

Exposure Draft NZASB 2018-1

Proposed RDR for NZ IFRS 16 and NZ IAS 7 (for Tier 2 For-profit Entities)

(ED NZASB 2018-1)

Invitation to Comment

January 2018

© External Reporting Board 2018
PO Box 11250
Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

Permission to reproduce: The copyright owner authorises reproduction of this work, in whole or in part, so long as no charge is made for the supply of copies, and the integrity and attribution of the work as a publication of the External Reporting Board is not interfered with in any way.

Disclaimer: Readers are advised to seek specific advice from an appropriately qualified professional before undertaking any action relying on the contents of this document. The External Reporting Board does not accept any responsibility whether in contract, tort, equity or otherwise for any action taken, or reliance placed on, any part, or all, of the information in this document, or for any error or omission from this document.

Table of Contents

	Page
Information for respondents	4
List of abbreviations.....	5
Questions for respondents	6
1. Introduction	7
1.1 Background.....	7
1.2 Purpose of this Invitation to Comment	7
1.3 Timeline and next steps.....	7
2. Overview of Invitation to Comment and ED.....	8
2.1 Summary	8
2.2 NZ IFRS 16 <i>Leases</i>	8
2.3 NZ IAS 7 <i>Statement of Cash Flows</i>	8
2.4 Effective date and other comments	9
ED NZASB 2018-1 <i>Proposed RDR for NZ IFRS 16 and NZ IAS 7</i>	

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for disclosure concessions in NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows* for Tier 2 for-profit entities.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand
Email: submissions@xrb.govt.nz
(please refer to *Title of document* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **23 April 2018**.

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

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

AASB	Australian Accounting Standards Board
ED	Exposure Draft
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standard
NZ IFRS RDR	NZ IFRS with disclosure concessions for Tier 2 for-profit entities
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
RDR	Reduced Disclosure Regime

Questions for respondents

	Paragraphs
1 Do you agree with the proposed RDR concessions for NZ IFRS 16 <i>Leases</i> ? If you disagree, please provide reasons.	13–15
2 Do you agree with the proposed additional RDR concessions for NZ IAS 7 <i>Statement of Cash Flows</i> ? If you disagree, please provide reasons.	16–21
3 Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2019? If you disagree, please explain why.	22
4 Do you have any other comments on the ED?	

1. Introduction

1.1 Background

1. The New Zealand Accounting Standards Board (NZASB) and the Australian Accounting Standards Board (AASB) have jointly developed a proposed RDR decision-making framework (proposed RDR framework). This framework was issued for comment in January 2017, with comments due by 26 May 2017.²
2. At their meetings in August 2017, both the NZASB and the AASB noted a summary of the comments received on their respective exposure drafts (EDs).
3. The AASB is planning to conduct further outreach on its exposure draft and on its financial reporting framework project, to which the RDR decision making framework project is linked. This will likely mean that the proposals in the respective EDs will not be finalised in time for the effective date of AASB 16/NZ IFRS 16 *Leases*.
4. AASB 16/NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Boards are proposing to provide RDR concessions for AASB 16/NZ IFRS 16 *Leases* as an interim measure until they have considered respondents' comments on the EDs and finalised that project.
5. In addition, the NZASB is proposing some additional RDR concessions for the disclosures added to NZ IAS 7 *Statement of Cash Flows* by *Disclosure Initiative* (Amendments to NZ IAS 7), issued in May 2016.

1.2 Purpose of this Invitation to Comment

6. The purpose of this ITC and associated ED is to seek comments on the proposed RDR concessions for NZ IFRS 16 and NZ IAS 7.
7. The proposals in this ITC and accompanying ED do not change which for-profit entities are permitted to report in accordance with Tier 2 Accounting Requirements (that is, NZ IFRS RDR).
8. When finalised, the proposals will amend the disclosure requirements in NZ IFRS 16 and NZ IAS 7 for Tier 2 for-profit entities.

1.3 Timeline and next steps

9. Submissions on ED NZASB 2018-1 are due by **14 April 2018**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
10. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

² See ED NZASB 2017-2 *Amendments to RDR for Tier 2 For-profit Entities* (available at <http://www.xrb.govt.nz/accounting-standards/standards-in-development/closed-for-comment/nzasb-ed-2017-2/>) and AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (available at http://www.aasb.gov.au/admin/file/content105/c9/ACCED277_01-17.pdf)

2. Overview of Invitation to Comment and ED

2.1 Summary

12. This Invitation to Comment and accompanying ED, ED NZASB 2018-1 *Proposed RDR for NZ IFRS 16 and NZ IAS 7*, contain proposals for:
 - (a) RDR concessions for NZ IFRS 16 *Leases*; and
 - (b) additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*.
13. The proposed concessions have been determined based on the current Tier 2 Disclosure Principles.³

2.2 NZ IFRS 16 *Leases*

14. NZ IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early application permitted.
15. ED NZASB 2018-1 includes all the disclosures in NZ IFRS 16 and identifies the proposed RDR concessions by means of an underlined asterisk (*). Where a partial concession is proposed, this is sometimes identified by means of a concession for the entire paragraph and an RDR paragraph to explain the requirement for Tier 2 entities.
16. Concessions are also being proposed for some of the transition disclosures in Appendix C.

Question for respondents

1. Do you agree with the proposed RDR concessions for NZ IFRS 16 *Leases*? If you disagree, please provide reasons.

2.3 NZ IAS 7 *Statement of Cash Flows*

17. In December 2014 the IASB issued for comment IASB ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7). This ED proposed amendments to IAS 7 to require an entity to provide a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items.
18. In January 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7), which finalised the proposals in IASB ED/2016/4.
19. However, rather than an entity preparing a reconciliation of net debt, an entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The paragraphs following this requirement (i) list the changes in liabilities to be disclosed; (ii) explain what types of liabilities arise from financing activities; (iii) explain that preparing a reconciliation is one way to fulfil the disclosure requirement; and (iv) require the disclosure of changes in liabilities from financing activities to be disclosed separately.

³ The current Tier 2 Disclosure Principles are available at http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf

20. In May 2016 the NZASB issued *Disclosure Initiative* (Amendments to NZ IAS 7) with no RDR concessions. At that time the AASB and the NZASB had commenced the review of the RDR framework, therefore the NZASB decided that it would be more appropriate to consider any proposed RDR concessions as part of that project.
21. The AASB approved the equivalent amendments to AASB 107 *Statement of Cash Flows* in February 2016. The AASB provided RDR concessions for all the paragraphs added.
22. The NZASB is proposing to provide RDR concessions for paragraphs 44A–44E of NZ IAS 7, all of which were added by Amendments to NZ IAS 7. This will result in a harmonised position with AASB 107 and provide concessions until the review of the RDR framework is finalised.

Question for respondents

2. Do you agree with the proposed additional RDR concessions for NZ IAS 7 *Statement of Cash Flows*? If you disagree, please provide reasons.

2.4 Effective date and other comments

23. The proposed effective date in the ED is 1 January 2019, with early adoption permitted. This is the same as the effective date of NZ IFRS 16.

Questions for respondents

3. Do you agree with the proposed effective date of 1 January 2019, with early adoption permitted? If you disagree, please explain why.
4. Do you have any other comments on the ED?

EXPOSURE DRAFT NZASB 2018-1

Proposed RDR for NZ IFRS 16 and NZ IAS 7

This [draft] Standard was issued on [date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

For-profit reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part C.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard provides disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.

COPYRIGHT

© External Reporting Board (XRB) 2018

This XRB standard contains International Financial Reporting Standards (IFRS®) Foundation copyright material. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz and the IFRS Foundation at the following email address: licences@ifrs.org

All existing rights (including copyrights) in this material outside of New Zealand are reserved by the IFRS Foundation. Further information and requests for authorisation to reproduce for commercial purposes outside New Zealand should be addressed to the IFRS Foundation.

ISBN

Copyright

IFRS Standards are issued by the
International Accounting Standards Board
30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: www.ifrs.org

Copyright © International Financial Reporting Standards Foundation All rights reserved.

Reproduced and distributed by the External Reporting Board with the permission of the IFRS Foundation.

This English language version of the IFRS Standards is the copyright of the IFRS Foundation.

1. The IFRS Foundation grants users of the English language version of IFRS Standards (Users) the permission to reproduce the IFRS Standards for
 - (i) the User's Professional Use, or
 - (ii) private study and education

Professional Use: means use of the English language version of the IFRS Standards in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS Standards for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

For the avoidance of doubt, the abovementioned usage does not include any kind of activities that make (commercial) use of the IFRS Standards other than direct or indirect application of IFRS Standards, such as but not limited to commercial seminars, conferences, commercial training or similar events.

2. For any application that falls outside Professional Use, Users shall be obliged to contact the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.
3. Except as otherwise expressly permitted in this notice, Users shall not, without prior written permission of the Foundation have the right to license, sublicense, transmit, transfer, sell, rent, or otherwise distribute any portion of the IFRS Standards to third parties in any form or by any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.
4. Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works, save as otherwise expressly permitted in this notice.
5. Commercial reproduction and use rights are strictly prohibited. For further information please contact the IFRS Foundation at licences@ifrs.org.

The authoritative text of IFRS Standards is that issued by the International Accounting Standards Board in the English language. Copies may be obtained from the IFRS Foundation's Publications Department.

Please address publication and copyright matters in English to:

IFRS Foundation Publications Department
30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

Trade Marks



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the "Hexagon Device", "IFRS Foundation", "eIFRS", "IAS", "IASB", "IFRS for SMEs", "IASs", "IFRS", "IFRSs", "International Accounting Standards" and "International Financial Reporting Standards", "IFRIC" and "SIC" are **Trade Marks** of the Foundation.

Disclaimer

The authoritative text of the IFRS Standards is reproduced and distributed by the External Reporting Board in respect of their application in New Zealand. The International Accounting Standards Board, the Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

CONTENTS

	page
PART A: INTRODUCTION	5
PART B: AMENDMENTS TO NZ IFRS 16 <i>LEASES</i>	6
AMENDMENTS TO NZ IAS 7 <i>STATEMENT OF CASH FLOWS</i>	
PART C: EFFECTIVE DATE	7

Part A

Introduction

This [draft] Standard contains disclosure concessions for Tier 2 for-profit entities applying NZ IFRS 16 *Leases* and NZ IAS 7 *Statement of Cash Flows*.

Part B – Amendments to NZ IFRS 16 and NZ IAS 7

Scope

This Standard applies to Tier 2 for-profit entities.

Amendments to NZ IFRS 16 Leases

Paragraphs 53(h), 54, 58, 90(b), 91, B50(a), B50(b), B50(d), B51(a), B51(b), B51(d) and B52 are amended and paragraphs RDR 54.1, RDR 90.1 and NZ C1.1 are added. New text is underlined.

Lessee

Disclosure

- 51** The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.
- 52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.
- 53 A lessee shall disclose the following amounts for the reporting period:
- (a) depreciation charge for right-of-use assets by class of underlying asset;
 - (b) interest expense on lease liabilities;
 - (c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;
 - (d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);
 - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
 - (f) income from subleasing right-of-use assets;
 - (g) total cash outflow for leases;
 - *(h) additions to right-of-use assets;
 - (i) gains or losses arising from sale and leaseback transactions; and
 - (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- *54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- RDR 54.1 The amounts disclosed in accordance with paragraph 53 shall include costs that a Tier 2 lessee has included in the carrying amount of another asset during the reporting period.
- 55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.

- 56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in NZ IAS 40. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.
- 57 If a lessee measures right-of-use assets at revalued amounts applying NZ IAS 16, the lessee shall disclose the information required by paragraph 77 of NZ IAS 16 for those right-of-use assets.
- *58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of NZ IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.
- 59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessee’s leasing activities;
 - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - (i) variable lease payments (as described in paragraph B49);
 - (ii) extension options and termination options (as described in paragraph B50);
 - (iii) residual value guarantees (as described in paragraph B51); and
 - (iv) leases not yet commenced to which the lessee is committed.
 - (c) restrictions or covenants imposed by leases; and
 - (d) sale and leaseback transactions (as described in paragraph B52).
- 60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.

Lessor

Disclosure

- 89 **The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.**
- 90 A lessor shall disclose the following amounts for the reporting period:
- (a) for finance leases:
 - (i) selling profit or loss;
 - (ii) finance income on the net investment in the lease; and
 - (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.
 - *(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

RDR 90.1 For operating leases, a Tier 2 entity shall disclose lease income.

- *91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.
- 92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessor’s leasing activities; and
 - (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example,

buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance leases

- 93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.
- 94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating leases

- 95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of NZ IAS 16. In applying the disclosure requirements in NZ IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by NZ IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.
- 96 A lessor shall apply the disclosure requirements in NZ IAS 36, NZ IAS 38, NZ IAS 40 and NZ IAS 41 for assets subject to operating leases.
- 97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and leaseback transactions

- 98 If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103.

Assessing whether the transfer of the asset is a sale

- 99 An entity shall apply the requirements for determining when a performance obligation is satisfied in NZ IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

- 100 If the transfer of an asset by the seller-lessee satisfies the requirements of NZ IFRS 15 to be accounted for as a sale of the asset:
- (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
 - (b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.
- 101 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
- (a) any below-market terms shall be accounted for as a prepayment of lease payments; and
 - (b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.
- 102 The entity shall measure any potential adjustment required by paragraph 101 on the basis of the more readily determinable of:
- (a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and

- (b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

- 103 If the transfer of an asset by the seller-lessee does not satisfy the requirements of NZ IFRS 15 to be accounted for as a sale of the asset:
- (a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying NZ IFRS 9.
 - (b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying NZ IFRS 9.

Appendix B Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–103 and has the same authority as the other parts of the Standard.

Lessee disclosures (paragraph 59)

- B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider:
- (a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:
 - (i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.
 - (ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.
 - (iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.
 - (iv) exposure to other risks arising from leases.
 - (v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.
 - (b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.
- B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for using variable lease payments and the prevalence of those payments;
 - (b) the relative magnitude of variable lease payments to fixed payments;
 - (c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and
 - (d) other operational and financial effects of variable lease payments.
- B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- *(a) the lessee's reasons for using extension options or termination options and the prevalence of those options;
 - *(b) the relative magnitude of *optional lease payments* to lease payments;

- (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and
 - *(d) other operational and financial effects of those options.
- B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- *(a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;
 - *(b) the magnitude of a lessee's exposure to residual value risk;
 - (c) the nature of underlying assets for which those guarantees are provided; and
 - *(d) other operational and financial effects of those guarantees.
- *B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;
 - (b) key terms and conditions of individual sale and leaseback transactions;
 - (c) payments not included in the measurement of lease liabilities; and
 - (d) the cash flow effect of sale and leaseback transactions in the reporting period.

Appendix C

Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

- C1 ...
- NZ C1.1 RDR NZ IFRS 16 and NZ IAS 7, issued in [date], amended paragraphs 53(h), 54, 58, 90(b), 91, B50(a), B50(b), B50(d), B51(a), B51(b), B51(d) and B52, and added paragraphs RDR 54.1 and RDR 90.1. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

Transition

- C2 ...

Definition of a lease

- C3 ...
- C4 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.

Disclosure

- C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by paragraph 28 of NZ IAS 8, except for the information specified in paragraph 28(f) of NZ IAS 8. Instead of the information specified in paragraph 28(f) of NZ IAS 8, the lessee shall disclose:
- (a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and

- (b) an explanation of any difference between:
 - (i) operating lease commitments disclosed applying NZ IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and
 - (ii) lease liabilities recognised in the statement of financial position at the date of initial application.

C13 If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact.

Amendments to NZ IAS 7 *Statement of Cash Flows*

Paragraphs 44A to 44E are amended and paragraph NZ 61.1 is added. New text is underlined.

Changes in liabilities arising from financing activities

***44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.**

*44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- (a) changes from financing cash flows;
- (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
- (c) the effect of changes in foreign exchange rates;
- (d) changes in fair values; and
- (e) other changes.

*44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

*44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

*44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

Effective date

53 ...

NZ 61.1 RDR NZ IFRS 16 and NZ IAS 7, issued in [date], amended paragraphs 44A to 44E. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 January 2019. Early application is permitted.

Part C – Effective Date

This Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.