

Board Meeting Agenda

In-person meeting, Auckland — Thursday, 19 October 2023

Est Time	Item	Topic	Objective		Page
PUBLIC SESSION					
12.35 pm	4	Lack of exchangeability	(AS)		
10 min	4.1	Board memo	Consider	Paper	2
	4.2	Draft amending standard	Approve	Paper	13
	4.3	Draft signing memo	Approve	Paper	27
NON-PUBLIC SESSION					
PUBLIC SESSION					
1.50 pm	6	PIR of IFRS 15	(LVH)		
25 min	6.1	Board memo	Consider	Paper	31
	6.2	Draft comment letter	Approve	Paper	35
	6.3	IASB Request for Information	Note	Supp Paper	
NON-PUBLIC SESSION					
PUBLIC SESSION					
2.45 pm	8	Supplier Finance Arrangements – RDR	(JC)		
10 min	8.1	Board memo	Consider	Paper	42
	8.2	Draft amending standard	Approve	Paper	45
	8.3	Signing memo	Approve	Paper	52
NON-PUBLIC SESSION					
4.30 pm	<i>Finish</i>				

Next NZASB meeting: 12 December 2023, in person (Wellington)

Memorandum

Date: October 2023
To: NZASB Members
From: Alex Stainer
Subject: *Lack of Exchangeability (amendments to NZ IAS 21 and NZ IFRS 1)*

COVER SHEET

Project priority and complexity

<p>Project priority</p>	<p>Low</p> <p>This is a narrow scope amending standard which is likely to have limited applicability.</p>
<p>Complexity of Board decision-making at this meeting</p>	<p>Medium</p> <p><i>Lack of Exchangeability</i> amends NZ IAS 21 and NZ IFRS 1 and is identical in substance to <i>Lack of Exchangeability (Amendments to IAS 21)</i> issued by the International Accounting Standards Board (IASB).</p> <p>The Board is also being asked to agree to RDR concessions for the new disclosures established in <i>Lack of Exchangeability</i> and whether to commence development of equivalent amendments to the PBE Standards.</p>

Overview of agenda item

<p>Project status</p>	<p>Approval – we are seeking approval to issue <i>Lack of Exchangeability</i></p>
<p>Project purpose</p>	<p>The amendments require entities to apply a consistent approach to determining whether a currency is exchangeable into another currency and the spot exchange rate to use when it is not.</p>
<p>Board action required at this meeting</p>	<p>APPROVAL to issue <i>Lack of Exchangeability</i> which amends NZ IAS 21 and NZ IFRS 1</p> <p>AGREEMENT to develop an exposure draft proposing RDR concessions</p> <p>AGREEMENT to defer development of equivalent amendments to the PBE Standards.</p>

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue *Lack of Exchangeability* which amends NZ IAS 21 *The Effect of Changes of Foreign Exchange Rates* and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*;
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue *Lack of Exchangeability*;
 - (c) AGREES to propose RDR concessions for Tier 2 for-profit entities with respect to some of the disclosures established by *Lack of Exchangeability*; and
 - (d) CONSIDERS the application of the PBE Policy Approach and AGREES to defer the decision to develop amendments to PBE Standards based on *Lack of Exchangeability* until the IPSASB has completed its equivalent alignment project.

Background

2. The International Accounting Standards Board (IASB) issued Exposure Draft ED/2021/4 *Lack of Exchangeability* in April 2021. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 19 July 2021 and to the IASB on 1 September 2021.
3. The NZASB did not comment on ED/2021/4. The NZASB also did not receive any comment letters from New Zealand constituents.
4. The IASB received 51 comment letters from its world-wide constituents during the consultation process. The IASB did not receive any comments from New Zealand constituents. The IASB has now issued *Lack of Exchangeability* in August 2023. This amending standard is effective for annual periods beginning on or after 1 January 2025 with early application permitted.

Reasons for the amendments and summary of the requirements

5. The development of the ED was prompted by a lack of exchangeability in Venezuela. IAS 21 explained how to approach a lack of exchangeability when a currency was temporarily unable to be exchanged but not when a lack of exchangeability was longer term. The IASB was informed of diversity in practice in terms of determining whether a currency is exchangeable and what exchange rate to use when a currency is not exchangeable – which can lead to material differences in affected entities' financial statements.
6. To address this issue, the amendments bring in additional guidance to help assess when a currency is exchangeable into another currency, by defining 'exchangeable' and setting out factors to consider when determining exchangeability. They also include requirements for determining the spot exchange rate where a lack of exchangeability impacts the translation of foreign currency denominated transactions and operations, and related disclosure requirements.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

RDR concessions

7. The amending standard requires an entity to disclose the impacts on the financial performance, financial position, cash flows of the estimated spot rate used in the translation, and how this spot rate reflects a rate that would be used in an orderly exchange transaction between market participants under prevailing economic conditions.
8. Specifically, entities are required to disclose information on the nature and financial effects of the currency not being exchangeable, the spot exchange rates used, the estimation process and the risks to which the entity is exposed because of the currency not being exchangeable.
9. We have considered whether RDR concessions should be provided with respect to the abovementioned disclosures. We note that the IASB deferred considering whether to provide disclosure concessions with respect to *Lack of Exchangeability* in the standard on *Subsidiaries without Public Accountability* until after the latter standard is issued in 2024.
10. [Appendix A](#) outlines the new disclosure requirements brought in by *Lack of Exchangeability*, with the disclosures where we recommend RDR concessions marked with asterisks. The reasons for our recommendations are outlined below.
11. We note the following with respect to the disclosure requirements in *Lack of Exchangeability*:
 - (a) The disclosure requirements (and the amendments in general) are expected to have very narrow applicability in New Zealand, including among Tier 2 entities. We understand that the development of the ED was prompted by lack of exchangeability in Venezuela. There had also been instances of lack of exchangeability in Zimbabwe and Angola. These are not common jurisdiction for NZ reporters to be operating in, even less so for Tier 2 reporting entities. Therefore, benefits to Tier 2 preparers from having RDR concessions are likely to be limited – which is useful to take into account when determining how much Board and staff efforts should be dedicated to developing RDR concessions.
 - (b) The disclosure requirements are not fundamental to understanding the entity or its operations or financial position, given that most (if not all) Tier 2 entities are expected not to have material operations or transactions in countries whose currency is subject to lack of exchangeability. On this basis, if we were to provide RDR concessions, it is unlikely that user needs would not be met. However: if there are Tier 2 entities with material operations in such countries, the disclosure could be important for understanding the entity's operations, etc.
 - (c) The disclosures provide benefits that increase as the materiality of the related transactions increases. The disclosures would alert users of financial statements to the lack of exchangeability (when it exists), and allow users to perform their own sense checks around the estimated spot rate and the impact on the financial statements. There may be external users of Tier 2 entities (banks, funders, suppliers, etc.) that would benefit from this information and would not otherwise have access to it. However, the main users of a Tier 2 entity's financial statements may already have access to the information, e.g. from being involved in the entity's internal discussions on lack of exchangeability.
 - (d) The costs of providing the disclosures relating to risk could exceed the benefits to users, but the rest of the disclosures are unlikely to result in undue costs, as the information

that would have been gathered in determining how to account for the lack of exchangeability would make up most of the basis for the disclosure.

(e) Some of the disclosure requirements are similar to disclosures where we have provided RDR concessions in other Standards.

- (i) In NZ IAS 21, only paragraphs 55-57 currently have RDR concessions. These disclosures relate to information not translated in line with earlier provisions in NZ IAS 21 and prescribe further disclosure as a result. We do not consider that lack of exchangeability is connected to these RDR concession paragraphs.
- (ii) However, the disclosure requirements in *Lack of Exchangeability* include requirements to disclose information about the estimation process for the spot rate used when there is lack of exchangeability, and about related risks and potential risks – and we note that there are existing RDR concessions for similar disclosures in other for-profit Standards (see below).
- (iii) We consider it important to maintain consistency and coherence across Tier 2 disclosure requirements.

12. We consider there are components of the lack of exchangeability disclosure that should be provided with a RDR concession. We do not think there is enough evidence that would suggest the entire disclosure should be provided with a RDR concession. There is an argument to not provide any RDR concessions, especially given the narrow applicability. However, our preferred option is to provide RDR concessions for the paragraphs noted below, on the basis it is the most balanced approach and has some consistency with RDR concessions provided in other Standards:

RDR concessions	Rationale
<p>Paragraph 57A (c) the estimation process;</p>	<p>NZ IFRS 7 and NZ IAS 36 provide RDR concessions with respect to disclosing estimation techniques and inputs for expected credit losses on financial assets and for impairment calculations respectively.</p> <p>NZ IFRS 13 requires Tier 2 entities to disclose valuation techniques and inputs used to determine fair value – but provides RDR concessions with respect to specific disclosures for Level 2 and Level 3 fair value inputs.</p> <p>If we provide an RDR concession for paragraph 57A(c), a Tier 2 entity affected by lack of exchangeability would still be required by paragraph A19(d) to disclose the spot exchange rate used, and whether an observable rate was used without adjustments, or whether an estimation technique was used – which may be sufficient information for users.</p> <p>On balance, we recommend providing a concession for paragraph 57A(c).</p>
<p>(d) the risks to which the entity is exposed as the currency is not exchangeable</p>	<p>NZ IFRS 7 provides RDR concessions for all risk-related disclosures, including currency risk, and NZ IFRS 12 provides RDR concessions for disclosures about risks relating to interests in other entities.</p> <p>Cost likely outweighs benefit for RDR users.</p>

RDR concessions	Rationale
<p>Paragraph A19</p> <p>(e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and</p>	See the explanation relating to paragraph 57A(c)
<p>(f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.</p>	See the explanation relating to paragraph 57A(d)
<p>Paragraph A20</p> <p>(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.</p>	NZ IFRS 12 provides RDR concessions for similar disclosures with respect to interests in structured entities.

13. We are not recommending an RDR concession for paragraph A20(b), which requires entities to disclose summarised financial information about foreign operations that are affected by lack of exchangeability – despite the fact that NZ IFRS 12 provides RDR concessions with respect to disclosing summarised financial information for subsidiaries with material non-controlling interests, associates and joint ventures. The reasons for this are as follows.
- (a) In *Lack of Exchangeability*, Paragraph A19(c) requires entities to disclose the carrying amount of assets and liabilities affected by the lack of exchangeability. If we require Tier 2 entities to disclose the fact that lack of exchangeability exists, we consider that it would be important that this disclosure be accompanied by the balance that are affected by the lack of exchangeability – to give users an idea of the magnitude of the impact of the lack of exchangeability. Furthermore, we have not recommended a disclosure concession for paragraph 57A, which requires disclosure of the “nature and financial effects of the currency not being exchangeable”, and complying with this requirement without disclosing the amounts affected by lack of exchangeability would be challenging. Therefore, we are not recommending an RDR concession for paragraph A19(c).
 - (b) For an entity that has a foreign operation affected by lack of exchangeability, the effect of applying paragraph A19(c) would be similar to disclosing summarised financial information as per paragraph A20(b). If we provide an RDR concession with respect to paragraph A20(b), the benefit to preparers from this concession would be mostly cancelled out by the requirement to apply paragraph A19(c).
 - (c) Furthermore, the RDR concessions in NZ IFRS 12 with respect to summarised financial information covers subsidiaries, associates and joint ventures that are not necessarily subject to uncertainty around measurement or liquidity – unlike a foreign operation affected by lack of exchangeability.

Consistency with Australian Accounting Standards

14. The Australian Accounting Standards Board (AASB) expects to approve an amending standard based on *Lack of Exchangeability* in the near future.
15. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis.
16. A recent [AASB staff paper](#) recommends not to add any of the disclosures in *Lack of Exchangeability* into AASB 1060, noting that “the disclosures do not address a matter of public policy, are not of particular relevance in the Australian environment, neither clarify or reduce existing disclosure requirements in full IFRS Standards”. It also notes that the requirements in *Lack of Exchangeability* may not be applicable to Tier 2 entities in Australia in the first place. The AASB will discuss this recommendation in its October meeting.
17. We consider that our recommendations to include RDR concessions for some but not all of the disclosure requirements in *Lack of Exchangeability* remain sensible, based on the reasons we explained above. We note that under our recommendations, the difference between Tier 2 disclosure requirements in New Zealand as compared to Australia would not be significant, and in any case, *Lack of Exchangeability* is expected to have very narrow applicability, if any, to Tier 2 entities in either country.

Recommended approach to consultation on RDR concessions

18. Given the expected limited applicability of *Lack of Exchangeability* in New Zealand, we recommend consulting on the proposed RDR concessions in the same way that we consulted on the RDR concessions relating to *Supplier Finance Arrangements* – that is, to include the RDR concessions directly on the relevant consultation webpage on the XRB website, instead of developing an ED document and an accompanying Consultation Document.
19. We consider that our recommended consultation approach would meet the requirements of:
 - (a) Paragraphs 65 of EG A2, which requires the NZASB to be satisfied “that reasonable steps have been taken to consult with people or organisations likely to be affected”; and
 - (b) Section 22(1) of the Financial Reporting Act 2023, which states: “The Board must not issue a standard, an authoritative notice, an amendment, or a revocation unless the Board has taken reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the issue of the standard, notice, amendment, or revocation”.
20. If the Board agrees with this approach, we will proceed with drafting and publishing the consultation webpage to propose the RDR concessions.

Question for the Board

- Q1. Does the Board agree to propose RDR concessions with respect to *Lack of Exchangeability*?
- Q2. Does the Board agree with the proposed RDR concessions? If not, does the Board have an alternative?
- Q3. Does the Board agree to consult on the RDR concessions in the manner recommended in this memo?

Due process

21. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2021/4 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's February 2023 meeting.²
22. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
23. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memorandum

24. Attached as agenda item 4.2 is a copy of *Lack of Exchangeability*. *Lack of Exchangeability* is identical to *Lack of Exchangeability (Amendments to IAS 21)* issued by the IASB except for the New Zealand-specific introduction and numbering, a scope paragraph limiting the application of the amending standard to Tier 1 and Tier 2 for-profit entities, and New Zealand specific wording for commencement and application of the amending standard.
25. Attached as agenda item 4.3 is a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Commencement and application

26. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply "must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect". Furthermore, the Legislation Act 2019 does not allow legislation to have retrospective effect in New Zealand.
27. We have considered whether any modifications to *Lack of Exchangeability* are needed to ensure consistency with the abovementioned legislative restrictions.

² A summary of the IASB's February 2023 meeting is available at: [IFRS - IASB Update February 2023](#)

Mandatory date

28. As shown in Agenda Item 4.2, *Lack of Exchangeability* will be applicable to New Zealand for-profit entities for annual reporting periods beginning on or after 1 January 2025 – with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect (standards take effect on the 28th day after gazetting). This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

Use of the term 'retrospective' in the Basis for Conclusions

29. In the Basis for Conclusions (BC) accompanying the IASB amending standard, there are two paragraphs that refer to the term 'retrospective' and/or 'retrospectively' – as shown below. Please note that terms are not referred to anywhere else in the IASB amending standard.

Entities already applying IFRS Accounting Standards

BC63 The IASB developed the transition requirements in paragraphs 60L–60M of the Standard because it concluded that the expected benefits of requiring entities to apply the amendments retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, would not outweigh the costs. In particular:

(a) applying the amendments retrospectively would require an entity to assess exchangeability in prior periods and then estimate spot exchange rates for those prior periods. In many cases, retrospective application would be likely to require the use of hindsight and, even if possible without hindsight, would be costly.

[...]

First-time adopters

BC65 The IASB concluded that a specific exemption from retrospective application of the amendments would be unnecessary for a first-time adopter because:

(a) IFRS 1 does not provide any exemption for a first-time adopter that reports foreign currency transactions in its financial statements. The entity therefore applies all the applicable requirements in IAS 21 retrospectively when reporting foreign currency transactions.

(b) paragraph D13 of IFRS 1 already allows a first-time adopter to deem the cumulative translation differences for all foreign operations to be zero at its date of transition to IFRS Accounting Standards.

30. We consider that the use of the term 'retrospective' and 'retrospectively' in this context does not pose a risk that the amending standard would contravene the requirements of the Financial Reporting Act 2013 or the Legislation Act 2019. The abovementioned IASB BC paragraphs are simply explaining why the IASB decided not to require restatement of comparatives on first-time application of *Lack of Exchangeability*, and why an exemption from restatement was not required in IFRS 1. In any case, the IASB BC does not form part of the amending standard that is gazetted as secondary legislation. We therefore do not consider that a New Zealand Basis for Conclusions is required for this matter.

Questions for the Board

- Q4. Does the Board APPROVE for issue *Lack of Exchangeability* which amends NZ IAS 21 and NZ IFRS 1?
- Q4. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard?

PBE Policy Approach

31. As *Lack of Exchangeability* amends IAS 21 and IFRS 1, which are used as the basis for IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* and PBE FRS 47 *First-time Adoption of PBE Standards* respectively, we are required to apply the PBE Policy Approach to determine whether to propose amendments to the PBE Standards.
32. The PBE Policy Approach (paragraph 31) establishes a rebuttable presumption that, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, the NZASB should not incorporate the change into the equivalent PBE Standard in advance of the IPSASB.
33. Table 2 below considers the factors in the development principle as it applies to *Lack of Exchangeability*

Table 2 – Application of the PBE Policy Approach to *Lack of Exchangeability*

Are the amendments minor?
<p>Yes.</p> <p>The amendments help define when a currency is exchangeable and introduce additional guidance and disclosures related to when a currency is not exchangeable.</p>
Will the IPSASB consider these amendments in an acceptable timeframe?
<p>Yes.</p> <p>The IPSASB is monitoring <i>Lack of Exchangeability</i> on their IPSAS–IFRS Alignment Dashboard</p>
Will the potential development lead to higher quality financial reporting?
<p>Yes.</p> <p>The amending standard will increase consistency of application and disclosure of the impact of lack of exchangeability. However, we do not expect that this situation is prevalent in the PBE sector in New Zealand and therefore the extent of improvement will be limited.</p>
Will the benefits outweigh the costs?
<p>No.</p> <p><i>Relevant to the PBE sector as a whole?</i></p> <p>We don’t have any indication that lack of exchangeability is a common issue for the PBE sector in New Zealand.</p> <p><i>Whether the benefits will outweigh the costs</i></p> <p>As the amendments have limited applicability to the PBE sector, we do not consider the benefits of incorporating them into the PBE Standards would outweigh the costs of doing so ahead of the IPSASB.</p> <p><i>Coherence of the suite of PBE Standards</i></p> <p>The amendments would affect only IPSAS 4 and PBE FRS 47. There are no consequential amendments to other PBE Standards so the coherence of the suite of PBE Standards would be maintained.</p> <p><i>Impact on mixed groups</i></p> <p>Should a PBE have lack of exchangeability, developing amendments to the PBE Standards would promote a consistent approach and could have a positive impact on mixed groups. However, the impact of not introducing them to the PBE</p>

Standards at this time is likely to be exceptionally limited given the infrequency of lack of exchangeability for NZ PBE entities.

Staff recommendation

34. We do not consider there is sufficient evidence to rebut the presumption that the NZASB will not incorporate the amendments into the equivalent PBE Standards in advance of the IPSASB. Therefore, our recommendation is to defer the decision to develop a PBE Standard based on *Lack of Exchangeability* until the IPSASB has developed their amendments.

Question for the Board

- Q5. Does the Board AGREE to defer the decision to develop a PBE Standard based on *Lack of Exchangeability* until the IPSASB has completed its equivalent alignment project?

Attachments

- Agenda item 4.2: Draft *Lack of Exchangeability*
Agenda item 4.3: Draft signing memorandum

Appendix A

Proposed RDR Concessions for the disclosure amendments to NZ IAS 21

Disclosure

...

57A When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 19A), the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about:

- (a) the nature and financial effects of the currency not being exchangeable into the other currency;
- (b) the spot exchange rate(s) used;
- *(c) the estimation process; and
- *(d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

57B Paragraphs A18–A20 specify how an entity applies paragraph 57A.

Disclosure when a currency is not exchangeable

A18 An entity shall consider how much detail is necessary to satisfy the disclosure objective in paragraph 57A. An entity shall disclose the information specified in paragraphs A19–A20 and any additional information necessary to meet the disclosure objective in paragraph 57A.

A19 In applying paragraph 57A, an entity shall disclose:

- (a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
- (b) a description of affected transactions;
- (c) the carrying amount of affected assets and liabilities;
- (d) the spot exchange rates used and whether those rates are:
 - (i) observable exchange rates without adjustment (see paragraphs A12–A16); or
 - (ii) spot exchange rates estimated using another estimation technique (see paragraph A17);
- *(e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and
- *(f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

A20 When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

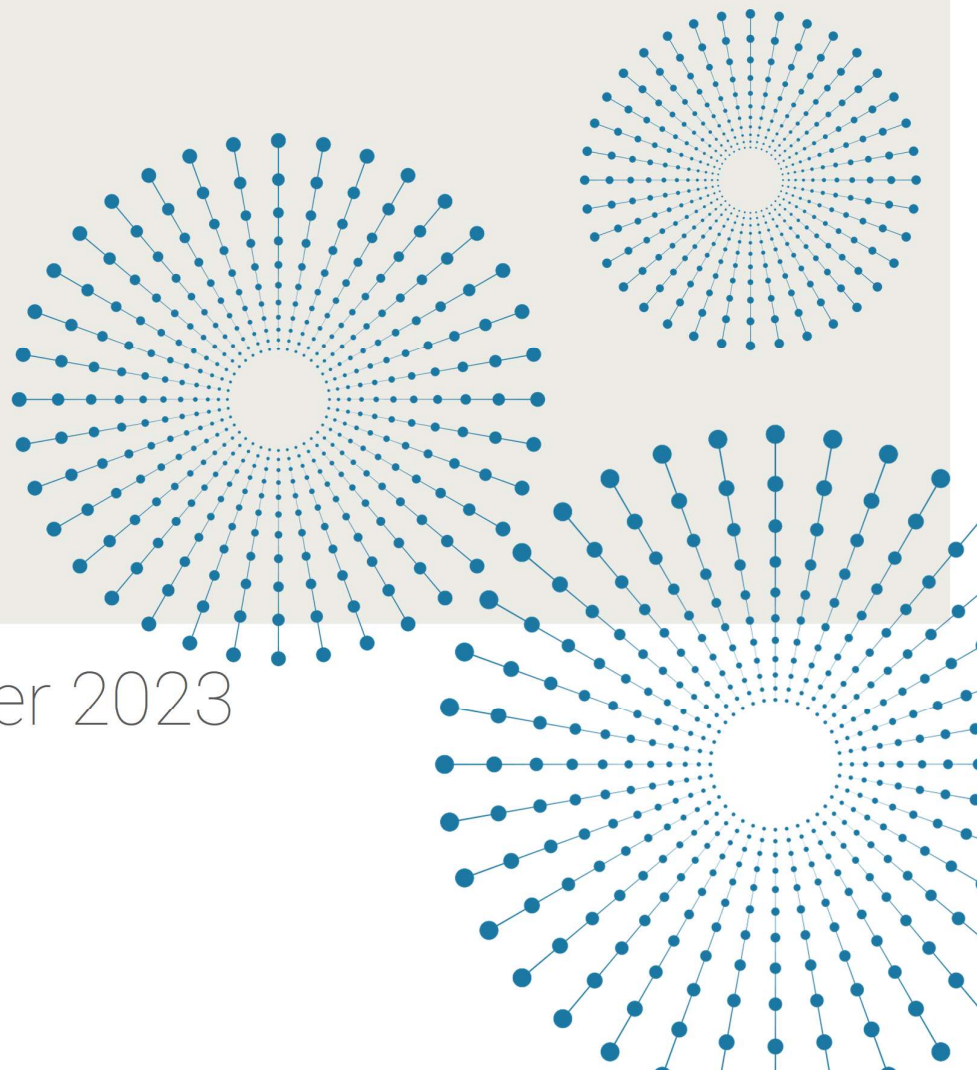
- (a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;
- (b) summarised financial information about the foreign operation; and
- *(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

Lack of Exchangeability

Amendments to NZ IAS 21 and NZ IFRS 1

Mandatory from 1 January 2025

Issued November 2023



Lack of Exchangeability

Issued November 2023

This Tier 1 and Tier 2 for-profit amending Standard is based on *Lack of Exchangeability*, issued by the International Accounting Standards Board, which amended IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This amending Standard defines when a currency is exchangeable and introduces new requirements, guidance, and disclosures relating to estimating the spot exchange rate when a currency is not exchangeable.

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

Legal status of amending Standard

This amending Standard was issued on 2 November 2023 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 2 November 2023 and takes effect on 30 November 2023.

Commencement and application

The amending Standard has a mandatory date of 1 January 2025, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraph NZ 60N.1 – NZ 60N.3 of this amending Standard.

LACK OF EXCHANGEABILITY

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ISBN 978-1-99-100549-6

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LACK OF EXCHANGEABILITY

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *LACK OF EXCHANGEABILITY* ISSUED IN AUGUST 2023

ILLUSTRATIVE EXAMPLES ACCOMPANYING IAS 21 *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IAS 21 *THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES*

AMENDMENTS TO THE BASIS FOR CONCLUSIONS ON IFRS 1 *FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS*

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Part A – Introduction

This amending Standard sets out amendments to NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The amendments are identical to *Lack of Exchangeability* (Amendments to IAS 21), issued by the International Accounting Standards Board (IASB). This amending Standard defines when a currency is exchangeable and introduces new requirements, guidance, and disclosures relating to estimating the spot exchange rate when a currency is not exchangeable.

Tier 2 entities are required to comply with all the requirements in this amending Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 8 and 26 are amended. Paragraphs 8A–8B, 19A and their related headings, paragraphs 57A–57B, 60L–60M, paragraphs NZ60N.1–NZ60N.3 and related headings, and Appendix A are added. New text is underlined and deleted text is struck through. For ease of reading, text in Appendix A has not been underlined.

Definitions

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

...

A currency is *exchangeable* into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

...

Elaboration on the definitions

Exchangeable (paragraphs A2–A10)

8A An entity assesses whether a currency is exchangeable into another currency:

(a) at a measurement date; and

(b) for a specified purpose.

8B If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

...

Estimating the spot exchange rate when a currency is not exchangeable (paragraphs A11–A17)

19A An entity shall estimate the spot exchange rate at a measurement date when a currency is not exchangeable into another currency (as described in paragraphs 8, 8A–8B and A2–A10) at that date. An entity’s objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

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Reporting foreign currency transactions in the functional currency

...

Reporting at the end of the subsequent reporting periods

...

- 26 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. ~~If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.~~

...

Disclosure

...

- 57A When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency (see paragraph 19A), the entity shall disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To achieve this objective, an entity shall disclose information about:

- (a) the nature and financial effects of the currency not being exchangeable into the other currency;
- (b) the spot exchange rate(s) used;
- (c) the estimation process; and
- (d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

- 57B Paragraphs A18–A20 specify how an entity applies paragraph 57A.

Commencement and application

...

- 60L *Lack of Exchangeability*, issued in November 2023, amended paragraphs 8 and 26, and added paragraphs 8A–8B, 19A, 57A–57B and Appendix A. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ 60N.1 - NZ 60N.3. An entity that applies the amendments to an 'early adoption accounting period' shall disclose that fact. The date of initial application is the beginning of the annual reporting period in which an entity first applies those amendments.

- 60M In applying *Lack of Exchangeability*, an entity shall not restate comparative information. Instead:

- (a) when the entity reports foreign currency transactions in its functional currency, and, at the date of initial application, concludes that its functional currency is not exchangeable into the foreign currency or, if applicable, concludes that the foreign currency is not exchangeable into its functional currency, the entity shall, at the date of initial application:
 - (i) translate affected foreign currency monetary items, and non-monetary items measured at fair value in a foreign currency, using the estimated spot exchange rate at that date; and
 - (ii) recognise any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings.
- (b) when the entity uses a presentation currency other than its functional currency, or translates the results and financial position of a foreign operation, and, at the date of initial application, concludes that its functional currency (or the foreign operation's functional currency) is not exchangeable into its presentation currency or, if applicable, concludes that its presentation currency is not exchangeable into its functional currency (or the foreign operation's functional currency), the entity shall, at the date of initial application:

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- (i) translate affected assets and liabilities using the estimated spot exchange rate at that date;
- (ii) translate affected equity items using the estimated spot exchange rate at that date if the entity's functional currency is hyperinflationary; and
- (iii) recognise any effect of initially applying the amendments as an adjustment to the cumulative amount of translation differences—accumulated in a separate component of equity.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ60N.1 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 2 November 2023 and takes effect on 30 November 2023

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ60N.2 The accounting periods in relation to which this amending Standard commences to apply are:

- (a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.
- (b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ60N.3 In paragraph NZ 60N.2:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

- (a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) for which the early adopter:
 - (i) first applies this amending Standard in preparing its financial statements; and
 - (ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2025.

...

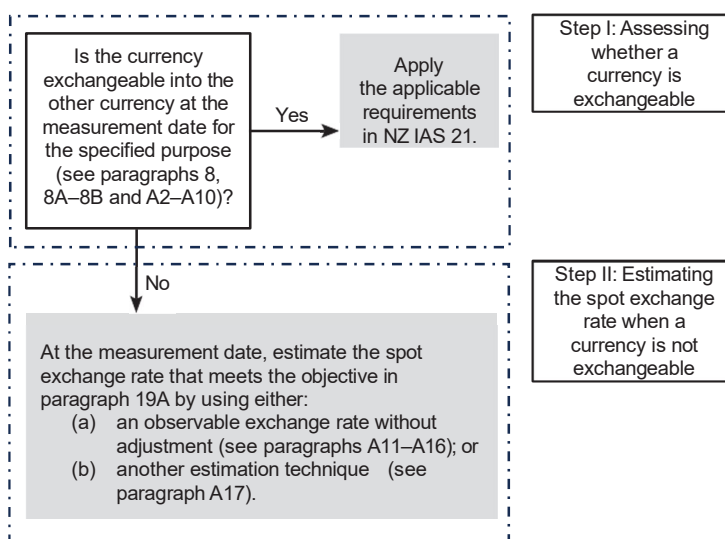
Appendix A Application guidance

This appendix is an integral part of the Standard.

Exchangeability

A1 The purpose of the following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.

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Step I: Assessing whether a currency is exchangeable (paragraphs 8 and 8A–8B)

- A2 Paragraphs A3–A10 set out application guidance to help an entity assess whether a currency is exchangeable into another currency. An entity might determine that a currency is not exchangeable into another currency, even though that other currency might be exchangeable in the other direction. For example, an entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Time frame

- A3 Paragraph 8 defines a spot exchange rate as the exchange rate for immediate delivery. However, an exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.

Ability to obtain the other currency

- A4 In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, rather than its intention or decision to do so. Subject to the other requirements in paragraphs A2–A10, a currency is exchangeable into another currency if an entity is able to obtain the other currency—either directly or indirectly—even if it intends or decides not to do so. For example, subject to the other requirements in paragraphs A2–A10, regardless of whether the entity intends or decides to obtain PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.

Markets or exchange mechanisms

- A5 In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. Enforceability is a matter of law. Whether an exchange transaction in a market or exchange mechanism would create enforceable rights and obligations depends on facts and circumstances.

Purpose of obtaining the other currency

- A6 Different exchange rates might be available for different uses of a currency. For example, a jurisdiction facing pressure on its balance of payments might wish to deter capital remittances (such as dividend payments) to

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other jurisdictions but encourage imports of specific goods from those jurisdictions. In such circumstances, the relevant authorities might:

- (a) set a preferential exchange rate for imports of those goods and a 'penalty' exchange rate for capital remittances to other jurisdictions, thus resulting in different exchange rates applying to different exchange transactions; or
- (b) make the other currency available only to pay for imports of those goods and not for capital remittances to other jurisdictions.

A7 Accordingly, whether a currency is exchangeable into another currency could depend on the purpose for which the entity obtains (or hypothetically might need to obtain) the other currency. In assessing exchangeability:

- (a) when an entity reports foreign currency transactions in its functional currency (see paragraphs 20–37), the entity shall assume its purpose in obtaining the other currency is to realise or settle individual foreign currency transactions, assets or liabilities.
- (b) when an entity uses a presentation currency other than its functional currency (see paragraphs 38–43), the entity shall assume its purpose in obtaining the other currency is to realise or settle its net assets or net liabilities.
- (c) when an entity translates the results and financial position of a foreign operation into the presentation currency (see paragraphs 44–47), the entity shall assume its purpose in obtaining the other currency is to realise or settle its net investment in the foreign operation.

A8 An entity's net assets or net investment in a foreign operation might be realised by, for example:

- (a) the distribution of a financial return to the entity's owners;
- (b) the receipt of a financial return from the entity's foreign operation; or
- (c) the recovery of the investment by the entity or the entity's owners, such as through disposal of the investment.

A9 An entity shall assess whether a currency is exchangeable into another currency separately for each purpose specified in paragraph A7. For example, an entity shall assess exchangeability for the purpose of reporting foreign currency transactions in its functional currency (see paragraph A7(a)) separately from exchangeability for the purpose of translating the results and financial position of a foreign operation (see paragraph A7(c)).

Ability to obtain only limited amounts of the other currency

A10 A currency is not exchangeable into another currency if, for a purpose specified in paragraph A7, an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose. For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Step II: Estimating the spot exchange rate when a currency is not exchangeable (paragraph 19A)

- A11 This Standard does not specify how an entity estimates the spot exchange rate to meet the objective in paragraph 19A. An entity can use an observable exchange rate without adjustment (see paragraphs A12–A16) or another estimation technique (see paragraph A17).

Using an observable exchange rate without adjustment

- A12 In estimating the spot exchange rate as required by paragraph 19A, an entity may use an observable exchange rate without adjustment if that observable exchange rate meets the objective in paragraph 19A. Examples of an observable exchange rate include:
- (a) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability (see paragraphs A13–A14); and
 - (b) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored (first subsequent exchange rate) (see paragraphs A15–A16).

Using an observable exchange rate for another purpose

- A13 A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective in paragraph 19A. If the rate meets the objective in paragraph 19A, an entity may use that rate as the estimated spot exchange rate.
- A14 In assessing whether such an observable exchange rate meets the objective in paragraph 19A, an entity shall consider, among other factors:
- (a) *whether several observable exchange rates exist*—the existence of more than one observable exchange rate might indicate that exchange rates are set to encourage, or deter, entities from obtaining the other currency for particular purposes. These observable exchange rates might include an ‘incentive’ or ‘penalty’ and therefore might not reflect the prevailing economic conditions.
 - (b) *the purpose for which the currency is exchangeable*—if an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies), the observable exchange rate might not reflect the prevailing economic conditions.
 - (c) *the nature of the exchange rate*—a free-floating observable exchange rate is more likely to reflect the prevailing economic conditions than an exchange rate set through regular interventions by the relevant authorities.
 - (d) *the frequency with which exchange rates are updated*—an observable exchange rate unchanged over time is less likely to reflect the prevailing economic conditions than an observable exchange rate that is updated on a daily basis (or even more frequently).

Using the first subsequent exchange rate

- A15 A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective in paragraph 19A. If the rate meets the objective in paragraph 19A, an entity may use that rate as the estimated spot exchange rate.
- A16 In assessing whether the first subsequent exchange rate meets the objective in paragraph 19A, an entity shall consider, among other factors:
- (a) *the time between the measurement date and the date at which exchangeability is restored*—the shorter this period, the more likely the first subsequent exchange rate will reflect the prevailing economic conditions.
 - (b) *inflation rates*—when an economy is subject to high inflation, including when an economy is hyperinflationary (as specified in NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*), prices often change quickly, perhaps several times a day. Accordingly, the first

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subsequent exchange rate for a currency of such an economy might not reflect the prevailing economic conditions.

Using another estimation technique

- A17 An entity using another estimation technique may use any observable exchange rate—including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations—and adjust that rate, as necessary, to meet the objective in paragraph 19A.

Disclosure when a currency is not exchangeable

- A18 An entity shall consider how much detail is necessary to satisfy the disclosure objective in paragraph 57A. An entity shall disclose the information specified in paragraphs A19–A20 and any additional information necessary to meet the disclosure objective in paragraph 57A.

- A19 In applying paragraph 57A, an entity shall disclose:

- (a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
- (b) a description of affected transactions;
- (c) the carrying amount of affected assets and liabilities;
- (d) the spot exchange rates used and whether those rates are:
 - (i) observable exchange rates without adjustment (see paragraphs A12–A16); or
 - (ii) spot exchange rates estimated using another estimation technique (see paragraph A17);
- (e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and
- (f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

- A20 When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

- (a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;
- (b) summarised financial information about the foreign operation; and
- (c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

A heading is amended. New text is underlined.

Appendix B Amendments to other pronouncements

...

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

Paragraphs 31C and D27 are amended and paragraph 39AI is added. New text is underlined and deleted text is struck through.

Presentation and disclosure

...

Explanation of transition to NZ IFRS

...

Use of deemed cost after severe hyperinflation

31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening NZ IFRS statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity’s first NZ IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that is subject to severe hyperinflation. ~~has both of the following characteristics:~~

- (a) ~~a reliable general price index is not available to all entities with transactions and balances in the currency.~~
- (b) ~~exchangeability between the currency and a relatively stable foreign currency does not exist.~~

...

Commencement and application

...

39AI *Lack of Exchangeability* (Amendments to NZ IAS 21), issued in November 2023, amended paragraphs 31C and D27. An entity shall apply those amendments when it applies NZ IAS 21 (as amended in November 2023).

...

Appendix D
Exemptions from other NZ IFRSs

...

Severe hyperinflation

...

D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
- (b) ~~exchangeability between the currency and a relatively stable foreign currency does not exist.~~ Exchangeability is assessed in accordance with NZ IAS 21.

Date: October 2023

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: *Lack of Exchangeability (amendments to NZ IAS 21 and NZ IFRS 1)*

Introduction¹

- 1) In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *Lack of Exchangeability* which amends NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.
- 2) The development of the amending standard was prompted by a lack of exchangeability in Venezuela. IAS 21 explained how to approach a lack of exchangeability when a currency was temporarily unable to be exchanged but not when a lack of exchangeability was longer term. The IASB was informed of diversity in practice in terms of determining whether a currency is exchangeable and what exchange rate to use when a currency is not exchangeable – which can lead to material differences in affected entities' financial statements. The IASB issued *Lack of Exchangeability* to provide direction on how an entity determines if a currency is exchangeable and how to estimate the spot exchange rate when it is not exchangeable and not temporary.
- 3) We expect that the amendments would have minimal impact on New Zealand reporting entities, because in our understanding it would be uncommon for a New Zealand reporting entity to have material transactions or operations in countries whose currency is affected by lack of exchangeability. However, if and when such situations do arise, the requirements in *Lack of Exchangeability* would be helpful to preparers in translating foreign currency transactions and operations and in providing useful information to users of the financial statements about lack of exchangeability.

Due process

- 4) The International Accounting Standards Board (IASB) issued Exposure Draft ED/2021/4 *Lack of Exchangeability* in April 2021. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 19 July 2021 and to the IASB on 1 September 2021.
- 5) The NZASB did not comment on ED/2021/4. The NZASB also did not receive any comment letters from New Zealand constituents.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

- 6) The IASB received 51 comment letters from its world-wide constituents during the consultation process. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2021/4 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in February 2023.²
- 7) The IASB issued *Lack of Exchangeability* in February 2023. This amending standard is effective for annual periods beginning on or after 1 January 2025 with early application permitted.
- 8) The NZASB has approved *Lack of Exchangeability*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
- 9) In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

- 10) The amending standard is a standard in its own right. The amending standard is identical to *Lack of Exchangeability* issued by the IASB, except for the following inclusions:
 - (a) A New Zealand specific introduction, formatting and numbering;
 - (b) A scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities; and
 - (c) New Zealand specific wording for the commencement and application of the amending standard.
- 11) The amending standard establishes some new disclosure requirements. We plan to propose RDR concessions in respect of some of the disclosure requirements in the amending standard. We expect that *Lack of Exchangeability* would have very narrow applicability in New Zealand. However, we expect that where a lack of exchangeability situation applies to a Tier 2 entity, it will be important and material to their users to understand this fact and its impact on the financial statements. However, we consider it appropriate to provide RDR concessions with respect to some of the individual disclosure requirements in *Lack of Exchangeability*, so that the costs of providing disclosures do not outweigh the benefits, and to maintain consistency with existing Tier 2 disclosure concessions in other NZ IFRS.
- 12) The Australian Accounting Standards Board (AASB) expects to approve an amending standard based on *Lack of Exchangeability* in the near future.

² An update on the IASB meeting in [month 201X] is available at: [IFRS - IASB Update February 2023](#)

- 13) In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. The AASB is expected to consider the effect of Lack of Exchangeability on AASB 1060 in October 2023.
- 14) The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Commencement and application date

- 15) The commencement and application date requirements for the amending standard is included in Appendix A of this memo. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2025. Application is permitted for an ‘early adoption accounting period’ when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect (as defined in Appendix A).

Other matters

- 16) There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

- 17) The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Lack of Exchangeability

Certificate of determination

Carolyn Cordery
Chair NZASB

Appendix A: Commencement and application

- A1. The commencement and application provisions below will apply to the amending standard once it is published.

When standard takes effect (section 27 Financial Reporting Act 2013)

- A2. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The standard is expected to be published on 2 November 2023 and take effect on 30 November 2023.

Accounting periods in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- A3. The accounting periods in relation to which this standard commences to apply are:
- (a) for an early adopter, those accounting periods following, and including, the early adoption accounting period; and
 - (b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the mandatory date.
- A4. In applying paragraph A3:

early adopter means a reporting entity that applies the standard for an early adoption accounting period.

early adoption accounting period means an accounting period of the early adopter:

- (a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- (b) for which the early adopter:
 - (i) first applies this standard in preparing its financial statements; and
 - (ii) discloses in its financial statements for that accounting period that the standard has been applied for that period.

mandatory date means 1 January 2025.

Date: 6 October 2023

To: NZASB Members

From: Leana van Heerden and Charis Halliday

Subject: **IASB Post Implementation Review of IFRS 15: *Revenue from contracts with customers***

COVER SHEET

Project priority and complexity

Project priority	Medium The objective of the Post-implementation Review (PIR) of IFRS 15 is to assess if the effects of applying the requirements of IFRS 15 are as intended when those requirements were developed. IFRS 15 has been implemented by Tier 1 and 2 for-profit entities in New Zealand and, because it relates to revenue, has had a far-reaching impact.
Complexity of Board decision-making at this meeting	Low The Board is being asked to approve the comment letter, which is broadly supportive of IFRS 15 but some recommendations for improvement, especially for the principal versus agent consideration.

Overview of agenda item

Project status	Review and approval of comment letter to the IASB
Project purpose	In this 2nd phase of the PIR of IFRS 15 the IASB will consider comments gathered and provide a report and feedback statement summarising the findings and, if any, next steps.
Board action required at this meeting	APPROVE the comment letter on the IASB PIR of IFRS 15. We encourage any editorial comments to be sent directly to staff – leana.vanheerden@xrb.govt.nz

Purpose and introduction¹

1. In June 2023, the International Accounting Standards Board (IASB) issued the [Request for information on the PIR of IFRS 15](#). The objective of the PIR is to assess whether the effects of applying the IFRS 15 requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed the requirements.
2. The PIR is not a standard-setting project and does not automatically lead to standard-setting, nor is it intended to lead to the resolution of every application question. However, a post-implementation review can identify improvements that can be made to a new requirement, to the standard-setting process or to the structure of an IFRS Accounting Standard.
3. At its July 2023 meeting, the Board agreed to comment on the PIR. Comments are due to the IASB by 27 October 2023.
4. The purpose of this memo is to seek the Board's approval of the comment letter on the PIR, subject to updating the letter for any comments identified by the Board at this meeting.

Recommendation

5. We recommend that the Board:
 - (a) PROVIDES FATAL FLAW FEEDBACK on the draft comment letter on IASB PIR of IFRS 15 (Agenda Item 6.2); and
 - (b) APPROVES the comment letter, subject to staff processing any changes identified by Board Members at this meeting.

Structure of this memo

6. This memo includes the following sections.
 - (a) [Approach to responding to the PIR and outreach](#)
 - (b) [Selection of PIR questions responded to](#)
 - (c) [Approval of the comment letter](#)
 - (d) [Next steps](#)

Approach to responding to the PIR and outreach

7. When the Board agreed to comment on the PIR of IFRS at its August 2023 meeting, the Board envisaged a comment letter that is broadly supportive given the preliminary feedback on IFRS 15 had not identified any fatal flaws. Therefore the letter includes comments or concerns we heard from stakeholders during our outreach activities where we can provide solutions.
8. The Request for Information on the PIR of IFRS 15 was published on the XRB website and publicised through our newsletters. The Board also agreed that staff should carry out broad based and targeted outreach to inform the comment letter.

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9. As part of this outreach, we have discussed the PIR with the Accounting Technical Reference Group (“TRG”) in August 2023. A summary of this discussion is included in Agenda item 2.6.
10. Staff also organised a roundtable with preparers of financial statements of Tier 1 entities. The points raised at the roundtable event were broadly consistent with the TRG discussion.
11. Staff issued a revenue disclosure survey aimed at users of financial statements. The survey was completed by 10 individuals and indicated that revenue disclosures usually strike the right balance. The survey didn’t provide other useful feedback for the purpose of the comment letter.
12. Comments on the PIR were due to the XRB by 22 September 2023. We have not received any submissions. Except for CAANZ, we are not aware of New Zealand constituents that plan to submit a comment directly to the IASB.

Selection of PIR questions to respond to

13. The selection of questions to comment on was based on feedback obtained during outreach activities and cover the following:

Question 1 – Overall assessment of IFRS 15

Question 2 – Identifying performance obligations in a contract

Question 5 – Principal versus agent consideration

Question 7 – Disclosure requirements

14. The questions we have not included in our focus areas were as follows:

Question 3 – Determining the transaction price;

Question 4 – Determining when to recognise revenue;

Question 6 – Licensing;

Question 8 – Transition requirements;

Question 9 – Applying IFRS 15 with other IFRS Accounting Standards;

Question 10 – Convergence with Topic 606; and

Question 11 – Other matters.

Given the broad scope of the IASB’s PIR we want to focus our comment letter on the areas of most concern to New Zealand stakeholders where we can propose solutions. We have not found any major issues on these questions through our outreach activities that would warrant a meaningful recommendation. Staff decided to exclude these questions from our comment letter.

Approval of the comment letter

15. The draft comment letter is included in Agenda Item 6.2. We recommend that the Board approve the letter – subject to staff updating the letter for any fatal flaw changes identified by Board Members at this meeting, and having those changes finalised via review by the Chair.

Question for the Board

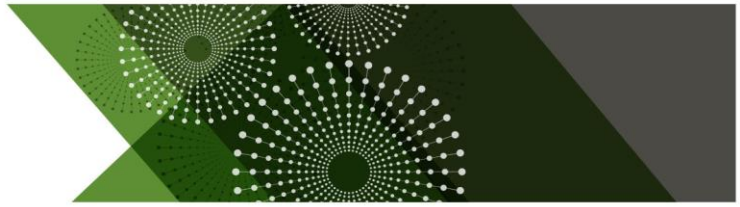
- Q1. Does the Board have any fatal flaw comments on the draft comment letter in Agenda Item 6.2?
- Q2. Does the Board approve the comment letter, subject to any changes raised by the Board at this meeting being finalised via review by the Chair?

Next steps

16. We will update the draft comment letter for any changes identified by the Board at this meeting. After finalising these changes via review by the Chair, we will send before the due date of 27 October 2023.

Attachments

- | | |
|-----------------|-------------------------------------------------------------------------------|
| Agenda item 6.2 | Draft comment letter |
| Agenda item 6.3 | IASB Request for information on the PIR of IFRS 15 (in the Supporting Papers) |



Mr Andreas Barckow

xx October 2023

Chair of the International Accounting Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Andreas

Request for information on the Post-implementation review of IFRS 15: *Revenue from Contracts with Customers* ('the RFI')

Thank you for the opportunity to comment on the RFI.

IFRS 15 is working well in New Zealand for the majority of contracts, with some exceptions for more complex or bespoke contracts. Principal versus agent considerations remain an issue and we have the following recommendations in this area:

- a) Give greater prominence to the assessment of transfer of control as being the primary assessment in determining whether a reporting entity is a principal or agent.
- b) Make substantive revisions to the indicators with the objective of clearly linking each indicator to the concept of control.
- c) Add new, up-to-date illustrative examples.

Our recommendations and responses to the specific questions are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Leana van Heerden (leana.vanheerden@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Question 1:

Overall assessment of IFRS 15

(a) In your view, has IFRS 15 achieved its objective? Why or why not?

Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.

(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:

- (i) in developing future Standards; or
- (ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?

(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?

If, in your view, the ongoing costs of applying IFRS 15 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain why you hold this view.

These questions aim to help the IASB understand respondents' overall views and experiences relating to IFRS 15. Sections 2–9 seek more detailed information on specific requirements.

Response to Question 1

Question 1a - In your view has IFRS 15 achieved its objective?

1. IFRS 15 is working well for the majority of contracts, with some exceptions for more complex or bespoke contracts. The introduction of the five-step revenue recognition model brought greater rigour to entities' assessments of their revenue contracts and users have told us that the disclosures usually strike the right balance. On this basis, in our view IFRS 15 has achieved its objective.

Question 1b and 1c

- *Do you have feedback on the understandability and accessibility of IFRS 15 that the IASB could consider?*

- *What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they?*
2. Flowcharts in areas with multiple decision points would help to improve the understandability and accessibility of the requirements. Additionally, illustrative examples that are relevant to today's business environment would assist entities with application. Consideration of IFRS 15 related IFRIC Agenda Decisions may help to identify relevant examples.
 3. Some IFRS 15 requirements, such as when dealing with significant financing components and variable consideration calculations, may not be supported by finance systems. This necessitates manual calculations using excel spreadsheets and the use of manual journal entries which is resource intensive and prone to error. The IASB should reflect on whether they were aware of these implications during deliberations on the Standard and embed any learnings into future standard setting. We do not think amendments to IFRS 15 on these points would be beneficial at this time as stakeholders have little appetite for disruptive changes.

Question 2

Identifying performance obligations in a contract

(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?

Please describe fact patterns in which the requirements:

- (i) are unclear or are applied inconsistently;
- (ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or
- (iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

Response to Question 2

Question 2a – Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract?

4. IFRS 15 provides a clear and sufficient basis for identifying performance obligations in most cases. However, contracts with bespoke internally developed products, or arrangements involving multiple parties can require a high degree of judgement, particularly in determining whether promised goods or services are distinct in the context of the contract.

5. There are also challenges within the IT / ICT industry with respect to determining whether implementation type activities are a promised good or service that will be transferred to a customer. This is relevant to:
- Bespoke contracts that require some level of implementation with subsequent delivery.
 - Managed services solutions where it is unclear whether certain set up activities are value-add to customer, but it is possible to get another company to do the activity.

Question 2b – Do you have any suggestions for resolving the matters you have identified?

6. While the principles in IFRS 15 are clear, in certain circumstances entities may need to apply a high degree of judgement when determining whether an activity it will perform is a promised good or service that will be transferred to a customer, and whether the promised goods or services in a contract result in one or more performance obligations.
7. We recommend updating the illustrative examples in IFRS 15 so that they are more relevant to today's business environment to assist entities with application.

Question 5:

Principal versus agent considerations

(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

Response to Question 5

Question 5a – Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent?

8. Determining principal versus agent was a challenge prior to IFRS 15 and remains a challenge for many arrangements. This was the most frequently raised issue throughout our outreach in New Zealand and there is inconsistency in practice. Some of these transactions are inherently complex in terms of the number of parties involved and the rights and obligations of each of those parties. While judgment in this area cannot be eliminated, substantive changes are

needed to better guide entities through principal versus agent assessments to reduce diversity in practice.

9. The focus on principal versus agent considerations is relatively recent. Therefore, it was not a key focus or objective when IFRS 15 was under development to substantially revise or improve principal versus agent accounting. Now that IFRS 15 is embedded and is working well for the majority of contracts, it is timely for the IASB to address this issue.
10. The IFRS 15 requirements focus on determining who controls each specified good or service before it is transferred to the customer. Despite this requirement in the Standard, and supporting wording in the Basis for Conclusions, it is clear that in practice many entities go straight to application of the indicators. This is further illustrated by the IFRS IC, May 2022 IFRS 15-related agenda decision (*Principal versus Agent: Software Reseller*) which gave little prominence to the assessment of control, instead focusing on the indicators.
11. This is a significant issue because there is a disconnect between how the indicators relate to the notion of control used throughout the rest of IFRS 15 (that is, how they relate to determining whether an entity has the ability to direct the use of, and obtain substantially all the remaining benefits from, a good or service). In addition, the indicators (for example inventory risk) in IFRS 15 are geared towards more traditional revenue contracts for goods, making it even more challenging for entities to apply the indicators in the context of services and intangibles.

Question 5b – Do you have any suggestions for resolving the matters you have identified?

12. The determination of principal versus agent will inherently involve judgement; it is the way this judgement is applied where greater consistency is required. To achieve this we recommend the following:
 - a) Give greater prominence to the assessment of transfer of control as being the primary assessment in determining whether a reporting entity is a principal or agent.
 - This could be achieved by moving BC385H to the Standard. BC385H states – “The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios.”
 - b) Make substantive revisions to the indicators
 - The objective of revising the indicators would be to clearly link each indicator to the concept of control. For example, if we think about a **vendor** who is a manufacturer, an **entity** who is a reseller, and then an end **customer**, a clearly linked indicator would be:
 - The entity has discretion in whether to consume the good or service for its own needs or transfer its right to a third party without needing permission from the vendor.
 - Understanding the business purpose and rationale for the contractual terms between the vendor and the entity should form a prominent part of the assessment. Indicators should be developed which help drive this thinking such as:

- Does the vendor have on-going obligations to the entity and if so why? On-going obligations may include a return-to-vendor agreement, or a history of returning goods to the vendor after a customer returns the goods, and whether the vendor is the party that the customer will hold responsible for the acceptability of the product.
 - Is the entity's discretion on whether and how to consume or transfer the good or service limited and if so why? Limits to discretion may include pricing floors and ceilings set by the vendor, the vendor specifying customer orders to fulfil, the vendor having the right to take back delivered goods etc.
 - Separate consideration of indicators for goods, versus services and intangibles may be required.
 - Additional clarification should be added on how entities should weigh up the indicators when there is a mixed assessment. This should explain that it is not a matter of 'counting' the indicators, but rather through judgment placing greater weight on the indicators of most relevance to the arrangement, while also considering the arrangement holistically.
- c) Add new, up-to-date illustrative examples
- The illustrative examples in IFRS 15 are widely used and entities have found them useful. However, given the illustrative examples were developed a number of years ago the usefulness is becoming more limited as new types of arrangements not covered by the examples have emerged and become more prevalent. It would be worthwhile adding new illustrative examples reflective of common arrangements in today's business environment, such as:
 - **Online platforms** that connect sellers and buyers of digital products, such as e-books, music, or videos.
 - **Cloud service providers** that offer cloud computing services, such as infrastructure as a service (IaaS), platform as a service (PaaS), or software as a service (SaaS), to end customers.
 - **Managed service solutions** that offer one packaged solution to the customer but involves multiple deliveries that are outsourced.

Question 7:

Disclosure requirements

(a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.

(c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?

Response to Question 7

Questions 7a and c

13. The increased revenue disclosures have provided benefit to users of financial statements. New Zealand users have indicated that usually revenue disclosures strike the right balance.
14. However, entities do not always re-evaluate their disclosures as their circumstances change which may result in missing, boilerplate, and/or immaterial disclosures. The materiality research the IASB is conducting may corroborate this finding. To help drive improvements in the quality of information the IASB could take an educative approach, reminding preparers of the importance to users of relevant, tailored, up-to-date disclosures.

Questions 3, 4, 6, 8, 9, 10 and 11

15. We have not commented on these questions.

Date: 6 October 2023
To: NZASB Members
From: Jamie Cattell
Subject: Board memo – Supplier Finance Arrangements RDR

COVER SHEET

Project priority and complexity

Project priority	Low This is a narrow scope, disclosure-only amending standard which is likely to have limited applicability.
Complexity of Board decision-making at this meeting	Low The Board is being asked to approve for issue an amending standard modifying the disclosure requirements introduced by <i>Supplier Finance Arrangements</i> for Tier 2 for-profit entities. No comments on the proposed amendments were received.

Overview of agenda item

Project status	Approval – we are seeking approval to issue <i>Supplier Finance Arrangements RDR</i>
Project purpose	To introduce Tier 2 RDR concessions for the new disclosures established by the for-profit amending Standard <i>Supplier Finance Arrangements</i> .
Board action required at this meeting	APPROVAL to issue <i>Supplier Finance Arrangements RDR</i> which amends NZ IAS 7

Purpose and introduction¹

1. The Board is asked to APPROVE for issue the Tier 2 for-profit amending standard *Supplier Finance Arrangements RDR* which amends NZ IAS 7 *Statement of Cash Flows*.

Background

2. At its meeting on 10 August 2023, the Board agreed to consult on the for-profit amending standard *Supplier Finance Arrangements RDR* (the amending standard). The consultation on the amending standard proposed new Tier 2 disclosure concessions in NZ IAS 7 for the new disclosures introduced by *Supplier Finance Arrangements* approved for issue by the Board on 10 August 2023. The consultation on the amending standard closed on 30 September 2023 and no comments were received.

Due process

3. Section 22 of the Financial Reporting Act 2013 outlines the requirements for consultation prior to the issuance of a standard, an authoritative notice, an amendment, or a revocation by the Board. It specifies that the Board must:
 - (a) take reasonable steps to consult with individuals or representatives who would be substantially affected by the issuance; and
 - (b) consult with the Privacy Commissioner before issuing a standard, an authoritative notice, or an amendment that could potentially require the disclosure of personal information. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
4. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22(1) of the Financial Reporting Act 2013.
5. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memorandum

6. Attached as agenda item 8.2 is the draft for-profit amending standard *Supplier Finance Arrangements RDR*.
7. Attached as agenda item 8.3 is a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Commencement and Application

8. *Supplier Finance Arrangements RDR* will be applicable for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect. This is consistent with the effective date in *Supplier Finance Arrangements* to the extent permitted under section 28 of the Financial Reporting Act 2013.

Questions for the Board

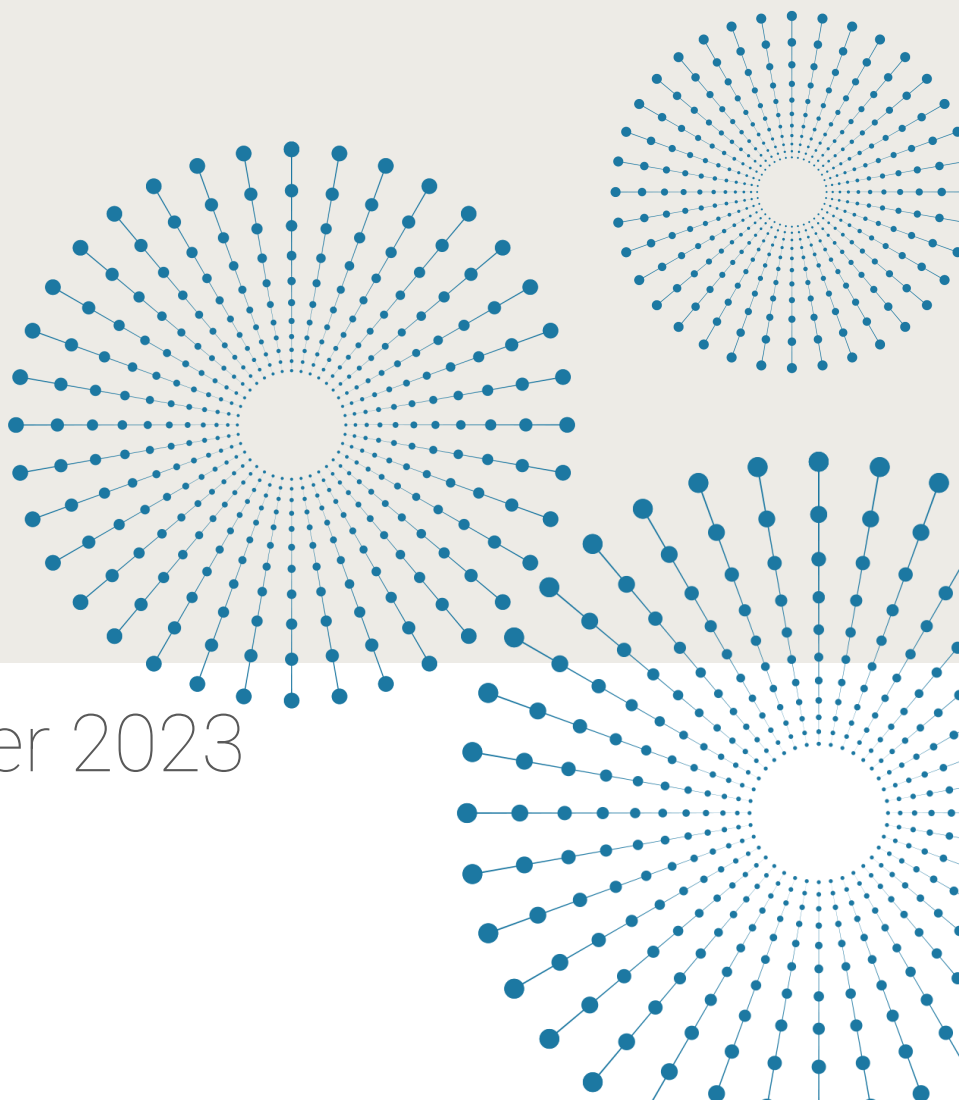
- Q4. Does the Board APPROVE for issue *Supplier Finance Arrangements RDR* which amends NZ IAS 7?
- Q5. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue the amending standard?

Attachments

Agenda item 8.2: Draft *Supplier Finance Arrangements RDR*

Agenda item 8.3: Draft signing memorandum

Supplier Finance Arrangements RDR



Issued November 2023





Supplier Finance Arrangements RDR

Issued October 2023

This Tier 2 for-profit amending Standard introduces new disclosure concessions for Tier 2 for-profit entities in response to the new disclosures established by *Supplier Finance Arrangements* issued on 13 July 2023. This amending Standard modifies some of the requirements in NZ IAS 7 *Statement of Cash Flows*.

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

Legal status of amending Standard

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

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 2 November 2023 and takes effect on 30 November 2023.

Commencement and application

The amending Standard has a mandatory date of 1 January 2024, meaning it must be applied by Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs NZ 63.4 – NZ 63.7 of this amending Standard.

SUPPLIER FINANCE ARRANGEMENTS RDR

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SUPPLIER FINANCE ARRANGEMENTS RDR

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SUPPLIER FINANCE ARRANGEMENTS RDR

Part A – Introduction

This amending Standard amends the disclosure requirements in NZ IAS 7 *Statement of Cash Flows* introduced by *Supplier Finance Arrangements* issued on 13 July 2023 for Tier 2 for-profit entities.

Part B – Scope

This Standard applies to Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 7 *Statement of Cash Flows*

Paragraphs 44F–44H are amended and paragraphs NZ 63.4–NZ 63.7 are added. New text is underlined except for paragraphs NZ 63.4–NZ 63.7 which have not been underlined for ease of reading.

Structure and content

...

Supplier finance arrangements

***44F** An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

***44G** Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.

***44H** To meet the objectives in paragraph 44F, an entity shall disclose in aggregate for its supplier finance arrangements:

- (a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.
- (b) as at the beginning and end of the reporting period:
 - (i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement.
 - (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.
 - (iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).
- (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 43).

...

Commencement and application

...

NZ 63.4 The amending Standard *Supplier Finance Arrangements RDR*, published in August 2023, amended paragraphs 44F - 44H. An entity shall apply those amendments in accordance with the commencement and application date provisions in paragraphs NZ 63.5–NZ 63.7. An entity that applies those amendments to an ‘early adoption accounting period’ shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

NZ 63.5 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 2 November 2023 and takes effect on 30 November 2023.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act)

NZ 63.6 The accounting periods in relation to which this amending Standard commences to apply are:

- (a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.
- (b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

NZ 63.7 In paragraph NZ 63.6:

early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

- (a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) for which the early adopter:
 - (i) first applies this amending Standard in preparing its financial statements; and
 - (ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2024.

Date: 20 October 2023

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: *Supplier Finance Arrangements RDR*

Introduction¹

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *Supplier Finance Arrangements RDR* (the amending standard) which amends NZ IAS 7 *Statement of Cash Flows*.
2. The NZASB's objective in issuing this amending standard is to introduce Tier 2 disclosure concessions for all the new disclosures established by *Supplier Finance Arrangements*, previously issued by the NZASB in July 2023.

Due process

3. The NZASB issued *Supplier Finance Arrangements RDR* for consultation in August 2023. Comments were due to the NZASB on 30 September 2023. No comment letters were received.
4. The NZASB has approved *Supplier Finance Arrangements RDR*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
5. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

6. The amending standard is a standard in its own right. The NZASB proposed concessions for all new disclosures introduced by *Supplier Finance Arrangements* for the following reasons.
 - (a) It is not clear that there is sufficient benefit to users Tier 2 entities' financial statements to justify the additional costs of the disclosures.
 - (b) These disclosures are very similar to those required by:
 - (i) NZ IAS 7 for changes in liabilities arising from financing activities; and
 - (ii) NZ IFRS 7 for quantitative liquidity risk.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

All these disclosures are already subject to RDR concessions under NZ IFRS RDR. Therefore, we consider that it would be consistent and logical to extend the same concessions to the new disclosures introduced by *Supplier Finance Arrangements*.

7. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case by case basis. The AASB is expected to consider whether to introduce new disclosures to AASB 1060 in response to *Supplier Finance Arrangements* at its meeting in October 2023.
8. In June 2022, as part of its Disclosure Initiative—Subsidiaries without Public Accountability project the IASB tentatively decided to incorporate the disclosure requirements of IFRS Accounting Standards issued up until 28 February 2021. For disclosures introduced after February 2021, the IASB decided to review and consider these in the context of the new standard, only after it has been issued. Therefore the IASB is expected to consider whether to propose amendments to the new standard for the disclosures introduced by *Supplier Finance Arrangements* in the near future.
9. The issue of this amending standard is consistent with the elements of the Financial Reporting Strategy that are relevant to a domestic standard that introduces RDR concessions for Tier 2 for-profit entities: it retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Commencement and application date

10. The commencement and application date requirements for the amending standard is included in Appendix A of this memo. An entity that is not an early adopter is required to apply the amending standard for accounting periods beginning on or after 1 January 2024. Application is permitted for an 'early adoption accounting period' when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect (as defined in Appendix A).

Other matters

11. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

12. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Supplier Finance Arrangements RDR

Certificate of determination

Carolyn Cordery
Chair NZASB

Appendix A: Commencement and application

- A1. The commencement and application provisions below will apply to the amending standard once it is published.

When standard takes effect (section 27 Financial Reporting Act 2013)

- A2. This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The standard is expected to be published on 2 November 2023 and take effect on 30 November 2023.

Accounting periods in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- A3. The accounting periods in relation to which this standard commences to apply are:
- (a) for an early adopter, those accounting periods following, and including, the early adoption accounting period; and
 - (b) for any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the mandatory date.

- A4. In applying paragraph A3:

early adopter means a reporting entity that applies the standard for an early adoption accounting period.

early adoption accounting period means an accounting period of the early adopter:

- (a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- (b) for which the early adopter:
 - (i) first applies this standard in preparing its financial statements; and
 - (ii) discloses in its financial statements for that accounting period that the standard has been applied for that period.

mandatory date means 1 January 2024.