



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Need to Know series

Accounting Update for-profit entities

February 21 2023

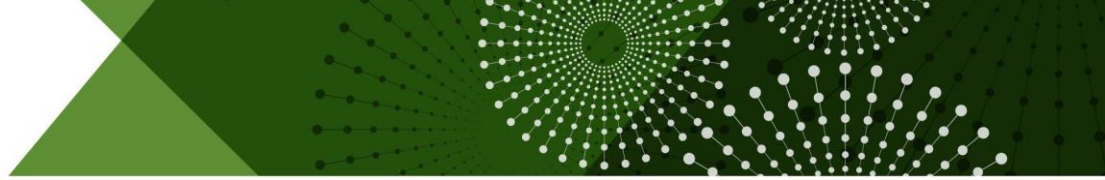
Charis Halliday
Tereza Bublikova

Presentation Overview



- Going concern disclosure requirements
- Disclosure of fees paid to audit firms
- Recent IFRIC Agenda Decisions
- On the horizon
- XRB staff guidance
- Questions

Going concern




Financial statements must be prepared on a going concern basis unless the entity:

intends to liquidate
or to cease trading

OR

has no realistic
alternative but
to do so.

Polling Question 1

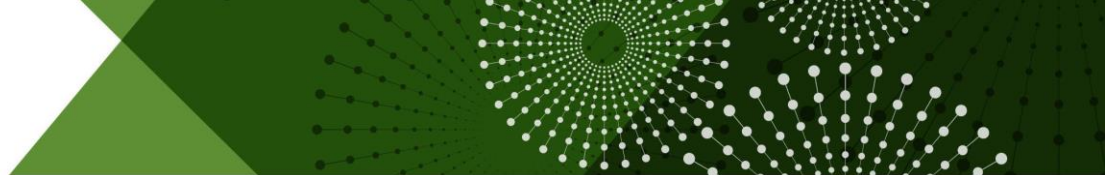


How familiar are you with New Zealand additional requirements for going concern disclosures?

- A. Never heard about them
- B. Don't know much about them
- C. I'm fairly familiar with them
- D. I know all about them



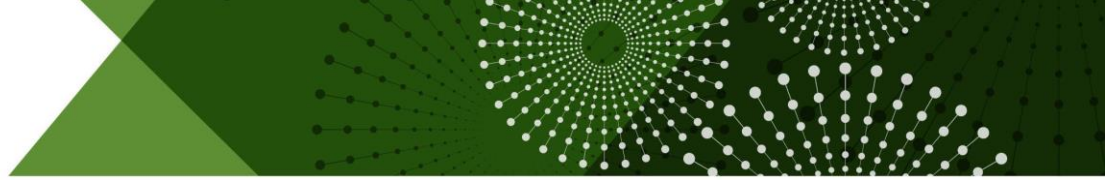
The issue



NZ IFRS had limited disclosure requirements about management's assessment of whether the entity is a going concern

COVID-19 heightened concerns about going concern disclosures:

- There was **diversity in practice**
- Investors, auditors and regulators **wanted more disclosure**
- There was a **disconnect** between accounting and auditing standards



Amendment to NZ standard FRS-44 *New Zealand Additional Disclosures*

(was effective in 2020)

Introduced **more specific disclosure requirements** for when the going concern assessment involved:

- The application of **significant judgement**
- The consideration of **material uncertainties**

What do the disclosures relate to?

Going concern assessment outcome

Events or conditions identified that may cast significant doubt on the company's ability to continue as a going concern?

No

Yes

Material uncertainty regarding the company's ability to continue as a going concern?

No

Yes

Intention to liquidate, or cease trading or no other realistic alternative but to do so?

No

Yes

Going concern basis for financial statement preparation no longer appropriate.

Going concern disclosures

No specific going concern disclosures required, unless material to users

Information about **significant judgements and assumptions**

- Information about **events or conditions** giving rise to material uncertainties
- Information about how **management plan** to mitigate the effects of any material uncertainties
- Information about how assets and liabilities **may not be realised/discharged** in the normal course of business

Information that the going concern basis was not used, alternative basis of preparation, reason why the company is not regarded as a going concern

Disclosure of Fees Paid to Audit Firms

Recap - proposed categories:

Audit or Review of the Financial Statements

Other non-audit or review services:

Audit or review related services

Other assurance services

Taxation services

Other services

provide a **description of each type** of service received and **fees** incurred

Consultation feedback

What we have heard:

- Objectives 
- Categories 
- Disclosure - threats to independence 
- Tier 2 disclosures 

What we have changed:

- Clarified - assurance engagements
- Clarified - agreed upon procedure engagements (AUPs)
- Removed proposed disclosure on mitigating possible threats to auditor independence
- Expanded Tier 2 disclosure concessions

The project will be further discussed by NZASB. Proposed effective date is **1 January 2024**



The IFRS Interpretations Committee (IFRIC) responds to questions about the application of IFRS Standards – to support consistent application

Agenda decisions **do not add or change the requirements in IFRS**, but any **explanatory material** included may provide **new information** on how to apply a standard(s) for a specific transaction or fact pattern

Recent tentative and final agenda decisions

Decision	Related Standard
Definition of a Lease—Substitution Rights (tentative)	IFRS 16
SPAC: Accounting for Warrants at Acquisition (final)	Depends on assets and liabilities acquired
Lessor Forgiveness of Lease Payments (final)	IFRS 9, IFRS 16
Multi-currency Groups of Insurance Contracts (final)	IFRS 17, IAS 21
Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (project direction to be decided)	IAS 21, IAS 29

Definition of a Lease – Substitution Rights

Fact pattern

- 10-year contract with a supplier for the use of 100 batteries used in electric buses
- Customer uses each battery in buses that the customer owns or leases from a third party
- Supplier has practical ability to substitute alternative batteries throughout the contract and is required to compensate customer for any loss or costs incurred during substitution
- The economic benefits of substitution depend on amount of compensation payable and condition of the battery
- **It is expected the supplier would not benefit economically from substituting a battery that has been used for less than three years but may do after that**

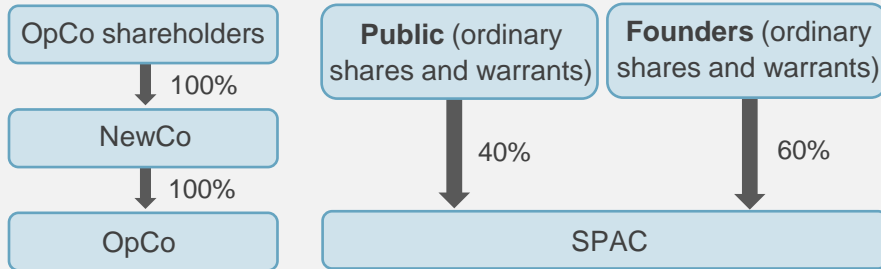
SPAC: Accounting for Warrants at Acquisitions

The Committee received a request about an entity's acquisition of a special purpose acquisition company (SPAC) on how the entity accounts for warrants on acquiring the SPAC.

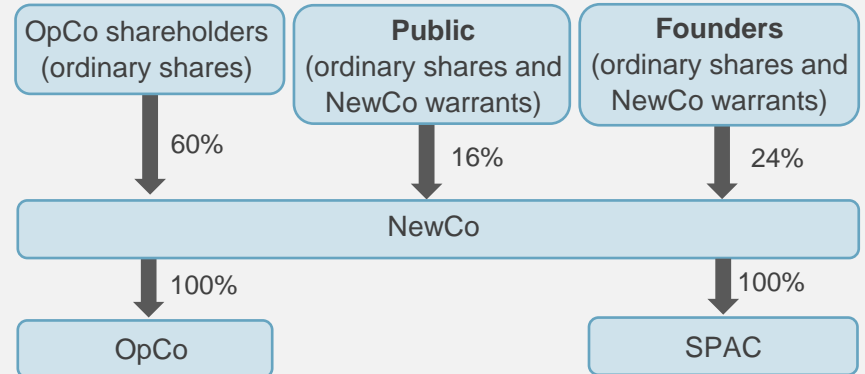
A SPAC is a listed entity that is established to acquire a target entity.

The SPAC does not meet the definition of a business in IFRS 3 *Business Combinations* and, at the time of the acquisition, has no assets other than cash.

Before the acquisition



After the acquisition



Lessor Forgiveness of Lease Payments



Fact pattern & question

how a **lessor** applies IFRS 9 and IFRS 16 to an **operating lease**, when **lessee is released from obligation to make certain payments**

Agenda decision


before granting the rent concession:

- applies the expected credit loss model in IFRS 9

when granting the rent concession:

- derecognises an operating lease receivable forgiven in line with IFRS 9
- applies lease modification requirements in IFRS 16

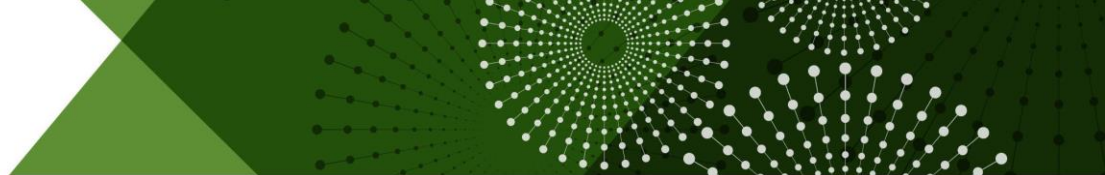
Polling Question 2



Which recent IFRS Interpretations Committee topic will be the most relevant to your work?

- A. Definition of a Lease—Substitution Rights
- B. SPAC: Accounting for Warrants at Acquisition
- C. Lessor Forgiveness of Lease Payments
- D. Multi-currency Groups of Insurance Contracts





Projects added to IASB work plan

Decision	Impact	Related Standard
<u>Cash Received via Electronic Transfer as Settlement for a Financial Asset</u>	Narrow-scope standard-setting as part of the post-implementation review of IFRS 9 to address this issue	IFRS 9

IASB projects in progress



Project	Next steps
<u><i>International Tax Reform — Pillar Two Model Rules</i></u> (IAS 12)	Exposure draft (Jan → Apr 2023)
<u><i>Amendments to the Classification and Measurement of Financial Instruments</i></u> (IFRS 9, IFRS 7)	Exposure draft (Mar 2023)
<u><i>Financial Instruments with Characteristics of Equity (FICE)</i></u> (IFRS 9, IAS 32, Conceptual Framework)	Exposure draft (H2 2023)



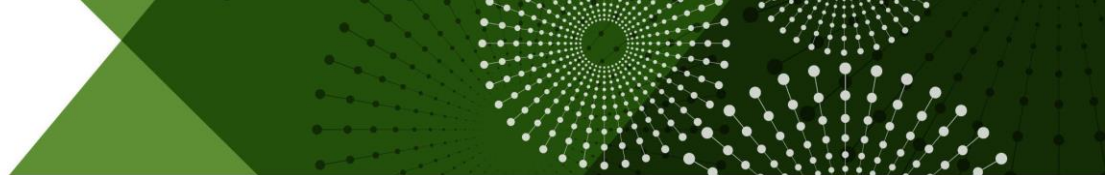
Recently issued by the IASB

Project	Effective date
<u><i>Lease Liability in a Sale and Leaseback</i></u> amendments to IFRS 16 <i>Leases</i>	1 January 2024
<u><i>Non-current Liabilities with Covenants</i></u> amendments to IAS 1 <i>Presentation of Financial Statements</i>	1 January 2024 ¹

¹ Interaction with the 2020 amending standard *Classification of Liabilities as Current or Non-current* may impact the effective date for some entities.



IASB projects in progress



Project	Next steps
<u><i>Supplier Finance Arrangements</i></u> (IAS 7, IFRS 7)	New standard (Q2 2023)
<u><i>Lack of Exchangeability</i></u> (IAS 21)	New standard (Q3 2023)



Polling Question 3



Which IFRS new amending standard in progress would you like to hear about today?

- A. Supplier Finance Arrangements
- B. Lack of Exchangeability



Supplier Finance Arrangements

Summary of changes

- Adds to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*
- Requires entities to disclose additional information in the notes about supplier finance arrangements

Proposed effective date: 1 January 2024

Lack of Exchangeability



Summary of changes

- Adds to IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- Requires entities to determine whether a currency is exchangeable into another currency and the exchange rate to use when it is not.

Proposed effective date: 1 January 2025

in progress

IFRS 9 *Financial Instruments*

- [Classification and measurement](#) completed in 2022
- Impairment: RFI expected in first half of 2023
- Next stage: hedge accounting

IFRS 15 *Revenue from Contracts with Customers*

- Next stage: RFI expected in second half of 2023

on the horizon

IFRS 16 *Leases*



Determining when to apply NZ IFRS 2 *Share-based Payments*

Identify where further analysis may be needed

Download the guidance here: [NZ IFRS 2 » XRB](#)



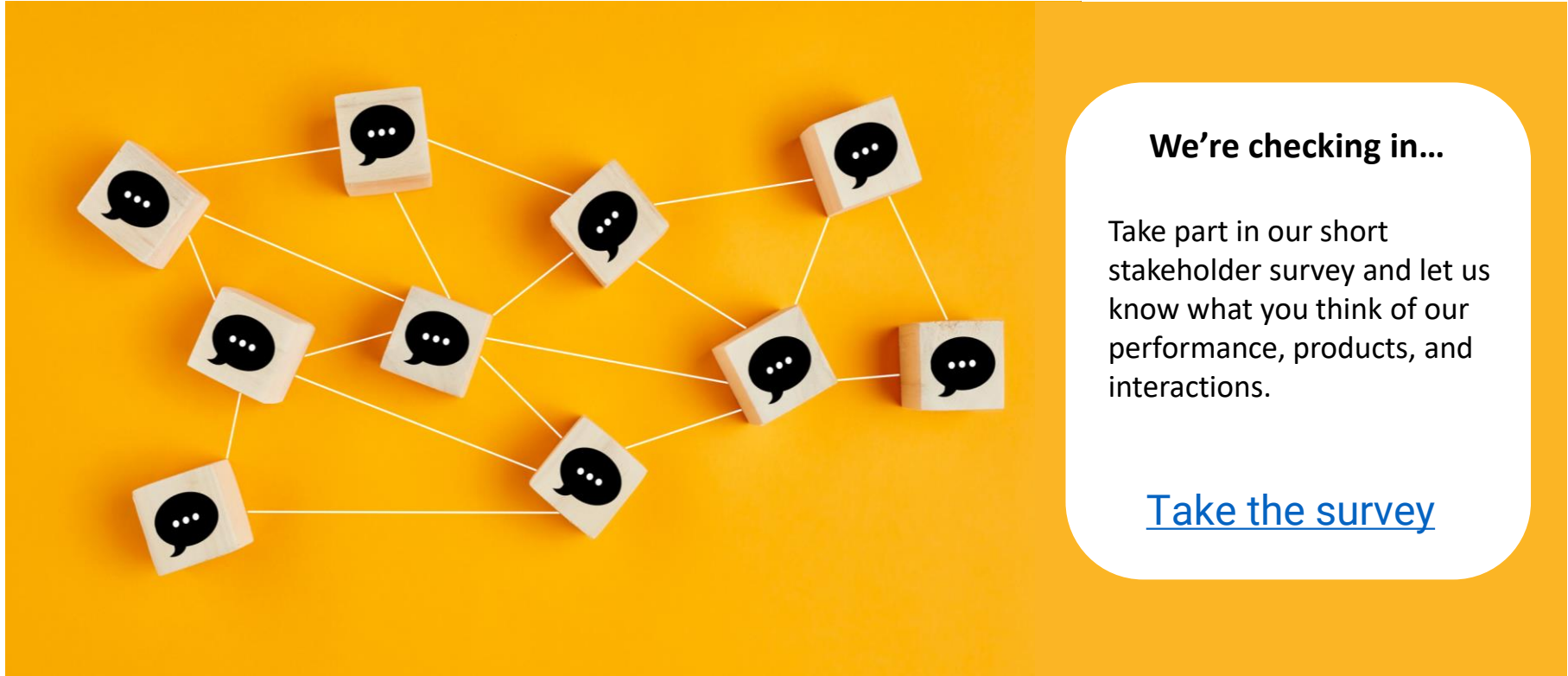


Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Questions ?



Stakeholder Survey



We're checking in...

Take part in our short stakeholder survey and let us know what you think of our performance, products, and interactions.

[Take the survey](#)

Charis Halliday

Technical Director, Accounting Standards

Charis.Halliday@xrb.govt.nz

Tereza Bublikova

Project Manager, Accounting Standards

Tereza.Bublikova@xrb.govt.nz

Follow



Subscribe

<https://www.xrb.govt.nz/sign-up/>

Contact
us

accounting@xrb.govt.nz