity instruments accounted for using the option provided in paragraph 5.7.5 form a separate classification.
- B3.1.4 A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.
- B3.1.5 The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.
- B3.1.6 The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset

and recognition of any gain or loss on disposal on the day that it is delivered by the entity. When settlement date accounting is applied an entity accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. In other words, the change in value is not recognised for assets measured at amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at fair value through profit or loss; and it is recognised in other comprehensive income for investments in equity instruments accounted for in accordance with paragraph 5.7.5.

Derecognition of financial assets (section 3.2)

B3.2.1 The following flow chart illustrates the evaluation of whether and to what extent a financial asset is derecognised.



Arrangements under which an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients (paragraph 3.2.4(b))

- B3.2.2 The situation described in paragraph 3.2.4(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 3.2.5 and 3.2.6 are met.
- B3.2.3 In applying paragraph 3.2.5, the entity could be, for example, the originator of the financial asset, or it could be a group that includes a subsidiary that has acquired the financial asset and passes on cash flows to unrelated third party investors.

Evaluation of the transfer of risks and rewards of ownership (paragraph 3.2.6)

- B3.2.4 Examples of when an entity has transferred substantially all the risks and rewards of ownership are:
- (a) an unconditional sale of a financial asset;
 - (b) a sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase; and
 - (c) a sale of a financial asset together with a put or call option that is deeply out of the money (ie an option that is so far out of the money it is highly unlikely to go into the money before expiry).
- B3.2.5 Examples of when an entity has retained substantially all the risks and rewards of ownership are:
- (a) a sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender's return;
 - (b) a securities lending agreement;
 - (c) a sale of a financial asset together with a total return swap that transfers the market risk exposure back to the entity;
 - (d) a sale of a financial asset together with a deep in-the-money put or call option (ie an option that is so far in the money that it is highly unlikely to go out of the money before expiry); and
 - (e) a sale of short-term receivables in which the entity guarantees to compensate the transferee for credit losses that are likely to occur.
- B3.2.6 If an entity determines that as a result of the transfer, it has transferred substantially all the risks and rewards of ownership of the transferred asset, it does not recognise the transferred asset again in a future period, unless it reacquires the transferred asset in a new transaction.

Evaluation of the transfer of control

- B3.2.7 An entity has not retained control of a transferred asset if the transferee has the practical ability to sell the transferred asset. An entity has retained control of a transferred asset if the transferee does not have the practical ability to sell the transferred asset. A transferee has the practical ability to sell the transferred asset if it is traded in an active market because the transferee could repurchase the transferred asset in the market if it needs to return the asset to the entity. For example, a transferee may have the practical ability to sell a transferred asset if the transferred asset is subject to an option that allows the entity to repurchase it, but the transferee can readily obtain the transferred asset in the market if the option is exercised. A transferee does not have the practical ability to sell the transferred asset if the entity retains such an option and the transferee cannot readily obtain the transferred asset in the market if the entity exercises its option.
- B3.2.8 The transferee has the practical ability to sell the transferred asset only if the transferee can sell the transferred asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer. The critical question is what the transferee is able to do in practice, not what contractual rights the transferee has concerning what it can do with the transferred asset or what contractual prohibitions exist. In particular:
- (a) a contractual right to dispose of the transferred asset has little practical effect if there is no market for the transferred asset, and
 - (b) an ability to dispose of the transferred asset has little practical effect if it cannot be exercised freely. For that reason:
 - (i) the transferee's ability to dispose of the transferred asset must be independent of the actions of others (ie it must be a unilateral ability), and

- (ii) the transferee must be able to dispose of the transferred asset without needing to attach restrictive conditions or ‘strings’ to the transfer (eg conditions about how a loan asset is serviced or an option giving the transferee the right to repurchase the asset).

B3.2.9 That the transferee is unlikely to sell the transferred asset does not, of itself, mean that the transferor has retained control of the transferred asset. However, if a put option or guarantee constrains the transferee from selling the transferred asset, then the transferor has retained control of the transferred asset. For example, if a put option or guarantee is sufficiently valuable it constrains the transferee from selling the transferred asset because the transferee would, in practice, not sell the transferred asset to a third party without attaching a similar option or other restrictive conditions. Instead, the transferee would hold the transferred asset so as to obtain payments under the guarantee or put option. Under these circumstances the transferor has retained control of the transferred asset.

Transfers that qualify for derecognition

B3.2.10 An entity may retain the right to a part of the interest payments on transferred assets as compensation for servicing those assets. The part of the interest payments that the entity would give up upon termination or transfer of the servicing contract is allocated to the servicing asset or servicing liability. The part of the interest payments that the entity would not give up is an interest-only strip receivable. For example, if the entity would not give up any interest upon termination or transfer of the servicing contract, the entire interest spread is an interest-only strip receivable. For the purposes of applying paragraph 3.2.13, the fair values of the servicing asset and interest-only strip receivable are used to allocate the carrying amount of the receivable between the part of the asset that is derecognised and the part that continues to be recognised. If there is no servicing fee specified or the fee to be received is not expected to compensate the entity adequately for performing the servicing, a liability for the servicing obligation is recognised at fair value.

B3.2.11 When measuring the fair values of the part that continues to be recognised and the part that is derecognised for the purposes of applying paragraph 3.2.13, an entity applies the fair value measurement requirements in NZ IFRS 13 in addition to paragraph 3.2.14.

Transfers that do not qualify for derecognition

B3.2.12 The following is an application of the principle outlined in paragraph 3.2.15. If a guarantee provided by the entity for default losses on the transferred asset prevents a transferred asset from being derecognised because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Continuing involvement in transferred assets

B3.2.13 The following are examples of how an entity measures a transferred asset and the associated liability under paragraph 3.2.16.

All assets

- (a) If a guarantee provided by an entity to pay for default losses on a transferred asset prevents the transferred asset from being derecognised to the extent of the continuing involvement, the transferred asset at the date of the transfer is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of the consideration received in the transfer that the entity could be required to repay (‘the guarantee amount’). The associated liability is initially measured at the guarantee amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee). Subsequently, the initial fair value of the guarantee is recognised in profit or loss on a time proportion basis (see NZ IAS 18) and the carrying value of the asset is reduced by any impairment losses.

Assets measured at amortised cost

- (b) If a put option obligation written by an entity or call option right held by an entity prevents a transferred asset from being derecognised and the entity measures the transferred asset at amortised cost, the associated liability is measured at its cost (ie the consideration received) adjusted for the amortisation of any difference between that cost and the amortised cost of the transferred asset at the expiration date of the option. For example, assume that the amortised cost and carrying amount of the asset on the date of the transfer is CU98 and that the consideration received is CU95. The amortised cost of the asset on the option exercise date will be CU100. The initial carrying amount of the associated liability is CU95 and the difference between CU95 and CU100 is recognised in profit or loss using the effective interest

method. If the option is exercised, any difference between the carrying amount of the associated liability and the exercise price is recognised in profit or loss.

Assets measured at fair value

- (c) If a call option right retained by an entity prevents a transferred asset from being derecognised and the entity measures the transferred asset at fair value, the asset continues to be measured at its fair value. The associated liability is measured at (i) the option exercise price less the time value of the option if the option is in or at the money, or (ii) the fair value of the transferred asset less the time value of the option if the option is out of the money. The adjustment to the measurement of the associated liability ensures that the net carrying amount of the asset and the associated liability is the fair value of the call option right. For example, if the fair value of the underlying asset is CU80, the option exercise price is CU95 and the time value of the option is CU5, the carrying amount of the associated liability is CU75 (CU80 – CU5) and the carrying amount of the transferred asset is CU80 (ie its fair value).
- (d) If a put option written by an entity prevents a transferred asset from being derecognised and the entity measures the transferred asset at fair value, the associated liability is measured at the option exercise price plus the time value of the option. The measurement of the asset at fair value is limited to the lower of the fair value and the option exercise price because the entity has no right to increases in the fair value of the transferred asset above the exercise price of the option. This ensures that the net carrying amount of the asset and the associated liability is the fair value of the put option obligation. For example, if the fair value of the underlying asset is CU120, the option exercise price is CU100 and the time value of the option is CU5, the carrying amount of the associated liability is CU105 (CU100 + CU5) and the carrying amount of the asset is CU100 (in this case the option exercise price).
- (e) If a collar, in the form of a purchased call and written put, prevents a transferred asset from being derecognised and the entity measures the asset at fair value, it continues to measure the asset at fair value. The associated liability is measured at (i) the sum of the call exercise price and fair value of the put option less the time value of the call option, if the call option is in or at the money, or (ii) the sum of the fair value of the asset and the fair value of the put option less the time value of the call option if the call option is out of the money. The adjustment to the associated liability ensures that the net carrying amount of the asset and the associated liability is the fair value of the options held and written by the entity. For example, assume an entity transfers a financial asset that is measured at fair value while simultaneously purchasing a call with an exercise price of CU120 and writing a put with an exercise price of CU80. Assume also that the fair value of the asset is CU100 at the date of the transfer. The time value of the put and call are CU1 and CU5 respectively. In this case, the entity recognises an asset of CU100 (the fair value of the asset) and a liability of CU96 [(CU100 + CU1) – CU5]. This gives a net asset value of CU4, which is the fair value of the options held and written by the entity.

All transfers

- B3.2.14 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferor's contractual rights or obligations related to the transfer are not accounted for separately as derivatives if recognising both the derivative and either the transferred asset or the liability arising from the transfer would result in recognising the same rights or obligations twice. For example, a call option retained by the transferor may prevent a transfer of financial assets from being accounted for as a sale. In that case, the call option is not separately recognised as a derivative asset.
- B3.2.15 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. If the transferor has both a right and an obligation to reacquire control of the entire transferred asset for a fixed amount (such as under a repurchase agreement), the transferee may measure its receivable at amortised cost if it meets the criteria in paragraph 4.1.2.

Examples

- B3.2.16 The following examples illustrate the application of the derecognition principles of this NZ IFRS.
 - (a) *Repurchase agreements and securities lending.* If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognised because the transferor retains substantially all the risks and rewards of ownership. If the transferee obtains the right to sell or pledge the asset, the transferor reclassifies the asset in its statement of financial position, for example, as a loaned asset or repurchase receivable.

- (b) *Repurchase agreements and securities lending—assets that are substantially the same.* If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a lender's return or if a financial asset is borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor, it is not derecognised because the transferor retains substantially all the risks and rewards of ownership.
- (c) *Repurchase agreements and securities lending—right of substitution.* If a repurchase agreement at a fixed repurchase price or a price equal to the sale price plus a lender's return, or a similar securities lending transaction, provides the transferee with a right to substitute assets that are similar and of equal fair value to the transferred asset at the repurchase date, the asset sold or lent under a repurchase or securities lending transaction is not derecognised because the transferor retains substantially all the risks and rewards of ownership.
- (d) *Repurchase right of first refusal at fair value.* If an entity sells a financial asset and retains only a right of first refusal to repurchase the transferred asset at fair value if the transferee subsequently sells it, the entity derecognises the asset because it has transferred substantially all the risks and rewards of ownership.
- (e) *Wash sale transaction.* The repurchase of a financial asset shortly after it has been sold is sometimes referred to as a wash sale. Such a repurchase does not preclude derecognition provided that the original transaction met the derecognition requirements. However, if an agreement to sell a financial asset is entered into concurrently with an agreement to repurchase the same asset at a fixed price or the sale price plus a lender's return, then the asset is not derecognised.
- (f) *Put options and call options that are deeply in the money.* If a transferred financial asset can be called back by the transferor and the call option is deeply in the money, the transfer does not qualify for derecognition because the transferor has retained substantially all the risks and rewards of ownership. Similarly, if the financial asset can be put back by the transferee and the put option is deeply in the money, the transfer does not qualify for derecognition because the transferor has retained substantially all the risks and rewards of ownership.
- (g) *Put options and call options that are deeply out of the money.* A financial asset that is transferred subject only to a deep out-of-the-money put option held by the transferee or a deep out-of-the-money call option held by the transferor is derecognised. This is because the transferor has transferred substantially all the risks and rewards of ownership.
- (h) *Readily obtainable assets subject to a call option that is neither deeply in the money nor deeply out of the money.* If an entity holds a call option on an asset that is readily obtainable in the market and the option is neither deeply in the money nor deeply out of the money, the asset is derecognised. This is because the entity (i) has neither retained nor transferred substantially all the risks and rewards of ownership, and (ii) has not retained control. However, if the asset is not readily obtainable in the market, derecognition is precluded to the extent of the amount of the asset that is subject to the call option because the entity has retained control of the asset.
- (i) *A not readily obtainable asset subject to a put option written by an entity that is neither deeply in the money nor deeply out of the money.* If an entity transfers a financial asset that is not readily obtainable in the market, and writes a put option that is not deeply out of the money, the entity neither retains nor transfers substantially all the risks and rewards of ownership because of the written put option. The entity retains control of the asset if the put option is sufficiently valuable to prevent the transferee from selling the asset, in which case the asset continues to be recognised to the extent of the transferor's continuing involvement (see paragraph B3.2.9). The entity transfers control of the asset if the put option is not sufficiently valuable to prevent the transferee from selling the asset, in which case the asset is derecognised.
- (j) *Assets subject to a fair value put or call option or a forward repurchase agreement.* A transfer of a financial asset that is subject only to a put or call option or a forward repurchase agreement that has an exercise or repurchase price equal to the fair value of the financial asset at the time of repurchase results in derecognition because of the transfer of substantially all the risks and rewards of ownership.
- (k) *Cash-settled call or put options.* An entity evaluates the transfer of a financial asset that is subject to a put or call option or a forward repurchase agreement that will be settled net in cash to determine whether it has retained or transferred substantially all the risks and rewards of ownership. If the entity has not retained substantially all the risks and rewards of ownership of the transferred asset, it determines whether it has retained control of the transferred asset. That the put or the call or the forward repurchase agreement is settled net in cash does not automatically mean that the entity has transferred control (see paragraphs B3.2.9 and (g), (h) and (i) above).
- (l) *Removal of accounts provision.* A removal of accounts provision is an unconditional repurchase (call) option that gives an entity the right to reclaim assets transferred subject to some restrictions. Provided

that such an option results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership, it precludes derecognition only to the extent of the amount subject to repurchase (assuming that the transferee cannot sell the assets). For example, if the carrying amount and proceeds from the transfer of loan assets are CU100,000 and any individual loan could be called back but the aggregate amount of loans that could be repurchased could not exceed CU10,000, CU90,000 of the loans would qualify for derecognition.

- (m) *Clean-up calls.* An entity, which may be a transferor, that services transferred assets may hold a clean-up call to purchase remaining transferred assets when the amount of outstanding assets falls to a specified level at which the cost of servicing those assets becomes burdensome in relation to the benefits of servicing. Provided that such a clean-up call results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership and the transferee cannot sell the assets, it precludes derecognition only to the extent of the amount of the assets that is subject to the call option.
- (n) *Subordinated retained interests and credit guarantees.* An entity may provide the transferee with credit enhancement by subordinating some or all of its interest retained in the transferred asset. Alternatively, an entity may provide the transferee with credit enhancement in the form of a credit guarantee that could be unlimited or limited to a specified amount. If the entity retains substantially all the risks and rewards of ownership of the transferred asset, the asset continues to be recognised in its entirety. If the entity retains some, but not substantially all, of the risks and rewards of ownership and has retained control, derecognition is precluded to the extent of the amount of cash or other assets that the entity could be required to pay.
- (o) *Total return swaps.* An entity may sell a financial asset to a transferee and enter into a total return swap with the transferee, whereby all of the interest payment cash flows from the underlying asset are remitted to the entity in exchange for a fixed payment or variable rate payment and any increases or declines in the fair value of the underlying asset are absorbed by the entity. In such a case, derecognition of all of the asset is prohibited.
- (p) *Interest rate swaps.* An entity may transfer to a transferee a fixed rate financial asset and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount that is equal to the principal amount of the transferred financial asset. The interest rate swap does not preclude derecognition of the transferred asset provided the payments on the swap are not conditional on payments being made on the transferred asset.
- (q) *Amortising interest rate swaps.* An entity may transfer to a transferee a fixed rate financial asset that is paid off over time, and enter into an amortising interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount. If the notional amount of the swap amortises so that it equals the principal amount of the transferred financial asset outstanding at any point in time, the swap would generally result in the entity retaining substantial prepayment risk, in which case the entity either continues to recognise all of the transferred asset or continues to recognise the transferred asset to the extent of its continuing involvement. Conversely, if the amortisation of the notional amount of the swap is not linked to the principal amount outstanding of the transferred asset, such a swap would not result in the entity retaining prepayment risk on the asset. Hence, it would not preclude derecognition of the transferred asset provided the payments on the swap are not conditional on interest payments being made on the transferred asset and the swap does not result in the entity retaining any other significant risks and rewards of ownership on the transferred asset.

B3.2.17 This paragraph illustrates the application of the continuing involvement approach when the entity's continuing involvement is in a part of a financial asset.

Assume an entity has a portfolio of prepayable loans whose coupon and effective interest rate is 10 per cent and whose principal amount and amortised cost is CU10,000. It enters into a transaction in which, in return for a payment of CU9,115, the transferee obtains the right to CU9,000 of any collections of principal plus interest thereon at 9.5 per cent. The entity retains rights to CU1,000 of any collections of principal plus interest thereon at 10 per cent, plus the excess spread of 0.5 per cent on the remaining CU9,000 of principal. Collections from prepayments are allocated between the entity and the transferee proportionately in the ratio of 1:9, but any defaults are deducted from the entity's interest of CU1,000 until that interest is exhausted. The fair value of the loans at the date of the transaction is CU10,100 and the value of the excess spread of 0.5 per cent is CU40.

The entity determines that it has transferred some significant risks and rewards of ownership (for example, significant prepayment risk) but has also retained some significant risks and rewards of ownership (because of its subordinated retained interest) and has retained control. It therefore applies the continuing involvement approach.

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To apply this NZ IFRS, the entity analyses the transaction as (a) a retention of a fully proportionate retained interest of CU1,000, plus (b) the subordination of that retained interest to provide credit enhancement to the transferee for credit losses.

The entity calculates that CU9,090 (90 per cent × CU10,100) of the consideration received of CU9,115 represents the consideration for a fully proportionate 90 per cent share. The remainder of the consideration received (CU25) represents consideration received for subordinating its retained interest to provide credit enhancement to the transferee for credit losses. In addition, the excess spread of 0.5 per cent represents consideration received for the credit enhancement. Accordingly, the total consideration received for the credit enhancement is CU65 (CU25 + CU40).

The entity calculates the gain or loss on the sale of the 90 per cent share of cash flows. Assuming that separate fair values of the 90 per cent part transferred and the 10 per cent part retained are not available at the date of the transfer, the entity allocates the carrying amount of the asset in accordance with paragraph 3.2.14 as follows:

	<i>Fair value</i>	<i>Percentage</i>	<i>Allocated carrying amount</i>
Portion transferred	9,090	90%	9,000
Portion retained	1,010	10%	1,000
<i>Total</i>	<u>10,100</u>		<u>10,000</u>
	<u>0</u>		<u>0</u>

The entity computes its gain or loss on the sale of the 90 per cent share of the cash flows by deducting the allocated carrying amount of the portion transferred from the consideration received, ie CU90 (CU9,090 – CU9,000). The carrying amount of the portion retained by the entity is CU1,000.

In addition, the entity recognises the continuing involvement that results from the subordination of its retained interest for credit losses. Accordingly, it recognises an asset of CU1,000 (the maximum amount of the cash flows it would not receive under the subordination), and an associated liability of CU1,065 (which is the maximum amount of the cash flows it would not receive under the subordination, ie CU1,000 plus the fair value of the subordination of CU65).

The entity uses all of the above information to account for the transaction as follows:

	<i>Debit</i>	<i>Credit</i>
Original asset	–	9,000
Asset recognised for subordination or the residual interest	1,000	–
Asset for the consideration received in the form of excess spread	40	–
Profit or loss (gain on transfer)	–	90
Liability	–	1,065
Cash received	9,115	–
Total	<u>10,155</u>	<u>10,155</u>

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Immediately following the transaction, the carrying amount of the asset is CU2,040 comprising CU1,000, representing the allocated cost of the portion retained, and CU1,040, representing the entity's additional continuing involvement from the subordination of its retained interest for credit losses (which includes the excess spread of CU40).

In subsequent periods, the entity recognises the consideration received for the credit enhancement (CU65) on a time proportion basis, accrues interest on the recognised asset using the effective interest method and recognises any credit impairment on the recognised assets. As an example of the latter, assume that in the following year there is a credit impairment loss on the underlying loans of CU300. The entity reduces its recognised asset by CU600 (CU300 relating to its retained interest and CU300 relating to the additional continuing involvement that arises from the subordination of its retained interest for credit losses), and reduces its recognised liability by CU300. The net result is a charge to profit or loss for credit impairment of CU300.

Derecognition of financial liabilities (section 3.3)

- B3.3.1 A financial liability (or part of it) is extinguished when the debtor either:
- (a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or
 - (b) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)
- B3.3.2 If an issuer of a debt instrument repurchases that instrument, the debt is extinguished even if the issuer is a market maker in that instrument or intends to resell it in the near term.
- B3.3.3 Payment to a third party, including a trust (sometimes called 'in-substance defeasance'), does not, by itself, relieve the debtor of its primary obligation to the creditor, in the absence of legal release.
- B3.3.4 If a debtor pays a third party to assume an obligation and notifies its creditor that the third party has assumed its debt obligation, the debtor does not derecognise the debt obligation unless the condition in paragraph B3.3.1(b) is met. If the debtor pays a third party to assume an obligation and obtains a legal release from its creditor, the debtor has extinguished the debt. However, if the debtor agrees to make payments on the debt to the third party or direct to its original creditor, the debtor recognises a new debt obligation to the third party.
- B3.3.5 Although legal release, whether judicially or by the creditor, results in derecognition of a liability, the entity may recognise a new liability if the derecognition criteria in paragraphs 3.2.1–3.2.23 are not met for the financial assets transferred. If those criteria are not met, the transferred assets are not derecognised, and the entity recognises a new liability relating to the transferred assets.
- B3.3.6 For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.
- B3.3.7 In some cases, a creditor releases a debtor from its present obligation to make payments, but the debtor assumes a guarantee obligation to pay if the party assuming primary responsibility defaults. In these circumstances the debtor:
- (a) recognises a new financial liability based on the fair value of its obligation for the guarantee, and
 - (b) recognises a gain or loss based on the difference between (i) any proceeds paid and (ii) the carrying amount of the original financial liability less the fair value of the new financial liability.

Classification (chapter 4)

Classification of financial assets (section 4.1)

The entity's business model for managing financial assets

- B4.1.1 Paragraph 4.1.1(a) requires an entity to classify financial assets as subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets. An entity assesses whether its financial assets meet this condition on the basis of the objective of the business model as determined by the entity's key management personnel (as defined in NZ IAS 24).
- B4.1.2 The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. However, a single entity may have more than one business model for managing its financial instruments. Therefore, classification need not be determined at the reporting entity level. For example, an entity may hold a portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to trade to realise fair value changes.
- B4.1.3 Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. For example, the entity may sell a financial asset if:
- the financial asset no longer meets the entity's investment policy (eg the credit rating of the asset declines below that required by the entity's investment policy);
 - an insurer adjusts its investment portfolio to reflect a change in expected duration (ie the expected timing of payouts); or
 - an entity needs to fund capital expenditures.
- However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows.
- B4.1.4 The following are examples of when the objective of an entity's business model may be to hold financial assets to collect the contractual cash flows. This list of examples is not exhaustive.

Example	Analysis
<p>Example 1</p> <p>An entity holds investments to collect their contractual cash flows but would sell an investment in particular circumstances.</p>	<p>Although an entity may consider, among other information, the financial assets' fair values from a liquidity perspective (ie the cash amount that would be realised if the entity needs to sell assets), the entity's objective is to hold the financial assets and collect the contractual cash flows. Some sales would not contradict that objective.</p>
<p>Example 2</p> <p>An entity's business model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets with incurred credit losses. If payment on the loans is not made on a timely basis, the entity attempts to extract the contractual cash flows through various means—for example, by making contact with the debtor by mail, telephone or other methods.</p> <p>In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate.</p>	<p>The objective of the entity's business model is to hold the financial assets and collect the contractual cash flows. The entity does not purchase the portfolio to make a profit by selling them.</p> <p>The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (eg some of the financial assets have incurred credit losses).</p> <p>Moreover, the fact that the entity has entered into derivatives to modify the cash flows of the portfolio does not in itself change the entity's business model. If the portfolio is not managed on a fair value basis, the objective of the business model could be to hold the assets to collect the contractual cash flows.</p> <p style="text-align: right;"><i>continued...</i></p>

<p><i>...continued</i></p> <p>Example</p>	<p>Analysis</p>
<p>Example 3</p> <p>An entity has a business model with the objective of originating loans to customers and subsequently to sell those loans to a securitisation vehicle. The securitisation vehicle issues instruments to investors.</p> <p>The originating entity controls the securitisation vehicle and thus consolidates it.</p> <p>The securitisation vehicle collects the contractual cash flows from the loans and passes them on to its investors.</p> <p>It is assumed for the purposes of this example that the loans continue to be recognised in the consolidated statement of financial position because they are not derecognised by the securitisation vehicle.</p>	<p>The consolidated group originated the loans with the objective of holding them to collect the contractual cash flows.</p> <p>However, the originating entity has an objective of realising cash flows on the loan portfolio by selling the loans to the securitisation vehicle, so for the purposes of its separate financial statements it would not be considered to be managing this portfolio in order to collect the contractual cash flows.</p>

- B4.1.5 One business model in which the objective is not to hold instruments to collect the contractual cash flows is if an entity manages the performance of a portfolio of financial assets with the objective of realising cash flows through the sale of the assets. For example, if an entity actively manages a portfolio of assets in order to realise fair value changes arising from changes in credit spreads and yield curves, its business model is not to hold those assets to collect the contractual cash flows. The entity's objective results in active buying and selling and the entity is managing the instruments to realise fair value gains rather than to collect the contractual cash flows.
- B4.1.6 A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis (as described in paragraph 4.2.2(b)) is not held to collect contractual cash flows. Also, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows. Such portfolios of instruments must be measured at fair value through profit or loss.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

- B4.1.7 Paragraph 4.1.1 requires an entity (unless paragraph 4.1.5 applies) to classify a financial asset as subsequently measured at amortised cost or fair value on the basis of the contractual cash flow characteristics of the financial asset that is in a group of financial assets managed for the collection of the contractual cash flows.
- B4.1.8 An entity shall assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated (see also paragraph B5.7.2).
- B4.1.9 Leverage is a contractual cash flow characteristic of some financial assets. Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Stand-alone option, forward and swap contracts are examples of financial assets that include leverage. Thus such contracts do not meet the condition in paragraph 4.1.2(b) and cannot be subsequently measured at amortised cost.
- B4.1.10 Contractual provisions that permit the issuer (ie the debtor) to prepay a debt instrument (eg a loan or a bond) or permit the holder (ie the creditor) to put a debt instrument back to the issuer before maturity result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding only if:
- (a) the provision is not contingent on future events, other than to protect:
 - (i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law; and
 - (b) the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.

- B4.1.11 Contractual provisions that permit the issuer or holder to extend the contractual term of a debt instrument (ie an extension option) result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding only if:
- (a) the provision is not contingent on future events, other than to protect:
 - (i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations) or a change in control of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law; and
 - (b) the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding.
- B4.1.12 A contractual term that changes the timing or amount of payments of principal or interest does not result in contractual cash flows that are solely principal and interest on the principal amount outstanding unless it:
- (a) is a variable interest rate that is consideration for the time value of money and the credit risk (which may be determined at initial recognition only, and so may be fixed) associated with the principal amount outstanding; and
 - (b) if the contractual term is a prepayment option, meets the conditions in paragraph B4.1.10; or
 - (c) if the contractual term is an extension option, meets the conditions in paragraph B4.1.11.
- B4.1.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<p>Instrument A Instrument A is a bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects ‘real’ interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding.</p> <p>However, if the interest payments were indexed to another variable such as the debtor’s performance (eg the debtor’s net income) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the interest payments are not consideration for the time value of money and for credit risk associated with the principal amount outstanding. There is variability in the contractual interest payments that is inconsistent with market interest rates.</p> <p style="text-align: right;"><i>continued...</i></p>

<p><i>...continued</i></p> <p>Instrument</p>	<p>Analysis</p>
<p>Instrument B</p> <p>Instrument B is a variable interest rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis. For example, at each interest rate reset date, the borrower can choose to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding as long as the interest paid over the life of the instrument reflects consideration for the time value of money and for the credit risk associated with the instrument. The fact that the LIBOR interest rate is reset during the life of the instrument does not in itself disqualify the instrument.</p> <p>However, if the borrower is able to choose to pay one-month LIBOR for three months and that one-month LIBOR is not reset each month, the contractual cash flows are not payments of principal and interest.</p> <p>The same analysis would apply if the borrower is able to choose between the lender’s published one-month variable interest rate and the lender’s published three-month variable interest rate.</p> <p>However, if the instrument has a contractual interest rate that is based on a term that exceeds the instrument’s remaining life, its contractual cash flows are not payments of principal and interest on the principal amount outstanding. For example, a constant maturity bond with a five-year term that pays a variable rate that is reset periodically but always reflects a five-year maturity does not result in contractual cash flows that are payments of principal and interest on the principal amount outstanding. That is because the interest payable in each period is disconnected from the term of the instrument (except at origination).</p>
<p>Instrument C</p> <p>Instrument C is a bond with a stated maturity date and pays a variable market interest rate. That variable interest rate is capped.</p>	<p>The contractual cash flows of both:</p> <ul style="list-style-type: none"> (a) an instrument that has a fixed interest rate and (b) an instrument that has a variable interest rate <p>are payments of principal and interest on the principal amount outstanding as long as the interest reflects consideration for the time value of money and for the credit risk associated with the instrument during the term of the instrument.</p> <p>Therefore, an instrument that is a combination of (a) and (b) (eg a bond with an interest rate cap) can have cash flows that are solely payments of principal and interest on the principal amount outstanding. Such a feature may reduce cash flow variability by setting a limit on a variable interest rate (eg an interest rate cap or floor) or increase the cash flow variability because a fixed rate becomes variable.</p>
<p>Instrument D</p> <p>Instrument D is a full recourse loan and is secured by collateral.</p>	<p>The fact that a full recourse loan is collateralised does not in itself affect the analysis of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.</p>

B4.1.14 The following examples illustrate contractual cash flows that are not payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<p>Instrument E</p> <p>Instrument E is a bond that is convertible into equity instruments of the issuer.</p>	<p>The holder would analyse the convertible bond in its entirety. The contractual cash flows are not payments of principal and interest on the principal amount outstanding because the interest rate does not reflect only consideration for the time value of money and the credit risk. The return is also linked to the value of the equity of the issuer.</p>
<p>Instrument F</p> <p>Instrument F is a loan that pays an inverse floating interest rate (ie the interest rate has an inverse relationship to market interest rates).</p>	<p>The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.</p> <p>The interest amounts are not consideration for the time value of money on the principal amount outstanding.</p>
<p>Instrument G</p> <p>Instrument G is a perpetual instrument but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due.</p> <p>Instrument G pays a market interest rate but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards.</p> <p>Deferred interest does not accrue additional interest.</p>	<p>The contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the issuer may be required to defer interest payments and additional interest does not accrue on those deferred interest amounts. As a result, interest amounts are not consideration for the time value of money on the principal amount outstanding.</p> <p>If interest accrued on the deferred amounts, the contractual cash flows could be payments of principal and interest on the principal amount outstanding.</p>
	<p>The fact that Instrument G is perpetual does not in itself mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding. In effect, a perpetual instrument has continuous (multiple) extension options. Such options may result in contractual cash flows that are payments of principal and interest on the principal amount outstanding if interest payments are mandatory and must be paid in perpetuity.</p> <p>Also, the fact that Instrument G is callable does not mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding unless it is callable at an amount that does not substantially reflect payment of outstanding principal and interest on that principal. Even if the callable amount includes an amount that compensates the holder for the early termination of the instrument, the contractual cash flows could be payments of principal and interest on the principal amount outstanding.</p>

B4.1.15 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.1.2(b) and 4.1.3 of this NZ IFRS.

B4.1.16 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, the contractual cash flows may include payment for factors other than consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. As a result, the instrument would not satisfy the condition in paragraph 4.1.2(b). This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).

- B4.1.17 However, the fact that a financial asset is non-recourse does not in itself necessarily preclude the financial asset from meeting the condition in paragraph 4.1.2(b). In such situations, the creditor is required to assess ('look through to') the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraph 4.1.2(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.
- B4.1.18 If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.
- B4.1.19 In almost every lending transaction the creditor's instrument is ranked relative to the instruments of the debtor's other creditors. An instrument that is subordinated to other instruments may have contractual cash flows that are payments of principal and interest on the principal amount outstanding if the debtor's non-payment is a breach of contract and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy. For example, a trade receivable that ranks its creditor as a general creditor would qualify as having payments of principal and interest on the principal amount outstanding. This is the case even if the debtor issued loans that are collateralised, which in the event of bankruptcy would give that loan holder priority over the claims of the general creditor in respect of the collateral but does not affect the contractual right of the general creditor to unpaid principal and other amounts due.

Contractually linked instruments

- B4.1.20 In some types of transactions, an entity may prioritise payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.
- B4.1.21 In such transactions, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:
- (a) the contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (eg the interest rate on the tranche is not linked to a commodity index);
 - (b) the underlying pool of financial instruments has the cash flow characteristics set out in paragraphs B4.1.23 and B4.1.24; and
 - (c) the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 per cent as a result of credit losses and under all circumstances the tranche would lose 50 per cent or less).
- B4.1.22 An entity must look through until it can identify the underlying pool of instruments that are creating (rather than passing through) the cash flows. This is the underlying pool of financial instruments.
- B4.1.23 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- B4.1.24 The underlying pool of instruments may also include instruments that:
- (a) reduce the cash flow variability of the instruments in paragraph B4.1.23 and, when combined with the instruments in paragraph B4.1.23, result in cash flows that are solely payments of principal and interest on the principal amount outstanding (eg an interest rate cap or floor or a contract that reduces the credit risk on some or all of the instruments in paragraph B4.1.23); or
 - (b) align the cash flows of the tranches with the cash flows of the pool of underlying instruments in paragraph B4.1.23 to address differences in and only in:
 - (i) whether the interest rate is fixed or floating;
 - (ii) the currency in which the cash flows are denominated, including inflation in that currency; or
 - (iii) the timing of the cash flows.

- B4.1.25 If any instrument in the pool does not meet the conditions in either paragraph B4.1.23 or paragraph B4.1.24, the condition in paragraph B4.1.21(b) is not met.
- B4.1.26 If the holder cannot assess the conditions in paragraph B4.1.21 at initial recognition, the tranche must be measured at fair value. If the underlying pool of instruments can change after initial recognition in such a way that the pool may not meet the conditions in paragraphs B4.1.23 and B4.1.24, the tranche does not meet the conditions in paragraph B4.1.21 and must be measured at fair value.

Option to designate a financial asset or financial liability as at fair value through profit or loss (sections 4.1 and 4.2)

- B4.1.27 Subject to the conditions in paragraphs 4.1.5 and 4.2.2, this NZ IFRS allows an entity to designate a financial asset, a financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit or loss provided that doing so results in more relevant information.
- B4.1.28 The decision of an entity to designate a financial asset or financial liability as at fair value through profit or loss is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph 14(b) of NZ IAS 8 requires the chosen policy to result in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. For example, in the case of designation of a financial liability as at fair value through profit or loss, paragraph 4.2.2 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 4.2.2, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.

Designation eliminates or significantly reduces an accounting mismatch

- B4.1.29 Measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through profit or loss, a financial asset would be classified as subsequently measured at fair value and a liability the entity considers related would be subsequently measured at amortised cost (with changes in fair value not recognised). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were measured as at fair value through profit or loss.
- B4.1.30 The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 4.1.5 or 4.2.2(a).
- (a) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by NZ IFRS 4, paragraph 24), and financial assets it considers related that would otherwise be measured at amortised cost.
 - (b) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through profit or loss (ie are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met, for example because the requirements for effectiveness in paragraph 88 of NZ IAS 39 are not met.
 - (c) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not qualify for hedge accounting because none of the instruments is a derivative. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example, the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.
- B4.1.31 In cases such as those described in the preceding paragraph, to designate, at initial recognition, the financial assets and financial liabilities not otherwise so measured as at fair value through profit or loss may eliminate or significantly reduce the measurement or recognition inconsistency and produce more relevant information. For practical purposes, the entity need not enter into all of the assets and liabilities giving rise to the measurement or recognition inconsistency at exactly the same time. A reasonable delay is permitted

provided that each transaction is designated as at fair value through profit or loss at its initial recognition and, at that time, any remaining transactions are expected to occur.

- B4.1.32 It would not be acceptable to designate only some of the financial assets and financial liabilities giving rise to the inconsistency as at fair value through profit or loss if to do so would not eliminate or significantly reduce the inconsistency and would therefore not result in more relevant information. However, it would be acceptable to designate only some of a number of similar financial assets or similar financial liabilities if doing so achieves a significant reduction (and possibly a greater reduction than other allowable designations) in the inconsistency. For example, assume an entity has a number of similar financial liabilities that sum to CU100 and a number of similar financial assets that sum to CU50 but are measured on a different basis. The entity may significantly reduce the measurement inconsistency by designating at initial recognition all of the assets but only some of the liabilities (for example, individual liabilities with a combined total of CU45) as at fair value through profit or loss. However, because designation as at fair value through profit or loss can be applied only to the whole of a financial instrument, the entity in this example must designate one or more liabilities in their entirety. It could not designate either a component of a liability (eg changes in value attributable to only one risk, such as changes in a benchmark interest rate) or a proportion (ie percentage) of a liability.

A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis

- B4.1.33 An entity may manage and evaluate the performance of a group of financial liabilities or financial assets and financial liabilities in such a way that measuring that group at fair value through profit or loss results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, rather than on the nature of its financial instruments.
- B4.1.34 For example, an entity may use this condition to designate financial liabilities as at fair value through profit or loss if it meets the principle in paragraph 4.2.2(b) and the entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management. An example could be an entity that has issued ‘structured products’ containing multiple embedded derivatives and manages the resulting risks on a fair value basis using a mix of derivative and non-derivative financial instruments.
- B4.1.35 As noted above, this condition relies on the way the entity manages and evaluates performance of the group of financial instruments under consideration. Accordingly, (subject to the requirement of designation at initial recognition) an entity that designates financial liabilities as at fair value through profit or loss on the basis of this condition shall so designate all eligible financial liabilities that are managed and evaluated together.
- B4.1.36 Documentation of the entity’s strategy need not be extensive but should be sufficient to demonstrate compliance with paragraph 4.2.2(b). Such documentation is not required for each individual item, but may be on a portfolio basis. For example, if the performance management system for a department—as approved by the entity’s key management personnel—clearly demonstrates that its performance is evaluated on a total return basis, no further documentation is required to demonstrate compliance with paragraph 4.2.2(b).

Embedded derivatives (section 4.3)

- B4.3.1 When an entity becomes a party to a hybrid contract with a host that is not an asset within the scope of this NZ IFRS, paragraph 4.3.3 requires the entity to identify any embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently.
- B4.3.2 If a host contract has no stated or predetermined maturity and represents a residual interest in the net assets of an entity, then its economic characteristics and risks are those of an equity instrument, and an embedded derivative would need to possess equity characteristics related to the same entity to be regarded as closely related. If the host contract is not an equity instrument and meets the definition of a financial instrument, then its economic characteristics and risks are those of a debt instrument.
- B4.3.3 An embedded non-option derivative (such as an embedded forward or swap) is separated from its host contract on the basis of its stated or implied substantive terms, so as to result in it having a fair value of zero at initial recognition. An embedded option-based derivative (such as an embedded put, call, cap, floor or swaption) is separated from its host contract on the basis of the stated terms of the option feature. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.
- B4.3.4 Generally, multiple embedded derivatives in a single hybrid contract are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity (see NZ IAS 32) are accounted for separately from those classified as assets or liabilities. In addition, if a hybrid contract has

more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

B4.3.5 The economic characteristics and risks of an embedded derivative are not closely related to the host contract (paragraph 4.3.3(a)) in the following examples. In these examples, assuming the conditions in paragraph 4.3.3(b) and (c) are met, an entity accounts for the embedded derivative separately from the host contract.

- (a) A put option embedded in an instrument that enables the holder to require the issuer to reacquire the instrument for an amount of cash or other assets that varies on the basis of the change in an equity or commodity price or index is not closely related to a host debt instrument.
- (b) An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension. If an entity issues a debt instrument and the holder of that debt instrument writes a call option on the debt instrument to a third party, the issuer regards the call option as extending the term to maturity of the debt instrument provided the issuer can be required to participate in or facilitate the remarketing of the debt instrument as a result of the call option being exercised.
- (c) Equity-indexed interest or principal payments embedded in a host debt instrument or insurance contract—by which the amount of interest or principal is indexed to the value of equity instruments—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.
- (d) Commodity-indexed interest or principal payments embedded in a host debt instrument or insurance contract—by which the amount of interest or principal is indexed to the price of a commodity (such as gold)—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.
- (e) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless:
 - (i) the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract; or
 - (ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with NZ IAS 32.

- (f) Credit derivatives that are embedded in a host debt instrument and allow one party (the 'beneficiary') to transfer the credit risk of a particular reference asset, which it may not own, to another party (the 'guarantor') are not closely related to the host debt instrument. Such credit derivatives allow the guarantor to assume the credit risk associated with the reference asset without directly owning it.

B4.3.6 An example of a hybrid contract is a financial instrument that gives the holder a right to put the financial instrument back to the issuer in exchange for an amount of cash or other financial assets that varies on the basis of the change in an equity or commodity index that may increase or decrease (a 'puttable instrument'). Unless the issuer on initial recognition designates the puttable instrument as a financial liability at fair value through profit or loss, it is required to separate an embedded derivative (ie the indexed principal payment) under paragraph 4.3.3 because the host contract is a debt instrument under paragraph B4.3.2 and the indexed principal payment is not closely related to a host debt instrument under paragraph B4.3.5(a). Because the principal payment can increase and decrease, the embedded derivative is a non-option derivative whose value is indexed to the underlying variable.

B4.3.7 In the case of a puttable instrument that can be put back at any time for cash equal to a proportionate share of the net asset value of an entity (such as units of an open-ended mutual fund or some unit-linked investment products), the effect of separating an embedded derivative and accounting for each component is to measure the hybrid contract at the redemption amount that is payable at the end of the reporting period if the holder exercised its right to put the instrument back to the issuer.

B4.3.8 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

- (a) An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract or insurance contract is closely related to the host contract unless the hybrid contract can be settled in such a way that the holder would not recover substantially all of its recognised investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.
- (b) An embedded floor or cap on the interest rate on a debt contract or insurance contract is closely related to the host contract, provided the cap is at or above the market rate of interest and the floor is at or below the market rate of interest when the contract is issued, and the cap or floor is not leveraged in relation to the host contract. Similarly, provisions included in a contract to purchase or sell an asset (eg a commodity) that establish a cap and a floor on the price to be paid or received for the asset are closely related to the host contract if both the cap and floor were out of the money at inception and are not leveraged.
- (c) An embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (eg a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument because NZ IAS 21 requires foreign currency gains and losses on monetary items to be recognised in profit or loss.
- (d) An embedded foreign currency derivative in a host contract that is an insurance contract or not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) is closely related to the host contract provided it is not leveraged, does not contain an option feature, and requires payments denominated in one of the following currencies:
 - (i) the functional currency of any substantial party to that contract;
 - (ii) the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions); or
 - (iii) a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place (eg a relatively stable and liquid currency that is commonly used in local business transactions or external trade).
- (e) An embedded prepayment option in an interest-only or principal only strip is closely related to the host contract provided the host contract (i) initially resulted from separating the right to receive contractual cash flows of a financial instrument that, in and of itself, did not contain an embedded derivative, and (ii) does not contain any terms not present in the original host debt contract.
- (f) An embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) contingent rentals based on related sales or (iii) contingent rentals based on variable interest rates.
- (g) A unit-linking feature embedded in a host financial instrument or host insurance contract is closely related to the host instrument or host contract if the unit-denominated payments are measured at current unit values that reflect the fair values of the assets of the fund. A unit-linking feature is a contractual term that requires payments denominated in units of an internal or external investment fund.
- (h) A derivative embedded in an insurance contract is closely related to the host insurance contract if the embedded derivative and host insurance contract are so interdependent that an entity cannot measure the embedded derivative separately (ie without considering the host contract).

Instruments containing embedded derivatives

B4.3.9 As noted in paragraph B4.3.1, when an entity becomes a party to a hybrid contract with a host that is not an asset within the scope of this NZ IFRS and with one or more embedded derivatives, paragraph 4.3.3 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than

measuring the entire instrument at fair value through profit or loss. For that reason this NZ IFRS permits the entire hybrid contract to be designated as at fair value through profit or loss.

- B4.3.10 Such designation may be used whether paragraph 4.3.3 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 4.3.5 would not justify designating the hybrid contract as at fair value through profit or loss in the cases set out in paragraph 4.3.5(a) and (b) because doing so would not reduce complexity or increase reliability.

Reassessment of embedded derivatives

- B4.3.11 In accordance with paragraph 4.3.3, an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

- B4.3.12 Paragraph B4.3.11 does not apply to embedded derivatives in contracts acquired in:

- (a) a business combination (as defined in NZ IFRS 3 *Business Combinations*);
- (b) a combination of entities or businesses under common control as described in paragraphs B1–B4 of NZ IFRS 3; or
- (c) the formation of a joint venture as defined in NZ IFRS 11 *Joint Arrangements* or their possible reassessment at the date of acquisition.²

Reclassification of financial assets (section 4.4)

- B4.4.1 Paragraph 4.4.1 requires an entity to reclassify financial assets if the objective of the entity's business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes must be determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. Examples of a change in business model include the following:

- (a) An entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans and all are held to collect the contractual cash flows.
- (b) A financial services firm decides to shut down its retail mortgage business. That business no longer accepts new business and the financial services firm is actively marketing its mortgage loan portfolio for sale.

- B4.4.2 A change in the objective of the entity's business model must be effected before the reclassification date. For example, if a financial services firm decides on 15 February to shut down its retail mortgage business and hence must reclassify all affected financial assets on 1 April (ie the first day of the entity's next reporting period), the entity must not accept new retail mortgage business or otherwise engage in activities consistent with its former business model after 15 February.

- B4.4.3 The following are not changes in business model:

- (a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions).
- (b) the temporary disappearance of a particular market for financial assets.
- (c) a transfer of financial assets between parts of the entity with different business models.

² NZ IFRS 3 addresses the acquisition of contracts with embedded derivatives in a business combination.

Measurement (chapter 5)

Initial measurement (section 5.1)

- B5.1.1 The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and NZ IFRS 13). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.
- B5.1.2 If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognises the loan at its fair value, ie net of the fee it receives.
- B5.1.2A The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also NZ IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:
- (a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
 - (b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of financial assets (section 5.2)

- B5.2.1 If a financial instrument that was previously recognised as a financial asset is measured at fair value and its fair value decreases below zero, it is a financial liability measured in accordance with paragraph 4.2.1. However, hybrid contracts with hosts that are assets within the scope of this NZ IFRS are always measured in accordance with paragraph 4.3.2.
- B5.2.2 The following example illustrates the accounting for transaction costs on the initial and subsequent measurement of a financial asset measured at fair value with changes through other comprehensive income in accordance with paragraph 5.7.5. An entity acquires an asset for CU100 plus a purchase commission of CU2. Initially, the entity recognises the asset at CU102. The reporting period ends one day later, when the quoted market price of the asset is CU100. If the asset were sold, a commission of CU3 would be paid. On that date, the entity measures the asset at CU100 (without regard to the possible commission on sale) and recognises a loss of CU2 in other comprehensive income.
- B5.2.2A The subsequent measurement of a financial asset or financial liability and the subsequent recognition of gains and losses described in paragraph B5.1.2A shall be consistent with the requirements of this NZ IFRS.
- B5.4.1–B5.4.13 [Deleted by IASB]

Investments in equity instruments (and contracts on those investments)

- B5.4.14 All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.
- B5.4.15 Indicators that cost might not be representative of fair value include:
- (a) a significant change in the performance of the investee compared with budgets, plans or milestones.
 - (b) changes in expectation that the investee's technical product milestones will be achieved.
 - (c) a significant change in the market for the investee's equity or its products or potential products.

- (d) a significant change in the global economy or the economic environment in which the investee operates.
 - (e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.
 - (f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.
 - (g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.
- B5.4.16 The list in paragraph B5.4.15 is not exhaustive. An entity shall use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must measure fair value.
- B5.4.17 Cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments).

Gains and losses (section 5.7)

- B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with NZ IAS 18 unless the dividend clearly represents a recovery of part of the cost of the investment.
- B5.7.2 An entity applies NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* to financial assets and financial liabilities that are monetary items in accordance with NZ IAS 21 and denominated in a foreign currency. NZ IAS 21 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge (see paragraphs 95–101 of NZ IAS 39) or a hedge of a net investment (see paragraph 102 of NZ IAS 39).
- B5.7.3 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. Such an investment is not a monetary item. Accordingly, the gain or loss that is presented in other comprehensive income in accordance with paragraph 5.7.5 includes any related foreign exchange component.
- B5.7.4 If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are presented in profit or loss.

Liabilities designated as at fair value through profit or loss

- B5.7.5 When an entity designates a financial liability as at fair value through profit or loss, it must determine whether presenting in other comprehensive income the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. An accounting mismatch would be created or enlarged if presenting the effects of changes in the liability's credit risk in other comprehensive income would result in a greater mismatch in profit or loss than if those amounts were presented in profit or loss.
- B5.7.6 To make that determination, an entity must assess whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.
- B5.7.7 That determination is made at initial recognition and is not reassessed. For practical purposes the entity need not enter into all of the assets and liabilities giving rise to an accounting mismatch at exactly the same time. A reasonable delay is permitted provided that any remaining transactions are expected to occur. An entity must apply consistently its methodology for determining whether presenting in other comprehensive income the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. However, an entity may use different methodologies when there are different economic relationships between the characteristics of the liabilities designated as at fair value through profit or loss and the characteristics of the other financial instruments. NZ IFRS 7 requires an entity to provide qualitative disclosures in the notes to the financial statements about its methodology for making that determination.

- B5.7.8 If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss. If such a mismatch would not be created or enlarged, the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income.
- B5.7.9 Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.
- B5.7.10 The following example describes a situation in which an accounting mismatch would be created in profit or loss if the effects of changes in the credit risk of the liability were presented in other comprehensive income. A mortgage bank provides loans to customers and funds those loans by selling bonds with matching characteristics (eg amount outstanding, repayment profile, term and currency) in the market. The contractual terms of the loan permit the mortgage customer to prepay its loan (ie satisfy its obligation to the bank) by buying the corresponding bond at fair value in the market and delivering that bond to the mortgage bank. As a result of that contractual prepayment right, if the credit quality of the bond worsens (and, thus, the fair value of the mortgage bank's liability decreases), the fair value of the mortgage bank's loan asset also decreases. The change in the fair value of the asset reflects the mortgage customer's contractual right to prepay the mortgage loan by buying the underlying bond at fair value (which, in this example, has decreased) and delivering the bond to the mortgage bank. Therefore, the effects of changes in the credit risk of the liability (the bond) will be offset in profit or loss by a corresponding change in the fair value of a financial asset (the loan). If the effects of changes in the liability's credit risk were presented in other comprehensive income there would be an accounting mismatch in profit or loss. Therefore, the mortgage bank is required to present all changes in fair value of the liability (including the effects of changes in the liability's credit risk) in profit or loss.
- B5.7.11 In the example in paragraph B5.7.10, there is a contractual linkage between the effects of changes in the credit risk of the liability and changes in the fair value of the financial asset (ie as a result of the mortgage customer's contractual right to prepay the loan by buying the bond at fair value and delivering the bond to the mortgage bank). However, an accounting mismatch may also occur in the absence of a contractual linkage.
- B5.7.12 For the purposes of applying the requirements in paragraphs 5.7.7 and 5.7.8, an accounting mismatch is not caused solely by the measurement method that an entity uses to determine the effects of changes in a liability's credit risk. An accounting mismatch in profit or loss would arise only when the effects of changes in the liability's credit risk (as defined in NZ IFRS 7) are expected to be offset by changes in the fair value of another financial instrument. A mismatch that arises solely as a result of the measurement method (ie because an entity does not isolate changes in a liability's credit risk from some other changes in its fair value) does not affect the determination required by paragraphs 5.7.7 and 5.7.8. For example, an entity may not isolate changes in a liability's credit risk from changes in liquidity risk. If the entity presents the combined effect of both factors in other comprehensive income, a mismatch may occur because changes in liquidity risk may be included in the fair value measurement of the entity's financial assets and the entire fair value change of those assets is presented in profit or loss. However, such a mismatch is caused by measurement imprecision, not the offsetting relationship described in paragraph B5.7.6 and, therefore, does not affect the determination required by paragraphs 5.7.7 and 5.7.8.

The meaning of 'credit risk'

- B5.7.13 NZ IFRS 7 defines credit risk as 'the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation'. The requirement in paragraph 5.7.7(a) relates to the risk that the issuer will fail to perform on that particular liability. It does not necessarily relate to the creditworthiness of the issuer. For example, if an entity issues a collateralised liability and a non-collateralised liability that are otherwise identical, the credit risk of those two liabilities will be different, even though they are issued by the same entity. The credit risk on the collateralised liability will be less than the credit risk of the non-collateralised liability. The credit risk for a collateralised liability may be close to zero.
- B5.7.14 For the purposes of applying the requirement in paragraph 5.7.7(a), credit risk is different from asset-specific performance risk. Asset-specific performance risk is not related to the risk that an entity will fail to discharge a particular obligation but rather it is related to the risk that a single asset or a group of assets will perform poorly (or not at all).
- B5.7.15 The following are examples of asset-specific performance risk:
- (a) a liability with a unit-linking feature whereby the amount due to investors is contractually determined on the basis of the performance of specified assets. The effect of that unit-linking feature on the fair value of the liability is asset-specific performance risk, not credit risk.
 - (b) a liability issued by a structured entity with the following characteristics. The entity is legally isolated so the assets in the entity are ring-fenced solely for the benefit of its investors, even in the event of bankruptcy. The entity enters into no other transactions and the assets in the entity cannot be

hypothecated. Amounts are due to the entity's investors only if the ring-fenced assets generate cash flows. Thus, changes in the fair value of the liability primarily reflect changes in the fair value of the assets. The effect of the performance of the assets on the fair value of the liability is asset specific performance risk, not credit risk.

Determining the effects of changes in credit risk

- B5.7.16 For the purposes of applying the requirement in paragraph 5.7.7(a), an entity shall determine the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability either:
- 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 paragraphs B5.7.17 and B5.7.18); or
 - using an alternative method the entity believes more faithfully represents the amount of change in the liability's fair value that is attributable to changes in its credit risk.
- B5.7.17 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.
- B5.7.18 If the only significant relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, the amount in paragraph B5.7.16(a) can be estimated as follows:
- First, the entity computes the liability's internal rate of return at the start of the period using the fair value 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.
 - 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).
 - The difference between the fair value 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 presented in other comprehensive income in accordance with paragraph 5.7.7(a).
- B5.7.19 The example in paragraph B5.7.18 assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in observed (benchmark) interest rates are not significant. This method would not be appropriate if changes in fair value arising from other factors are significant. In those cases, an entity is required to use an alternative method that more faithfully measures the effects of changes in the liability's credit risk (see paragraph B5.7.16(b)). For example, 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 presented in other comprehensive income in accordance with paragraph 5.7.7(a).
- B5.7.20 As with all fair value measurements, an entity's measurement method for determining the portion of the change in the liability's fair value that is attributable to changes in its credit risk must make maximum use of relevant observable inputs and minimum use of unobservable inputs.

Effective date and transition (chapter 7)

Transition (section 7.2)

Financial assets held for trading

- B7.2.1 At the date of initial application of this NZ IFRS, an entity must determine whether the objective of the entity's business model for managing any of its financial assets meets the condition in paragraph 4.1.2(a) or if a financial asset is eligible for the election in paragraph 5.7.5. For that purpose, an entity shall determine whether financial assets meet the definition of held for trading as if the entity had acquired the assets at the date of initial application.

Definitions (Appendix A)

Derivatives

- BA.1 Typical examples of derivatives are futures and forward, swap and option contracts. A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionally with a change in the underlying) as a result of some future event that is unrelated to a notional amount. For example, a contract may require a fixed payment of CU1,000 if six-month LIBOR increases by 100 basis points. Such a contract is a derivative even though a notional amount is not specified.
- BA.2 The definition of a derivative in this NZ IFRS includes contracts that are settled gross by delivery of the underlying item (eg a forward contract to purchase a fixed rate debt instrument). An entity may have a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument or by exchanging financial instruments (eg a contract to buy or sell a commodity at a fixed price at a future date). Such a contract is within the scope of this NZ IFRS unless it was entered into and continues to be held for the purpose of delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (see paragraphs 5–7 of NZ IAS 39).
- BA.3 One of the defining characteristics of a derivative is that it has an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. An option contract meets that definition because the premium is less than the investment that would be required to obtain the underlying financial instrument to which the option is linked. A currency swap that requires an initial exchange of different currencies of equal fair values meets the definition because it has a zero initial net investment.
- BA.4 A regular way purchase or sale gives rise to a fixed price commitment between trade date and settlement date that meets the definition of a derivative. However, because of the short duration of the commitment it is not recognised as a derivative financial instrument. Rather, this NZ IFRS provides for special accounting for such regular way contracts (see paragraphs 3.1.2 and B3.1.3–B3.1.6).
- BA.5 The definition of a derivative refers to non-financial variables that are not specific to a party to the contract. These include an index of earthquake losses in a particular region and an index of temperatures in a particular city. Non-financial variables specific to a party to the contract include the occurrence or non-occurrence of a fire that damages or destroys an asset of a party to the contract. A change in the fair value of a non-financial asset is specific to the owner if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific non-financial asset held (a non-financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, the change in that residual value is specific to the owner of the car.

Financial assets and liabilities held for trading

- BA.6 Trading generally reflects active and frequent buying and selling, and financial instruments held for trading generally are used with the objective of generating a profit from short-term fluctuations in price or dealer's margin.
- BA.7 Financial liabilities held for trading include:
- derivative liabilities that are not accounted for as hedging instruments;
 - obligations to deliver financial assets borrowed by a short seller (ie an entity that sells financial assets it has borrowed and does not yet own);
 - financial liabilities that are incurred with an intention to repurchase them in the near term (eg a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value); and
 - financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.
- BA.8 The fact that a liability is used to fund trading activities does not in itself make that liability one that is held for trading.

Appendix C Amendments to other NZ IFRSs

Except where otherwise stated, an entity shall apply the amendments in this appendix when it applies NZ IFRS 9 issued in November 2010. These amendments incorporate with additions the amendments issued in Appendix C of NZ IFRS 9 in 2009.

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

- C1 Paragraph 29 is amended to read as follows, paragraph 39B is deleted and paragraphs 29A and 39G are added:
- 29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.
- 29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.
- 39B [Deleted by IASB]
- 39G NZ IFRS 9 *Financial Instruments*, issued in November 2010, amended paragraphs 29, B1–B5, D1(j), D14, D15, D19 and D20, added paragraphs 29A, B8, B9, D19A–D19D, E1 and E2 and deleted paragraph 39B. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.
- C2 In Appendix B, paragraphs B1–B5 are amended to read as follows, and a heading and paragraph B8, and a heading and paragraph B9 are added:
- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6);
 - (c) non-controlling interests (paragraph B7);
 - (d) classification and measurement of financial assets (paragraph B8); and
 - (e) embedded derivatives (paragraph B9).

Derecognition of financial assets and financial liabilities

- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in NZ IFRS 9 prospectively for transactions occurring on or after ~~1 January 2004~~ the date of transition to NZ IFRSs. ~~In other words~~ For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before ~~1 January 2004~~ the date of transition to NZ IFRSs, it shall not recognise those assets and liabilities in accordance with NZ IFRSs (unless they qualify for recognition as a result of a later transaction or event).
- B3 Despite paragraph B2, an entity may apply the derecognition requirements in NZ IFRS 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply NZ IFRS 9 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by NZ IFRS 9, at the date of transition to NZ IFRSs an entity shall:
- (a) measure all derivatives at fair value; and
 - (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

- B5 An entity shall not reflect in its opening NZ IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with NZ IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged item is a net position). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with NZ IFRSs, provided that it does so no later than the date of transition to NZ IFRSs.

Classification and measurement of financial assets

- B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.

Embedded derivatives

- B9 A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of NZ IFRS 9.
- C3 In Appendix D, paragraphs D1(j), D14, D15, D19 and D20 are amended to read as follows and paragraphs D19A–D19D are added:
- D1 An entity may elect to use one or more of the following exemptions:
- (a) ...
 - (j) designation of previously recognised financial instruments (paragraphs D19–D19D)
 - (k) ...
- D14 When an entity prepares separate financial statements, NZ IAS 27 requires it to account for its investments in subsidiaries, jointly controlled entities and associates either:
- (a) at cost; or
 - (b) in accordance with NZ IFRS 9.
- D15 If a first-time adopter measures such an investment at cost in accordance with NZ IAS 27, it shall measure that investment at one of the following amounts in its separate opening NZ IFRS statement of financial position:
- (a) cost determined in accordance with NZ IAS 27; or
 - (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value at the entity's date of transition to NZ IFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost.
- D19 NZ IFRS 9 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to NZ IFRSs, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of NZ IFRS 9 at that date.
- D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.
- D19C If it is impracticable (as defined in NZ IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39, the fair value of the financial asset at the date of transition to NZ IFRSs shall be the new amortised cost of that financial asset at the date of transition to NZ IFRSs.
- D19D An entity shall determine whether the treatment in paragraph 5.7.7 of NZ IFRS 9 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.

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

D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in paragraph B5.1.2A(b) of NZ IFRS 9, in either of the following ways:

- (a) prospectively to transactions entered into on or after the date of transition to NZ IFRSs 25 October 2002; ~~or~~
- (b) ~~prospectively to transactions entered into after 1 January 2004.~~

C4 In Appendix E, a heading and paragraphs E1 and E2 are added:

Exemption from the requirement to restate comparative information for NZ IFRS 9

E1 In its first NZ IFRS financial statements, an entity that (a) adopts NZ IFRSs for annual periods beginning before 1 January 2012 and (b) applies NZ IFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with NZ IFRS 7 *Financial Instruments: Disclosures* or NZ IFRS 9, to the extent that the disclosures required by NZ IFRS 7 relate to items within the scope of NZ IFRS 9. For such entities, references to the ‘date of transition to NZ IFRSs’ shall mean, in the case of NZ IFRS 7 and NZ IFRS 9 only, the beginning of the first NZ IFRS reporting period.

E2 An entity that chooses to present comparative information that does not comply with NZ IFRS 7 and NZ IFRS 9 in its first year of transition shall:

- (a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of NZ IFRS 9 to comparative information about items within the scope of NZ IFRS 9.
- (b) disclose this fact together with the basis used to prepare this information.
- (c) treat any adjustment between the statement of financial position at the comparative period’s reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first NZ IFRS reporting period* (ie the first period that includes information that complies with NZ IFRS 7 and NZ IFRS 9) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of NZ IAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period’s reporting date.
- (d) apply paragraph 17(c) of NZ IAS 1 to provide additional disclosures when compliance with the specific requirements in NZ IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

NZ IFRS 3 *Business Combinations*

C5 Paragraphs 16, 42, 53, 56 and 58(b) are amended to read as follows, paragraph 64A is deleted and paragraph 64D is added:

16 In some situations, NZ IFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

- (a) classification of particular financial assets and liabilities as measured at fair value or at amortised cost, in accordance with NZ IFRS 9 *Financial Instruments*;
- (b) designation of a derivative instrument as a hedging instrument in accordance with NZ IAS 39; and
- (c) assessment of whether an embedded derivative should be separated from a host contract in accordance with NZ IFRS 9 (which is a matter of ‘classification’ as this NZ IFRS uses that term).

- 42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.
- 53 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with NZ IAS 32 and NZ IFRS 9.
- 56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:
- the amount that would be recognised in accordance with NZ IAS 37; and
 - the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with NZ IAS 18 *Revenue*.

This requirement does not apply to contracts accounted for in accordance with NZ IFRS 9.

Annual Improvements to NZ IFRSs 2010-2012 Cycle amended paragraph 58. New text is underlined and deleted text is struck through. An entity shall apply that amendment prospectively to business combinations for which the acquisition date is on or after 1 July 2014. Earlier application is permitted. An entity may apply the amendment earlier provided that NZ IFRS 9 and NZ IAS 37 (both as amended by *Annual Improvements to NZ IFRSs 2010-2012 Cycle*) have also been applied. If an entity applies that amendment earlier it shall disclose that fact.

- 58 Some changes ...
- Other c Contingent consideration ~~classified as an asset or a liability~~ that:
 - ~~is a financial instrument and~~ is within the scope of NZ IFRS 9 shall be measured at fair value at each reporting date, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income and changes in fair value shall be recognised in profit or loss in accordance with NZ IFRS 9.
 - is not within the scope of NZ IFRS 9 shall be ~~accounted for in accordance with NZ IAS 37 or other NZ IFRSs as appropriate, measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.~~

64A [Deleted by IASB]

64D NZ IFRS 9, issued in November 2010, amended paragraphs 16, 42, 53, 56 and 58(b) and deleted paragraph 64A. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IFRS 4 Insurance Contracts

- C6 The Introduction is amended to read as follows:
- ...New Zealand equivalents to IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of NZ IFRS 9 *Financial Instruments*. Furthermore, it does not address accounting by policyholders.
- C7 Paragraphs 3, 4(d), 7, 8, 12, 34(d), 35 and 45 are amended to read as follows, paragraph 41C is deleted and paragraph 41D is added:
- This NZ IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see NZ IAS 32 *Financial Instruments: Presentation*, NZ IAS 39 *Financial Instruments: Recognition and Measurement*, NZ IFRS 7 and NZ IFRS 9 *Financial Instruments*), except in the transitional provisions in paragraph 45.
 - An entity shall not apply this NZ IFRS to:
 - ...

- (d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either NZ IAS 32, NZ IFRS 7 and NZ IFRS 9 or this NZ IFRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
 - (e) ...
- 7 NZ IFRS 9 requires an entity to separate some embedded derivatives from their host contract, measure them at *fair value* and include changes in their fair value in profit or loss. NZ IFRS 9 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract.
- 8 As an exception to the requirements in NZ IFRS 9, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host *insurance liability*. However, the requirements in NZ IFRS 9 do apply to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, those requirements also apply if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).
- 12 To unbundle a contract, an insurer shall:
- (a) apply this NZ IFRS to the insurance component.
 - (b) apply NZ IFRS 9 to the deposit component.
- 34 Some insurance contracts contain a discretionary participation feature as well as a *guaranteed element*. The issuer of such a contract:
- (a) ...
 - (d) shall, if the contract contains an embedded derivative within the scope of NZ IFRS 9, apply NZ IFRS 9 to that embedded derivative.
 - (e) ...

Discretionary participation features in financial instruments

- 35 The requirements in paragraph 34 also apply to a financial instrument that contains a discretionary participation feature. In addition:
- (a) if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 15–19 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying NZ IFRS 9 to the guaranteed element.
 - (b) if the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying NZ IFRS 9 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 9 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying NZ IFRS 9 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher.
 - (c) ...
- 41C [Deleted by IASB]
- 41D NZ IFRS 9, issued in November 2010, amended paragraphs 3, 4(d), 7, 8, 12, 34(d), 35, 45 and B18–B20 and Appendix A and deleted paragraph 41C. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.
- 45 Despite paragraph 4.4.1 of NZ IFRS 9, when an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets so that they are measured at fair value. This reclassification is permitted if an insurer changes accounting policies when it first applies this NZ IFRS and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and NZ IAS 8 applies.

C8 In Appendix A the defined term 'deposit component' is amended to read as follows:

deposit component A contractual component that is not accounted for as a derivative under NZ IFRS 9 and would be within the scope of NZ IFRS 9 if it were a separate instrument.

C9 In Appendix B, paragraphs B18–B20 are amended to read as follows:

B18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:

- (a) ...
- (g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in NZ IFRS 9 and are within the scope of NZ IAS 32 [footnote omitted] and NZ IFRS 9, not this NZ IFRS (see paragraph 4(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either NZ IAS 32 [footnote omitted] and NZ IFRS 9 or this NZ IFRS to such financial guarantee contracts.
- (h) ...

B19 The following are examples of items that are not insurance contracts:

- (a) ...
- (e) derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (see NZ IFRS 9).
- (f) a credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due (see NZ IFRS 9).
- (g) ...

B20 If the contracts described in paragraph B19 create financial assets or financial liabilities, they are within the scope of NZ IFRS 9. Among other things, this means ...

NZ C9.1 In Appendix C of NZ IFRS 4 paragraph 2.1A is added as follows:

2.1A Where a life insurer has early adopted NZ IFRS 9 *Financial Instruments* (2010), all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments* (2010).

NZ C9.2 In Appendix D of NZ IFRS 4 paragraph 2.1A is added as follows:

2.1A Where an entity that issues insurance contracts, other than a life insurer, has early adopted NZ IFRS 9 *Financial Instruments* (2010), all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments* (2010).

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

C10 Paragraph 5 is amended to read as follows and paragraph 44F is added:

5 The measurement provisions of this NZ IFRS [footnote omitted] do not apply to the following assets, which are covered by the NZ IFRSs listed, either as individual assets or as part of a disposal group:

- (a) ...
- (c) financial assets within the scope of NZ IFRS 9 *Financial Instruments*.
- (d) ...

44F NZ IFRS 9, issued in November 2010, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 9 as issued in November 2010.

NZ IFRS 7 *Financial Instruments: Disclosures*

- C11 In the rubric, the reference to ‘Appendices A–D’ is amended to ‘Appendices A–C’. Paragraphs 2–5, 8–10, 11, 14, 20, 28, 30 and 42C–42E are amended to read as follows, paragraphs 12, 12A, 29(b), 44E, 44F and 44H are deleted and a heading and paragraphs 10A, 11A, 11B, 12B–12D, 20A, 44I, 44J and 44N are added:
- 2 The principles in this NZ IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in NZ IAS 32 *Financial Instruments: Presentation* and NZ IFRS 9 *Financial Instruments*.

Scope

- 3 This NZ IFRS shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with NZ IFRS 10 *Consolidated Financial Statements*, NZ IAS 27 *Separate Financial Statements* or NZ IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, NZ IFRS 10, NZ IAS 27 or NZ IAS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using NZ IFRS 9; in those cases, entities shall apply the requirements of this NZ IFRS. Entities shall also apply this NZ IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in NZ IAS 32.
 - (b) ...
 - (d) insurance contracts as defined in NZ IFRS 4 *Insurance Contracts*. However, this NZ IFRS applies to derivatives that are embedded in insurance contracts if NZ IFRS 9 requires the entity to account for them separately. Moreover, an issuer shall apply this NZ IFRS to *financial guarantee contracts* if the issuer applies NZ IFRS 9 in recognising and measuring the contracts, but shall apply NZ IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of NZ IFRS 4, to apply NZ IFRS 4 in recognising and measuring them.
 - (e) ...scope of NZ IFRS 9.
 - (f) ...
- 4 This NZ IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of NZ IFRS 9. Unrecognised financial instruments include some financial instruments that, although outside the scope of NZ IFRS 9, are within the scope of this NZ IFRS (such as some loan commitments).
- 5 This NZ IFRS applies to contracts to buy or sell a non-financial item that are within the scope of NZ IFRS 9.
- 8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, shall be disclosed either in the statement of financial position or in the notes:
- *(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value in accordance with NZ IFRS 9.
 - (b)–(d) [deleted by IASB]
 - *(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of held for trading in NZ IFRS 9.
 - (f) financial assets measured at amortised cost.
 - (g) financial liabilities measured at amortised cost.
 - (h) financial assets measured at fair value through other comprehensive income.
- RDR 8.1 A Tier 2 entity shall disclose, either in the statement of financial position or in the notes, the carrying amounts of (i) financial assets measured at fair value through profit or loss and (ii) financial liabilities at fair value through profit or loss.

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

- *9 If the entity has designated as measured at fair value a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) 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 financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
 - (i) ...
 - (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 financial asset was designated.
- *10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of NZ IFRS 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of NZ IFRS 9), it shall disclose:
- (a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13–B5.7.20 of NZ IFRS 9 for guidance on determining the effects of changes in a liability's credit risk).
 - (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.
 - (c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.
 - (d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.
- *10A If an entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of NZ IFRS 9 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss (see paragraphs 5.7.7 and 5.7.8 of NZ IFRS 9), 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 (see paragraphs B5.7.13–B5.7.20 of NZ IFRS 9 for guidance on determining the effects of changes in a liability's credit risk); and
 - (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 also disclose:
- (a) a detailed description of the methods used to comply with the requirements in paragraphs 9(c), 10(a) and 10A(a) and paragraph 5.7.7(a) of NZ IFRS 9, including an explanation of why the method is appropriate.
 - (b) if the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 9(c), 10(a) or 10A(a) or paragraph 5.7.7(a) of NZ IFRS 9 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.
 - (c) a detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss (see paragraphs 5.7.7 and 5.7.8 of NZ IFRS 9). If an entity is required to present the effects of changes in a liability's credit risk in profit or loss (see paragraph 5.7.8 of NZ IFRS 9), the disclosure must include a detailed description of the economic relationship described in paragraph B5.7.6 of NZ IFRS 9.

Financial assets measured at fair value through other comprehensive income

- *11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of NZ IFRS 9, it shall disclose:
- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
 - (b) the reasons for using this presentation alternative.
 - (c) the fair value of each such investment at the end of the reporting period.
 - (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
 - (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.
- *11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:
- (a) the reasons for disposing of the investments.
 - (b) the fair value of the investments at the date of derecognition.
 - (c) the cumulative gain or loss on disposal.
- 12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of NZ IFRS 9. For each such event, an entity shall disclose:
- (a) the date of reclassification.
 - (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.
 - (c) the amount reclassified into and out of each category.
- *12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.4.1 of NZ IFRS 9:
- (a) the effective interest rate determined on the date of reclassification; and
 - (b) the interest income or expense recognised.
- 12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:
- (a) the fair value of the financial assets at the end of the reporting period; and
 - (b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.
- 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 3.2.23(a) of NZ IFRS 9; and
 - (b) the terms and conditions relating to its pledge.
- 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 measured 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 mandatorily measured at fair value in accordance with NZ IFRS 9 (eg financial liabilities that meet the definition of held for trading in NZ IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.
 - (ii)–(iv) [deleted by IASB]
 - (v) financial liabilities measured at amortised cost.

- (vi) financial assets measured at amortised cost.
 - (vii) financial assets measured at fair value through other comprehensive income.
 - (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or financial liabilities 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 measured at amortised cost 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 *Financial Instruments: Recognition and Measurement*.
 - (e) ...
- RDR 20.1 A Tier 2 entity shall disclose, either in the statement of comprehensive income or in the notes, net gains or losses on financial assets or financial liabilities measured at fair value through profit or loss. For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.
- *20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.
- *28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of NZ IFRS 9). In such cases, the entity shall disclose by class of financial asset or financial liability:
- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of NZ IFRS 9);
 - (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; and
 - (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value..
- 30 In the case described in paragraph 29(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 contracts and their fair value, including:
- (a) ...
- 42C For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement...
- (c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 3.2.5(a)–(c) of NZ IFRS 9 are met.

Trasferred financial assets that are not derecognised in their entirety

- 42D ...To meet the objectives set out in paragraph 42B(a), the entity...
- * (f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 3.2.6(c)(ii) and 3.2.16 of NZ IFRS 9), the total carrying amount of the original assets....

Trasferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 3.2.6(a) and (c)(i) of NZ IFRS 9) but has continuing involvement in them, the entity shall disclose, as a minimum....

44E–44F [Deleted by IASB]

44H [Deleted by IASB]

44I When an entity first applies NZ IFRS 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with NZ IAS 39;
- (b) the new measurement category and carrying amount determined in accordance with NZ IFRS 9;
- (c) the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that NZ IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies NZ IFRS 9, it shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in NZ IFRS 9 to those financial assets whose classification has changed as a result of applying NZ IFRS 9.
- (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

44N NZ IFRS 9, issued in November 2010, amended paragraphs 2–5, 8–10, 11, 14, 20, 28, 30 and 42C–42E, Appendix A and paragraphs B1, B5, B10(a), B22 and B27, added paragraphs 10A, 11A, 11B, 12B–12D, 20A, 44I and 44J, and deleted paragraphs 12, 12A, 29(b), 44E–44F, 44H, B4 and Appendix D. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZC11 New paragraphs 44S–44W are inserted.

44S When an entity first applies the classification and measurement requirements of NZ IFRS 9, it shall present the disclosures set out in paragraphs 44T–44W of this NZ IFRS if it elects to, or is required to, provide these disclosures in accordance with NZ IFRS 9 (see paragraph 8.2.12 of NZ IFRS 9 (2009) and paragraph 7.2.14 of NZ IFRS 9 (2010)).

44T If required by paragraph 44S, at the date of initial application of NZ IFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

- (a) the changes in the carrying amounts on the basis of their measurement categories in accordance with NZ IAS 39 (ie not resulting from a change in measurement attribute on transition to NZ IFRS 9); and
- (b) the changes in the carrying amounts arising from a change in measurement attribute on transition to NZ IFRS 9.

The disclosures in this paragraph need not be made after the annual period in which NZ IFRS 9 is initially applied.

44U In the reporting period in which NZ IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to NZ IFRS 9:

- (a) the fair value of the financial assets or financial liabilities at the end of the reporting period;
- (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;
- (c) the effective interest rate determined on the date of reclassification; and
- (d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of NZ IFRS 9 (2009) and paragraph 7.2.10 of NZ IFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting

period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of NZ IFRS 9, those disclosures, and the disclosures in paragraph 28 of NZ IAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

- (a) the measurement categories in accordance with NZ IAS 39 and NZ IFRS 9; and
- (b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of NZ IFRS 9, those disclosures, and the disclosures in paragraph 25 of this NZ IFRS at the date of initial application, must permit reconciliation between:

- (a) the measurement categories presented in accordance with NZ IAS 39 and NZ IFRS 9; and
- (b) the class of financial instrument at the date of initial application.

C12 In Appendix A, the last paragraph is amended to read as follows:

The following terms are defined in paragraph 11 of NZ IAS 32, paragraph 9 of NZ IAS 39 or Appendix A of NZ IFRS 9 and are used in the NZ IFRS with the meaning specified in NZ IAS 32, NZ IAS 39 and NZ IFRS 9.

- amortised cost of a financial asset or financial liability
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- financial guarantee contract
- financial instrument
- financial liability
- financial liability at fair value through profit or loss
- forecast transaction
- hedging instrument
- held for trading
- reclassification date
- regular way purchase or sale.

C13 In Appendix B, the heading above paragraph B4 and paragraph B4 are deleted and paragraphs B1, B5, B10(a), B22 and B27 are amended to read as follows:

*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 IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

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 liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of NZ IFRS 9 for such designation.
- (aa) for financial assets designated as measured at fair value through profit or loss:

- (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and
 - (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of NZ IFRS 9 for such designation.
 - (b) [deleted by IASB]
 - (c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of NZ IFRS 9).
 - (d) ...
- *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 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) ...
- *B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).
- *B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured at fair value through profit or loss) is disclosed separately from the sensitivity of other comprehensive income (that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income).

C14 Appendix D is deleted.

NZ C14.1 In Appendix E of NZ IFRS 7 paragraph E2.1 is added as follows:

- E2.1 Where a deposit taker has early adopted NZ IFRS 9 *Financial Instruments* (2010), all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments* (2010).

NZ IAS 1 *Presentation of Financial Statements*

C15 In paragraph 7, the definition of ‘other comprehensive income’ and paragraphs 68, 71, 82, 93, 95 and 123 are amended to read as follows, paragraph 139E is deleted and paragraph 139G is added:

7 The following terms are used in this Standard with the meanings specified:

***Other comprehensive income* comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other NZ IFRSs.**

The components of other comprehensive income include:

- (a) ...
 - (d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9 *Financial Instruments*;
 - (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see NZ IAS 39 *Financial Instruments: Recognition and Measurement*);
 - (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability’s credit risk (see paragraph 5.7.7 of NZ IFRS 9).
- ...
- 68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in NZ IFRS 9) and the current portion of non-current financial assets.
- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in NZ IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity’s normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

- 82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:
- (a) revenue;
 - (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
 - (b) finance costs;
 - (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in NZ IFRS 9);
 - (d) ...
- 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. These amounts may have been recognised in other comprehensive income ...
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see NZ IAS 21) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of NZ IAS).
- 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) [deleted by IASB]
 - (b) ...
- 139E [Deleted by IASB]
- 139G NZ IFRS 9, issued in November 2010, amended paragraphs 7, 68, 71, 82, 93, 95 and 123 and deleted paragraph 139E. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IAS 2 Inventories

- C16 Paragraph 2(b) is amended to read as follows, paragraph 40A is deleted and paragraph 40B is added:
- 2 This Standard applies to all inventories, except:**
- (a) ...
 - (b) **financial instruments (see NZ IAS 32 *Financial Instruments: Presentation* and NZ IFRS 9 *Financial Instruments*); and**
 - (c) ...
- 40A [Deleted by IASB]
- 40B NZ IFRS 9, issued in November 2010, amended paragraph 2(b) and deleted paragraph 40A. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

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

- C17 Paragraph 53 is amended to read as follows, paragraph 54A is deleted and paragraph 54B is added:
- 53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with NZ IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A [Deleted by IASB]

54B NZ IFRS 9 *Financial Instruments*, issued in November 2010, amended paragraph 53 and deleted paragraph 54A. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IAS 12 *Income Taxes*

C18 In the rubric ‘paragraphs 1–95’ is amended to ‘paragraphs 1–97’. Paragraph 20 is amended to read as follows, paragraph 96 is deleted and paragraph 97 is added:

20 NZ IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, NZ IAS 16 *Property, Plant and Equipment*, NZ IAS 38 *Intangible Assets*, NZ IAS 40 *Investment Property* and NZ IFRS 9 *Financial Instruments*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, ...

96 [Deleted by IASB]

97 NZ IFRS 9, issued in November 2010, amended paragraph 20 and deleted paragraph 96. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IAS 18 *Revenue*

C19 In the rubric the reference to ‘paragraphs 1–38’ is amended to ‘paragraphs 1–40’. Paragraphs 6(d) and 11 are amended to read as follows, paragraph 39 is deleted and paragraph 40 is added:

6 This Standard does not deal with revenue arising from:

(a) ...

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see NZ IFRS 9 *Financial Instruments*);

(e) ...

11 In most cases ... The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with NZ IFRS 9.

39 [Deleted by IASB]

40 NZ IFRS 9, issued in November 2010, amended paragraphs 6(d) and 11 and deleted paragraph 39. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

C20 In the rubric ‘paragraphs 1–43’ is amended to ‘paragraphs 1–44’. Paragraph 10A is amended to read as follows and paragraph 44 is added:

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with NZ IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with NZ IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

44 NZ IFRS 9, issued in November 2010, amended paragraph 10A. An entity shall apply that amendment when it applies NZ IFRS 9 as issued in November 2010.

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

C21 A new paragraph is added to the Introduction as follows:

The Standard excludes from its scope foreign currency derivatives that are within the scope of NZ IFRS 9 *Financial Instruments*. Similarly, the material on hedge accounting has been moved to NZ IAS 39.

C22 Paragraphs 3(a), 4 and 52(a) are amended to read as follows, paragraph 60C is deleted and paragraph 60E is added:

3 This Standard shall be applied: [footnote omitted]

(a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of NZ IFRS 9 *Financial Instruments*;**

(b) ...

4 NZ IFRS 9 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of NZ IFRS 9 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

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 IFRS 9; and**

(b) ...

60C [Deleted by IASB]

60E NZ IFRS 9, issued in November 2010, amended paragraphs 3(a), 4 and 52(a) and deleted paragraph 60C. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

C23–C28 [Deleted by IASB]

NZ IAS 32 *Financial Instruments: Presentation*

C29 Paragraph IN13 is amended to read as follows: (Not relevant in NZ IAS 32)

C30 Paragraphs 3, 4, 12, 23, 31, 42 and 96C are amended to read as follows, paragraph 97F is deleted and paragraph 97H is added:

3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in NZ IFRS 9 *Financial Instruments*, and for disclosing information about them in NZ IFRS 7 *Financial Instruments: Disclosures*.

Scope

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) **those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with NZ IFRS 10 *Consolidated Financial Statements*, NZ IAS 27 *Separate Financial Statements* or NZ IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, NZ IFRS 10, NZ IAS 27 or NZ IAS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using NZ IFRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.**

(b) ...

(d) **insurance contracts as defined in NZ IFRS 4 *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if NZ IFRS 9 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies NZ IFRS 9 in recognising and measuring the contracts, but shall apply NZ IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of NZ IFRS 4, to apply NZ IFRS 4 in recognising and measuring them.**

(e) **financial instruments that are within the scope of NZ IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see NZ IFRS 9).**

(f)

12 The following terms are defined in Appendix A of NZ IFRS 9 or paragraph 9 of NZ IAS 39 *Financial Instruments: Recognition and Measurement* and are used in this Standard with the meaning specified in NZ IAS 39 and NZ IFRS 9.

- amortised cost of a financial asset or financial liability
- derecognition
- derivative
- effective interest method
- financial guarantee contract
- financial liability at fair value through profit or loss
- firm commitment
- forecast transaction
- hedge effectiveness
- hedged item
- hedging instrument
- held for trading
- regular way purchase or sale
- transaction costs.

23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount and is reclassified from equity. Subsequently, the financial liability is measured in accordance with NZ IFRS 9. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).

31 NZ IFRS 9 deals with the measurement of financial assets and financial liabilities. Equity instruments ...

42 ...

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see NZ IFRS 9, paragraph 3.2.22).

96C The classification of instruments under this exception shall be restricted to the accounting for such an instrument under NZ IAS 1, NZ IAS 32, NZ IAS 39, NZ IFRS 7 and NZ IFRS 9. The instrument shall not be considered an equity instrument under other guidance, for example NZ IFRS 2.

97F [Deleted by IASB]

97H NZ IFRS 9, issued in November 2010, amended paragraphs 3, 4, 12, 23, 31, 42, 96C, AG2 and AG30 and deleted paragraph 97F. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

C31 In the Appendix, paragraphs AG2 and AG30 are amended to read as follows:

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in NZ IFRS 9.

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. NZ IFRS 9 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

NZ IAS 36 *Impairment of Assets*

C32 Paragraphs 2(e) and 5 are amended to read as follows, paragraph 140F is deleted and paragraph 140G is added:

2 ...

(e) **financial assets that are within the scope of NZ IFRS 9 *Financial Instruments*;**

(f) ...

5 This Standard does not apply to financial assets within the scope of NZ IFRS 9, investment property measured at fair value in accordance with NZ IAS 40, or biological assets related to agricultural activity measured at fair value less costs to sell in accordance with NZ IAS 41. However, ...

140F [Deleted by IASB]

140G NZ IFRS 9 *Financial Instruments*, issued in November 2010, amended paragraphs 2(e) and 5 and deleted paragraph 140F. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

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

C33 In the rubric ‘paragraphs 1–95’ is amended to ‘paragraphs 1–97’. Paragraph 2 is amended to read as follows and paragraph 97 is added:

2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of NZ IFRS 9 *Financial Instruments*.

97 NZ IFRS 9, issued in November 2010, amended paragraph 2. An entity shall apply that amendment when it applies NZ IFRS 9 as issued in November 2010.

NZ IAS 39 *Financial Instruments: Recognition and Measurement*

C34 A new paragraph is added to the Introduction as follows:

The International Accounting Standards Board has decided to replace IAS 39 *Financial Instruments: Recognition and Measurement* over a period of time. The first instalment, dealing with classification and measurement of financial assets, was issued as NZ IFRS 9 *Financial Instruments* in November 2009. The requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were added to NZ IFRS 9 in October 2010. As a consequence, parts of NZ IAS 39 are being superseded and will become obsolete for annual periods beginning on or after 1 January 2015. Proposals to replace the requirements on impairment have been published and proposals on hedge accounting are expected to be published in 2010. The remaining requirements of NZ IAS 39 continue in effect until superseded by future instalments of NZ IFRS 9. The Board expects to replace NZ IAS 39 in its entirety.

C35 The heading above paragraph 1 and paragraph 1 are deleted.

C36 Paragraphs 2 and 4 are amended to read as follows:

2 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **... unless the derivative meets the definition of an equity instrument of the entity in NZ IAS 32 *Financial Instruments: Presentation*.**

(b) **rights and obligations under leases to which NZ IAS 17 *Leases* applies. However:**

(i) **lease receivables recognised by a lessor are subject to the derecognition and impairment provisions of this Standard;**

(ii) **finance lease payables recognised by a lessee are subject to the derecognition provisions of this Standard; and**

(iii) **derivatives that are embedded in leases are subject to the embedded derivatives provisions of this Standard.**

(c) ...

(e) **rights and obligations arising under (i) an insurance contract as defined in NZ IFRS 4 *Insurance Contracts*, other than an issuer’s rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in Appendix A of NZ IFRS 9 *Financial Instruments*, or (ii) a contract that is within the scope of NZ IFRS 4 because it contains a discretionary participation feature. However, this**

Standard applies to a derivative that is embedded in a contract within the scope of NZ IFRS 4 if the derivative is not itself a contract within the scope of NZ IFRS 4. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or NZ IFRS 4 to such financial guarantee contracts (see paragraphs AG4 and AG4A). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

(f) ...

(h) **loan commitments other than those loan commitments described in paragraph 4. An issuer of loan commitments shall apply NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to loan commitments that are not within the scope of this Standard. However, all loan commitments are subject to the derecognition provisions of this Standard.**

(i) ...

4 The following loan commitments are within the scope of this Standard:

(a) **loan commitments that the entity designates as financial liabilities at fair value through profit or loss (see paragraph 4.2.2 of NZ IFRS 9). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.**

(b) ...

(c) **commitments to provide a loan at a below-market interest rate (see paragraph 4.2.1 of NZ IFRS 9).**

C37 Paragraphs 8 and 9 are amended to read as follows:

8 The terms defined in NZ IFRS 9 and NZ IAS 32 are used in this Standard with the meanings specified in Appendix A of NZ IFRS 9 and paragraph 11 of NZ IAS 32. NZ IFRS 9 and NZ IAS 32 define the following terms:

- derecognition
- derivative
- equity instrument
- fair value
- financial asset
- financial guarantee contract
- financial instrument
- financial liability

and provide guidance on applying those definitions.

In paragraph 9, the ‘Definition of a derivative’, ‘Definitions of four categories of financial instruments’ and ‘Definition of a financial guarantee contract’ are deleted. In ‘Definitions relating to recognition and measurement’, the definitions ‘derecognition’, ‘fair value’ and ‘regular way purchase or sale’ are deleted.

C38 Paragraphs 10–57 are deleted.

C39 The heading ‘Impairment and uncollectibility of financial assets’ above paragraph 58 and paragraphs 58 and 63 are amended to read as follows and paragraphs 61 and 66–70 and the headings above paragraphs 63, 66 and 67 are deleted:

Impairment and uncollectibility of financial assets measured at amortised cost

58 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

63 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as ...

C40 Paragraph 79 is deleted and paragraphs 88(d), 89(b), 90 and 96(c) are amended to read as follows:

88 A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.

- (a) ...
- (d) **The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.**
- (e) ...

Fair value hedges

89 If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

- (a) ...
- (b) **the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost.**

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 5.7.1 of NZ IFRS 9.

96 More specifically, a cash flow hedge is accounted for as follows:

- (a) ...
- (c) if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 5.7.1 of NZ IFRS 9.

C41 Paragraphs 103B, 103C, 103K, 104 and 108C are amended to read as follows, paragraphs 103H–103J, 103L, 103M and 105–107A are deleted and paragraph 103O is added:

103B *Financial Guarantee Contracts* (Amendments to NZ IAS 39 and NZ IFRS 4), issued in August 2005, amended paragraphs 2(e) and (h), 4 and AG4, added paragraph AG4A, added a new definition of financial guarantee contracts and deleted paragraph 3. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these changes for an earlier period, it shall disclose that fact and apply the related amendments to NZ IAS 32 [footnote omitted] and NZ IFRS 4 at the same time.

103C NZ IAS 1 (as revised in 2007) amended the terminology used throughout NZ IFRSs. In addition it amended paragraphs 95(a), 97, 98, 100, 102, 108 and AG99B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

103K *Improvements to NZ IFRSs*, issued in April 2009, amended paragraphs 2(g), 97 and 100. An entity shall apply the amendments to those paragraphs prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

103L [Deleted by IASB]

103M [Deleted by IASB]

103O NZ IFRS 9, issued in November 2010, amended paragraphs 2, 4, 8, 9, 58, 63, 88(d), 89(b), 90, 96(c), 103B, 103C, 103K, 104, 108C, AG3–AG4, AG8, AG84, AG95, AG114(a) and AG118(b) and deleted paragraphs 1, 10–57, 61, 66–70, 79, 103H–103J, 103L, 103M, 105–107A, AG4B–AG4K, AG9–AG12A, AG14, AG15, AG27–AG83 and AG96. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

104 This Standard shall be applied retrospectively except as specified in paragraph 108. The opening balance of retained earnings for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.

108C Paragraphs 73 and AG8 were amended by *Improvements to NZ IFRSs*, issued in May 2008. Paragraph 80 was amended by *Improvements to NZ IFRSs*, issued in April 2009. An entity shall

apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

C42 In Appendix A, paragraphs AG3–AG4 are amended to read as follows:

AG3 ... If neither the equity method nor proportionate consolidation is appropriate, the entity applies this Standard and NZ IFRS 9 to that strategic investment.

AG3A This Standard and NZ IFRS 9 apply to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under contracts within the scope of NZ IFRS 4.

AG4 Financial guarantee contracts may have various legal forms, such as...

(a) Although a financial guarantee contract meets the definition of an insurance contract in NZ IFRS 4 if the risk transferred is significant, the issuer applies this Standard and NZ IFRS 9. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard and NZ IFRS 9 or NZ IFRS 4 to such financial guarantee contracts. If this Standard and NZ IFRS 9 apply, paragraph 5.1.1 of NZ IFRS 9 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through profit or loss or unless paragraphs 3.2.15–3.2.23 and B3.2.12–B3.2.17 of NZ IFRS 9 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

- (i) the amount determined in accordance with NZ IAS 37; and
- (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with NZ IAS 18 (see paragraph 4.2.1(c) of NZ IFRS 9).

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in NZ IFRS 9, and are not insurance contracts as defined in NZ IFRS 4. Such guarantees are derivatives and the issuer applies this Standard and NZ IFRS 9 to them.

(c) ...

C43 In Appendix A, the heading above paragraph AG4B and paragraphs AG4B–AG4K, the heading above paragraph AG9 and paragraphs AG9–AG12A, and the heading above paragraph AG14 and paragraphs AG14 and AG15 are deleted and paragraph AG8 is amended to read as follows:

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense.

C44 In Appendix A, the heading above paragraph AG27 and paragraphs AG27–AG83 are deleted.

C45 In Appendix A, the heading 'Impairment and uncollectibility of financial assets (paragraphs 58–70)' above paragraph AG84 and paragraph AG84 are amended to read as follows:

Impairment and uncollectibility of financial assets measured at amortised cost (paragraphs 58–65)

AG84 Impairment of a financial asset measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a financial asset measured at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is

immaterial. If a financial asset measured at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset measured at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

- C46 In Appendix A, paragraph AG96 and the first footnote to paragraph AG118(b) are deleted and paragraphs AG95, AG114(a) and AG118(b) are amended to read as follows:
- AG95 A financial asset measured at amortised cost may be designated as a hedging instrument in a hedge of foreign currency risk.
- AG96 [Deleted by IASB]
- AG114 For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)–(i) and paragraphs AG115–AG132 below.
- (a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios, in which case it applies the guidance below to each portfolio separately.
- (b) ...
- AG118 As an example of the designation set out...
- (a) ...
- (b) items that could have qualified for fair value hedge accounting if they had been designated as hedged individually. In particular, because NZ IFRS 9 specifies that the fair value of a financial liability with a demand feature (such as...
- C47 The heading 'Transition (paragraphs 103–108N)' above paragraph AG133 is amended to read as follows:

Transition (paragraphs 103–108C)

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

- C48 In the rubric 'paragraphs 1–14A' is amended to 'paragraphs 1–15'. Below the heading 'References', the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraph 15 is added:
- 15 NZ IFRS 9, issued in November 2010, amended paragraphs A8 and A10. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.
- C49 In the Appendix, paragraphs A8 and A10 are amended to read as follows:
- A8 Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 47 of NZ IFRS 13, which states: 'The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand ...' Accordingly, the cooperative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.
- A10 Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 per cent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on 1 January 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 5.4.3 of NZ IFRS 9. It therefore transfers on 1 January 20X3 from equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity. In this example the entity does not recognise a gain or loss on the transfer.

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

- C50 Below the heading ‘References’, the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraph 5 is amended to read as follows and paragraph 14A is added:
- 5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of NZ IFRS 9 and is not within the scope of this Interpretation.
- 14A NZ IFRS 9, issued in November 2010, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 9 as issued in November 2010.

NZ IFRIC 10 Interim Financial Reporting and Impairment

- C51 In the rubric ‘paragraphs 1–10’ is amended to ‘paragraphs 1–12’. Below the heading ‘References’, the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraphs 5, 6 and 11 are deleted, paragraphs 1, 2, 7 and 8 are amended to read as follows and paragraph 12 is added:
- 1 An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with NZ IAS 36. However, ...
- 2 The Interpretation addresses the interaction between the requirements of NZ IAS 34 and the recognition of impairment losses on goodwill in NZ IAS 36, and the effect of that interaction on subsequent interim and annual financial statements.
- 7 The Interpretation addresses the following issue:
- Should an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

Consensus

- 8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.
- 11 [Deleted by IASB]
- 12 NZ IFRS 9, issued in November 2010, amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5, 6 and 11. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IFRIC 12 Service Concession Arrangements

- C52 Below the heading ‘References’, the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraphs 23–25 are amended to read as follows, paragraph 28A is deleted and paragraph 28B is added:
- 23 NZ IAS 32 and NZ IFRSs 7 and 9 apply to the financial asset recognised under paragraphs 16 and 18.
- 24 The amount due from or at the direction of the grantor is accounted for in accordance with NZ IFRS 9 as:
- (a) at amortised cost; or
- (b) measured at fair value through profit or loss.
- 25 If the amount due from the grantor is accounted for at amortised cost, NZ IFRS 9 requires interest calculated using the effective interest method to be recognised in profit or loss.
- 28A [Deleted by IASB]
- 28B NZ IFRS 9, issued in November 2010, amended paragraphs 23–25 and deleted paragraph 28A. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

C53 In the rubric ‘paragraphs 1–13’ is amended to ‘paragraphs 1–14’. Below the heading ‘References’, the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraphs 4(a), 5, 7, 9 and 10 are amended to read as follows and paragraph 14 is added:

- 4 This Interpretation addresses the following issues:
- (a) Are an entity’s equity instruments issued to extinguish all or part of a financial liability ‘consideration paid’ in accordance with paragraph 3.3.3 of NZ IFRS 9?
 - (b) ...

Consensus

- 5 The issue of an entity’s equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 3.3.3 of NZ IFRS 9. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 3.3.1 of NZ IFRS 9.
- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 47 of NZ IFRS 13 is not applied.
- 9 The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 3.3.3 of NZ IFRS 9. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.
- 10 When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph 8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 3.3.2 of NZ IFRS 9.
- 14 NZ IFRS 9, issued in November 2010, amended paragraphs 4(a), 5, 7, 9 and 10. An entity shall apply those amendments when it applies NZ IFRS 9 as issued in November 2010.

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

C54 Below the heading ‘References’, the reference to NZ IAS 39 is deleted and a reference to NZ IFRS 9 *Financial Instruments* is added. In the Consensus, paragraph 7 is amended to read as follows:

- 7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under NZ IAS 37, NZ IFRS 4 or NZ IFRS 9*, depending on the terms.

* effective date 1 January 2012 (earlier application permitted)

After the paragraph headed ‘Effective date’ a paragraph is added as follows:

NZ IFRS 9, issued in November 2010, amended paragraph 7. An entity shall apply that amendment when it applies NZ IFRS 9 as issued in November 2010.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 9 *Financial Instruments* (2010)

This table lists the pronouncements establishing and substantially amending NZ IFRS 9. The table is based on amendments approved as at 30 September 2014 other than consequential amendments resulting from early adoption of NZ IFRS 15 *Revenue from Contracts with Customers*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 9 <i>Financial Instruments</i> (2010)	Nov 2010	Early application permitted	1 Jan 2013
NZ IFRS 10 <i>Consolidated Financial Statements</i>	June 2011	Early application permitted	1 Jan 2013
NZ IFRS 11 <i>Joint Arrangements</i>	June 2011	Early application permitted	1 Jan 2013
NZ IFRS 13 <i>Fair Value Measurement</i>	June 2011	Early application permitted	1 Jan 2013
<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> (Amendments to NZ IFRS 9 and NZ IFRS 7)	Feb 2012	Early application permitted	1 Jan 2015
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> ³	Nov 2012	Early application permitted	1 Jan 2015
NZ IFRS 9 <i>Financial Instruments</i> (2013) (<i>Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39</i>)	Dec 2013	Early application permitted	1 Jan 2017
<i>Annual Improvements to NZ IFRSs 2010-2012 Cycle</i>	Feb 2014	Early application permitted	1 July 2014
NZ IFRS 9 <i>Financial Instruments</i>	Sept 2014	Early application permitted only before 1 Feb 2015	1 Jan 2018

Table of Amended Paragraphs in NZ IFRS 9		
Paragraph affected	How affected	By ... [date]
Paragraph 3.2.1	Amended	NZ IFRS 10 [June 2011]
Paragraph 3.2.14	Amended	NZ IFRS 13 [June 2011]
Paragraph 4.2.1	Amended	<i>Annual Improvements to NZ IFRSs 2010-2012 Cycle</i> [Feb 2014]
Paragraph 4.3.7	Amended	NZ IFRS 13 [June 2011]
Paragraph 5.1.1	Amended	NZ IFRS 13 [June 2011]
Paragraph 5.1.1A	Inserted	NZ IFRS 13 [June 2011]
Paragraph 5.2.1	Amended	NZ IFRS 13 [June 2011]
Paragraphs 5.4.1–5.4.3 and preceding heading	Deleted	NZ IFRS 13 [June 2011]
Paragraph 5.6.2	Amended	NZ IFRS 13 [June 2011]

³ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.

Table of Amended Paragraphs in NZ IFRS 9		
Paragraph affected	How affected	By ... [date]
Paragraph 5.7.5	Amended	<i>Annual Improvements to NZ IFRSs 2010-2012 Cycle</i> [Feb 2014]
Paragraph 7.1.1	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph 7.1.1	Amended	NZ IFRS 9 [Dec 2013]
Paragraph 7.1.1	Amended	NZ IFRS 9 [Sept 2014]
Paragraph 7.1.1A	Inserted	NZ IFRS 9 [Dec 2013]
Paragraph 7.1.1A	Amended	NZ IFRS 9 [Sept 2014]
Paragraph 7.1.2	Inserted	NZ IFRS 10 and NZ IFRS 11 [June 2011]
Paragraph 7.1.3	Inserted	NZ IFRS 13 [June 2011]
Paragraph NZ 7.1.3.1	Inserted	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]
Paragraph 7.1.4	Inserted	<i>Annual Improvements to NZ IFRSs 2010-2012 Cycle</i> [Feb 2014]
Paragraph 7.2.5	Amended	NZ IFRS 13 [June 2011]
Paragraph 7.2.10	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph 7.2.11	Amended	NZ IFRS 13 [June 2011]
Paragraph 7.2.12	Amended	NZ IFRS 13 [June 2011]
Paragraph 7.2.14	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph 7.3.2	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph 7.30.2	Amended	NZ IFRS 9 [Sept 2014]
Paragraph B3.2.1	Amended	NZ IFRS 10 [June 2011]
Paragraph B3.2.2	Amended	NZ IFRS 10 [June 2011]
Paragraph B3.2.3	Amended	NZ IFRS 10 [June 2011]
Paragraph B3.2.11	Amended	NZ IFRS 13 [June 2011]
Paragraph B3.2.17	Amended	NZ IFRS 13 [June 2011]
Paragraph B5.1.1	Amended	NZ IFRS 13 [June 2011]
Paragraph B5.1.2A	Inserted	NZ IFRS 13 [June 2011]
Paragraph B5.2.2A	Inserted	NZ IFRS 13 [June 2011]
Paragraphs B5.4.1– B5.4.13 and related headings	Deleted	NZ IFRS 13 [June 2011]
Paragraph B5.4.14 and preceding heading	Amended	NZ IFRS 13
Paragraph B5.4.16	Amended	NZ IFRS 13 [June 2011]
Paragraph B5.7.15	Amended	NZ IFRS 10 [June 2011]
Paragraph B5.7.20	Amended	NZ IFRS 13 [June 2011]
Paragraph C3 NZ IFRS 1 paragraphs D15 and D20	Amended	NZ IFRS 13 [June 2011]
Paragraph C5 NZ IFRS 3 paragraph 58	Amended	<i>Annual Improvements to NZ IFRSs 2010-2012 Cycle</i> [Feb 2014]
Paragraph C11 NZ IFRS 7 paragraph 28	Amended	NZ IFRS 13 [June 2011]

Table of Amended Paragraphs in NZ IFRS 9		
Paragraph affected	How affected	By ... [date]
Paragraph NZC11	Inserted	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph C30 NZ IAS 32 paragraph 23	Amended	NZ IFRS 13 [June 2011]
Paragraph C49 NZ IFRIC 2 paragraph A8	Amended	NZ IFRS 13 [June 2011]
Paragraph C53 NZ IFRIC 19 paragraph 7	Amended	NZ IFRS 13 [June 2011]