XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Board Meeting Agenda

Virtual — Thursday, 28 March 2024

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
PUBLIC SESSION					
11.00 am 30 min	**4**	**Financial Instruments with Characteristics of Equity (FICE)**	(GS)		
	4.1	Board memo	Consider	Paper	2
	4.2	Draft comment letter	Approve	Paper	15
11.30 am	**5**	**Defer NZ IFRS 10 and NZ IAS 28 amendment**	(AS)		
10 min	5.1	Board memo	Agree	Paper	18
11.40 am	**6**	**Subsidiaries without Public Accountability**	(CB)		
60 min	6.1	Board memo: implications for Tier 2 for-profit reporting	Agree	Paper	24
	6.2	Application of the PBE Policy Approach	Agree	Paper	40
12.40 pm 40 min		**Lunch**			
PUBLIC SESSION					
1.20 pm	**7**	**PIR IFRS 15 and IFRS 9**	(LVH and GS)		
30 min	7.1	Board memo – PIR IFRS 15 update	Note	Paper	45
	7.2	Board memo – PIR IFRS 9 update	Note	Paper	53
2.40 pm		**Finish**			

Next NZASB meeting: 9 May 2024, virtual

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Agenda Item 4.1

Memorandum

Date:	12 March 2024
To:	NZASB Members
From:	Gali Slyuzberg
Subject:	**Financial Instruments with Characteristics of Equity – comment letter**

COVER SHEET

Project priority and complexity

Project priority	**Medium** • The IASB Exposure Draft (ED) on *Financial Instruments with Characteristics of Equity* (FICE) proposes clarifications to the requirements for classifying a financial instrument as a liability or equity. Such classification decisions have important consequences for an entity's statements of financial position and performance, and financial ratios. The ED proposals could change the classification of certain instruments with both debt-like and equity-like characteristics. • However, the proposals in the FICE ED are not as transformative as those that the IASB previously proposed in its 2018 Discussion Paper (DP) on FICE, and we are not aware of significant concerns in New Zealand regarding the ED proposals.
Complexity of Board decision-making at this meeting	**Medium** The Board is being asked to PROVIDE FEEDBACK and APPROVE the comment letter on the FICE ED.

Overview of agenda item

Project status	Approval of NZASB comment letter
Project purpose	In issuing the FICE ED, the IASB aims to clarify some of the classification requirements in IAS 32, and to improve the information provided in financial statements about financial liabilities and equity instruments.
Board action required at this meeting	PROVIDE FEEDBACK on the draft comment letter ahead of the meeting, and APPROVE the comment letter at the meeting. Please send your feedback on the draft comment letter to staff - gali.slyuzberg@xrb.govt.nz

Purpose and introduction[1]

1. On 29 November 2023, the IASB published the Exposure Draft (ED) *Financial Instruments with Characteristics of Equity* ('FICE'). The ED includes the following proposals.

   (a) Clarifications to the classification requirements in IAS 32 *Financial Instruments: Presentation* – to address challenges faced by reporting entities when determining whether to classify a financial instrument as a financial liability or equity; and

   (b) Presentation and disclosure requirements, to improve the information provided in the financial statements about the financial instruments issued by the entity.

2. At its December 2023 meeting, the Board agreed to comment on the ED.

3. The purpose of this item is to seek the Board's feedback on the draft comment letter ahead of the NZASB March meeting, and to seek the Board's approval of the comment letter at the meeting. The comment letter is due to the IASB by 29 March 2024.

Recommendations

4. We recommend that the Board:

   (a) Provides FEEDBACK on the draft comment letter by the end of Wednesday, 20 March 2024; and

   (b) APPROVES the updated comment letter at the NZASB meeting on 28 March 2024.

Structure of this memo

5. The remaining sections in this memo are:

   (a) Background

   (b) Outreach summary

   (c) Discussion with the TRG

   (d) Draft comment letter and next steps

Background

6. In 2018, the IASB published the Discussion Paper (DP) *Financial Instruments with Characteristics of Equity*. The DP included the IASB's preliminary views on how to address the accounting challenges that have been arising in determining the classification of certain financial instruments as liabilities or equity – and to improve the information that is provided in financial statements about instruments issued by the entity. The DP proposed to introduce a more clearly-articulated principle for classifying financial instruments as liability or equity.

7. In response to concerns from stakeholders on the DP, the IASB decided not to introduce the abovementioned principle into IAS 32. Instead, the IASB decided to focus on making 'clarifying

[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).

amendments' to address known application issues, by clarifying the existing principles in IAS 32 and adding application guidance to facilitate consistent application of the principles.

8. The proposals in the FICE ED as issued in November 2023 are summarised below.

IAS 32	Amendments to clarify: (a) the effects of relevant laws or regulations on the classification of financial instruments; (b) the 'fixed-for-fixed' condition for classifying a derivative that will or may be settled in an issuer's own equity instruments; (c) the requirements for classifying financial instruments containing an obligation for an entity to purchase its own equity instruments; (d) the requirements for classifying financial instruments with contingent settlement provisions; (e) the effect of shareholder discretion on the classification of financial instruments; and (f) the circumstances in which a financial instrument (or a component of it) is reclassified as a financial liability or an equity instrument after initial recognition.
IFRS 7	Amendments to improve the information disclosed about financial liabilities and equity instruments – including information about the nature and priority of claims against an entity arising from financial liabilities and equity instruments, the terms and conditions of financial instruments with both debt and equity characteristics, potential dilution of ordinary shares, etc.
IAS 1	Requirements to present separately the amount of profit, total comprehensive income and equity balances that are attributable to ordinary shareholders, and those attributable to other holders of equity instruments.

9. The ED and the IASB's 'snapshot summary' of the ED can be accessed through these links:

   (a) FICE ED

   (b) Snapshot summary of the FICE ED

Outreach summary

10. Our outreach activities in relation to the FICE ED included the following:

    (a) Raising awareness of the ED via the XRB's 'Accounting Alert' and LinkedIn;

    (b) Discussing the ED with the Accounting Technical Reference Group (TRG);

    (c) Attending a roundtable on the ED organised by the accounting professional bodies, which included attendees from accounting firms and banks;

    (d) Reaching out to banks, a regulator, a co-operative and start-ups.

11. We have not received any formal submissions on the ED. The individual stakeholders that we reached out to as per paragraph 10(d) above did not provide comments on the ED, except that one representative of a bank noted that the ED is not expected to cause significant issues in New Zealand.

12. Our discussion with the TRG and comments made by attendees at the professional bodies' roundtable discussion did not indicate significant concerns about the ED proposals in New Zealand. It was noted that in general, the ED is expected to reduce diversity in practice in terms of applying the classification requirements in IAS 32, that some of the clarifications were useful while others less so, and that the ED might lead to change in practice in some

areas. There was an area where several people noted that the proposals are not clear and could lead to confusion: the proposals relating to laws and regulations. Therefore, our comment letter includes specific comments on this topic only (ED Question 1).

13. Our discussion with the TRG is covered in more detail below.

Discussion with the TRG

14. In November 2023, before the FICE ED was published, we had a preliminary discussion with the TRG about the expected ED proposals. In March 2024, we sought the TRG's feedback on specific ED topics. We have selected those topics where we are aware of potential concerns regarding the clarity or usefulness of the proposals, and/or which we thought would be of most interest in New Zealand, based on international discussions and what we heard informally in New Zealand to date. The TRG's feedback is summarised below.

General comments

15. TRG Members noted that currently, there is diversity in practice with respect to the application of some of the requirements in IAS 32 *Financial Instruments: Presentation* – for example, in relation to put options over non-controlling interest. They noted that in general, the ED proposals – including the proposed clarification of the classification and measurement requirements for obligations to purchase the entity's own shares and for financial instruments with contingent settlement features, are expected to reduce diversity in practice.

16. We recommend conveying this general message on the cover page of the comment letter.

Classification: Effect of relevant laws and regulations [ED Question 1]

Summary of proposals

17. The proposed amendments to IAS 32 relating to laws and regulations are summarised below.

Effect of laws and regulations **[ED Question 1]*:***
Proposed new paragraph 15A specifies that when classifying a financial instrument as a financial liability or equity, an entity considers only contractual rights and obligations that are enforceable by laws or regulations and are *in addition to those created by relevant laws or regulations* – and does *not* consider rights or obligations created by relevant laws or regulations that *would arise regardless* of their inclusion in the contractual arrangement. There is an Application Guidance paragraph specifying that when a right/obligation *is not created solely* by laws or regulations, the right/obligation is considered "in its entirety". The following example is provided: "if the relevant laws require the issuer to pay a minimum dividend on an instrument, but the instrument's contractual terms specify a higher minimum dividend […], the issuer classifies the instrument (or its component parts) based on the entire contractual minimum dividend requirement. The entire contractual obligation to pay dividends would […] be classified as a financial liability or liability component". ED reference: Paragraphs 15A and AG24A–AG24B of IAS 32 **|** IASB Snapshot: Page 4

Reasons for selecting the topic and staff considerations

18. We had some concerns about the ED proposals relating to laws and regulations – which we have shared with the TRG to check for their views.

[1] The proposals are unclear and could be read as contradicting each other
We are aware of concerns that the proposed ED paragraphs on laws and regulations could lead to confusion as to whether rights/obligations created by laws/regulations should be completely disregarded. We note the following in this regard: • Proposed paragraph 15A(b) says that an entity "shall not consider any right or obligation created by relevant laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement". This could be read as if rights/obligations that are specified in the contract but arise from laws/regulations should *never* be considered when classifying a financial instrument as a liability or equity. • However, paragraph AG24B implies that when a contractual right/obligation arises partially, but not solely, from applicable laws or regulations, the right/obligation is to be considered in its entirety – which implies that rights/obligations created by laws or regulations are not to be completely ignored. • The above two paragraphs could arguably be seen as contradicting each other – which could lead to confusion.
[2] What if the law imposes a requirement but does not specify a single way of satisfying this requirement, but the contractual arrangement does?
• There could be situations where a law imposes a requirement relating to a financial instrument, but *provides several options* as to how the requirement could be satisfied, or *does not specify* how the requirement may be satisfied. If the entity's contractual arrangement refers to that legal requirement *and specifies how it is to be satisfied*, should the right/obligation be taken into account for the purpose of classifying the financial instrument, or should it be ignored? This is currently not clear from the ED. • The UKEB refers to the following example: In the UK, banks are required to maintain a certain level of regulatory capital, which can include 'Additional Tier 1' (AT1) instruments issued by the bank, as defined in regulations. The UKEB draft letter says: "in order to qualify as regulatory capital, an AT1 instrument must have a loss absorption feature. However, this could take the form of a conversion feature or a write down feature, neither of which are specified in law, but which would be specified in the contract. Is it the IASB's intention that this scenario is taken into account in classification?"
[3] It is not clear how much weight to place on considering rights/obligations that are in addition to those created by laws/regulations when classifying financial instruments
• When the contractual terms of a financial instrument include rights and obligations that arise from laws/regulations, as well as rights and obligations that add to legal/regulatory requirements, it is currently not clear how much weight should be placed on each type of right or obligation when determining the classification of the financial instrument. • For example, paragraph AG24B acknowledges that some contractual rights/obligations would arise partially from laws/regulations, and partially from the specific contractual terms that are not in laws/regulations – for example, when the law specifies a minimum dividend payment for a certain type of instrument, but the issuing entity specifies a higher minimum dividend payment for the instrument it issues. However, for such situations, it is not clear what 'part' of the right/obligation – the legal/regulatory part of the extra 'contractual' part that builds on the legal/regulatory requirement – would prevail in determining whether the right/obligation should be considered in classifying the financial instrument. In the example in paragraph AG24B, the 'contractual' aspect of the obligation

to pay a specific dividend amount (which is higher than the legal minimum) prevails, and the entire obligation to pay a dividend is classified as a financial liability. However, it is not clear whether this would always be the case.

- We have heard that a potential solution could be to introduce a hierarchy for considering different types of rights/obligations when classifying a financial instrument – similarly to the hierarchy in IAS 21 for determining the functional currency.

Summary of TRG discussion

19. TRG Members generally agreed with staff's concerns about the lack of clarity in the wording of ED proposals relating to laws and regulations – which could lead to confusion.

20. They also noted that In New Zealand, there is a well-established and consistent practice around how to consider the effect of laws and regulations on the classification of financial instruments. There was a concern that the ED proposals could change this current practice that is working well – and that the abovementioned lack of clarity in the wording of the proposed amendments could introduce confusion into an area that is currently well-understood.

21. A TRG Member recommended making the intention of the proposed new paragraphs clearer, by emphasising that contractual terms that mirror laws and regulations does not *by themselves* alter the classification of financial instruments.

Implications for our comment letter

22. We have commented on Question 1 of the ED in our draft comment letter, by:

    (a) Noting our concerns about lack of clarity, as mentioned above; and

    (b) Recommending to improve clarity by moving new paragraph AG24B to be part of new paragraph 15A, being clear that the intention of the new paragraphs is that rights created by laws or regulations do not in and of themselves determine the classification of a financial instrument, and clarifying how an entity considers different types of rights/obligations (including ones that arise partially from laws/regulations and partially from contractual negotiations) in classifying financial instruments – for example, by providing a hierarchy of factors to take into account for such considerations.

23. We considered recommending not to proceed at all with the proposed amendments relating to laws and regulations, to avoid disturbing current practice in New Zealand, which we understand is working well. However, given that the IASB specifically received requests from its stakeholders to clarify the how laws and regulations are considered when classifying issued financial instruments, and considering that in other jurisdictions, current practice may not be working well, we decided instead to recommend modifications to clarify the proposed amendments.

Classification: Obligation to purchase the entity's own equity instruments* [ED Question 3]*:

24. The proposals on this topic are summarised in the box below.

Obligation to purchase the entity's own equity instruments* [ED Question 3]*:
For some instruments, the contract includes an obligation for the entity to purchase its own shares – e.g. a put option allowing the holder to request the entity to purchase its shares from non-controlling shareholders. IAS 32 currently requires a financial liability to be recognised for the present value of the redemption amount (with limited exemptions). The ED proposes to further clarify the accounting for such instruments – for example, by specifying the following (among other proposals): • When recognising the financial liability, if the entity *does not yet have access to the rights and returns* associated with ownership of the shares to which the obligation relates, the liability amount is *removed from a component of equity other than non-controlling interests or issued shares*. • When measuring the financial liability at initial recognition and subsequently, an entity *disregards the probability and estimated timing* of the counterparty exercising its redemption right, and discounts the redemption amount to its present value *assuming that redemption will occur at the earliest possible date*. ED reference: Paragraphs 23 and AG27B–AG27D of IAS 32 **|** IASB Snapshot: Pages 7-8

Reasons for selecting the topic and staff considerations

25. We wanted to check if the TRG had concerns about the proposal to specify in IAS 32 that an entity should disregard the probability and expected timing of redemption when measuring the obligation to purchase the entity's own shares. We were aware of some mixed informal feedback in relation to this proposal.

26. We also noted that some concerns about this proposal were being raised internationally. For example, in its draft comment letter, the UKEB notes that in some cases, this proposal would result in the financial liability being measured based on a very unlikely redemption amount, and which was below the most likely redemption amount – which would not be useful information. They note that discounting the financial liability based on the expected settlement date would provide more relevant information, and be more consistent with the existing IFRS 9 measurement principles for instruments for which there is uncertainty about the timing or amount of cash flows.

27. We also noted that the ED proposals on obligations to purchase the entity's own equity instruments cover put options over non-controlling interests (NCI puts). During the preliminary discussion with the TRG in November 2023, it was mentioned that the ED proposals could affect the treatment NCI puts. Therefore, we wanted to check if TRG Members have any specific concerns about the accounting outcomes that the ED proposals will have for NCI puts.

Summary of TRG discussion

28. TRG Members had no significant concerns or strong views about the ED proposals on this topic.

29. One Member specifically noted his agreement with the IASB's proposal relating to disregarding the probability and estimated timing of redemption when measuring an obligation to purchase the entity's own shares. He noted the following.

    (a) The proposal is consistent with current practice in New Zealand.

    (b) In relation to the concern raised in the UKEB's draft letter, i.e. that the proposal could lead to financial instruments being measured at an amount that is lower than the most probable outcome: the same argument applies if entities are allowed to estimate the probability and timing of redemption, i.e. this could also lead to misrepresenting the potential liability.

30. Furthermore, staff also note that the ED proposal about assuming that redemption would be required at the earliest possible time seems consistent with the requirement in IFRS 13 *Fair Value Measurement*, which notes that for financial liability with a 'demand feature' (i.e. which may be required to be repaid on demand), fair value is "not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid".

31. A TRG Member noted that for NCI puts, the proposals would decrease diversity in practice – and that some entities would have to change their accounting for NCI puts as a result (but the Member did not express concern about this).

Implications for our comment letter

32. Given that we did not hear significant concerns or strong views from the TRG or other New Zealand stakeholders about the ED proposals on this topic, we recommend not to comment on ED Question 3.

Classification: Contingent settlement provisions [ED Question 4]

Summary of proposals

33. The proposals on this topic are summarised in the box below.

***Contingent settlement provisions* [ED Question 4]**
Some financial instruments have 'contingent settlement provisions', i.e. terms that may require the issuing entity to pay cash to the holder or settle the instrument on the occurrence of an uncertain future event that is beyond the issuer's and holder's control. IAS 32 currently requires financial liability classification for such instruments (unless the contingent settlement provision is not genuine, or unless settlement can be required only on liquidation). The ED proposes to further clarify the accounting for such instruments – for example, by specifying the following (among other proposals):

- Such instruments can be compound instruments (i.e. could have equity and liability components).
- When measuring the financial liability at initial recognition and subsequently, an entity *disregards the probability and estimated timing of the contingent event occurring*, and discounts the settlement amount to its present value *assuming that the settlement will occur at the earliest possible date*.
- For compound instruments, an entity recognises payments made at its *own discretion* in *equity*, even if the equity component has an initial carrying amount of zero.

ED reference: Paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32 **|**
IASB Snapshot: Pages 9–10.

Reasons for selecting the topic and staff considerations

34. Similarly to ED Question 3: We wanted to check if the TRG had concerns about the proposal to specify in IAS 32 that an entity should disregard the probability and expected timing of settlement when measuring a liability with contingent settlement provisions – as we were aware of mixed views on in this area, and some concerns being expressed internationally (e.g. by the UKEB – see Question 3).

35. Also, we understand that in Australia, some concerns were raised regarding the ED proposal that for a compound instrument, an entity should recognise payments made at its own discretion in *equity*, even if the equity component has an initial carrying amount of zero. We understand that this concern relates mainly to the banking industry. Banks issue perpetual capital notes, which must be exchanged for a variable number of the bank's share if a 'trigger event' outside of the bank's control – and interest payments on these notes are at the bank's discretion. These capital notes are compound instruments – and under the ED proposals, banks would have to recognise interest payments as dividends in equity. There was a concern that this could disrupt hedge accounting for such instruments for banks. We wanted to check whether this proposal is also causing concerns in New Zealand.

Summary of TRG discussion

36. TRG Members did not provide specific feedback on the ED proposals on this topic. The TRG's comments on the measurement-related proposals in ED Question 3 above are also relevant to this ED topic.

Implications for our comment letter

37. Given that we did not hear concerns or strong views from the TRG or other New Zealand stakeholders about the ED proposals on this topic, we recommend not to comment on ED Question 4.

Presentation [ED Question 8]

Summary of proposals

38. The proposals relating to this topic are summarised in the box below.

Presentation **[ED Question 8]*:***
Proposed new presentation requirements in IAS 1 – including the following: • Presentation in the statement of financial position of issued share capital and reserves attributable to ordinary shareholders of the parent company separately from other owners of the parent company. • The allocation of profit or loss and other comprehensive income between ordinary shareholders of the parent and other owners of the parent in the statement of comprehensive income. ED reference: Paragraphs 54, 81B and 107–108 of IAS 1 **|** IASB Snapshot: Page 22

Reasons for selecting the topic and staff considerations

39. When the IASB was consulting on its 2018 Discussion Paper (DP) on FICE, the NZASB's comment letter included a concern about the DP proposals on attributing profit and comprehensive income between ordinary shares and other equity instruments.

    (a) We had reservations about the usefulness of the information that would result from attributing current period profit to some equity instruments "that might have no entitlement to net income" (given that holders of certain equity instruments are not yet, and may never become, shareholders of the entity – such as holders of convertible bonds with an equity component, etc.).

    (b) We also noted the challenges in determining how to allocate profit and other amounts to derivative equity instruments, which could result in an arbitrary allocation.

    (c) For those reasons, we were concerned about the cost/benefit aspects of the attribution-related proposals in the 2018 DP.

40. While we have not heard specific concerns on the presentation proposals in the FICE ED as issued in November 2023, we thought that the abovementioned concerns that we raised on the 2018 DP could still be relevant to the ED proposals on presentation.

41. We acknowledge that unlike the DP, the ED does not propose allocating profit and OCI to each specific type of equity instrument. However, under the ED proposals, entities would still need to decide how to allocate profit and OCI between ordinary shareholders and the total of all other (non-NCI) components of equity. While the Illustrative Examples accompanying the ED show an illustrative statement of comprehensive income prepared under the ED proposals, there does not seem to be an explanation of how the amounts of profit and OCI allocated to the ordinary shareholders of the parent vs other owners of the parent were calculated.

42. Therefore, we considered reiterating our concerns that we raised on the FICE DP in our comment letter on the FICE ED – and recommending that, to the extent that an allocation of profit and OCI between ordinary shareholders and other equity providers is considered useful, the IASB should provide guidance on how to perform this allocation.

Summary of TRG discussion

43. TRG Members did not raise concerns and did not express strong views about the ED proposals on presentation (although that one Member noted that it may have been better to expand on the existing requirements in IAS 33, rather than introducing these new requirements).

Implications for our comment letter

44. We acknowledge that re-raising the presentation-related concerns that we raised in relation to the 2018 FICE DP was one of the main reasons for recommending to comment on the 2023 FICE ED. However, we also acknowledge that the proposals in the 2023 FICE ED are not exactly the same as in the 2018 DP – and we did not hear significant concerns or strong views from the TRG or other New Zealand stakeholders about the ED proposals on this topic.

45. Therefore, we recommend not to comment on ED Question 8.

Disclosure [Questions 7 and 10]

Summary of proposals

46. The proposals relating to this topic are summarised in the box below.

Disclosures* [ED Question 7 and 10]*:

The ED propose new disclosure requirements in IFRS 7 about financial liabilities and equity instruments, including requirements to disclose information set out in the list below. Areas of disclosure that are proposed to be included in the IASB's forthcoming Standard *Subsidiaries without Public Accountability* are highlighted in blue.
• Nature and priority of claims against the entity on liquidation arising from financial liabilities/equity instruments – including:
  ○ The carrying amount of each type of claim.
  ○ Classes of claims based on priority on liquidation – distinguishing between secured/unsecured claims, and subordinated/unsubordinated claims.
• Compound instruments with both a liability component and an equity component – including:
  ○ Terms and conditions that resulted in classification as a compound instrument.
  ○ Amounts initially allocated to the financial liability and equity component.
• Financial instruments with both financial liability and equity characteristics – including:
  ○ The terms and conditions that determined the instrument's classification.
  ○ Information about the debt-like and equity-like characteristics of the instrument.
  ○ Terms and conditions that are affected by the passage of time.
  ○ Terms and conditions that depict the instrument's priority on liquidation.
• The potential dilution of ordinary shares resulting from financial instruments – including:
  ○ The maximum number of additional ordinary shares a company might be required to deliver for each class of potential ordinary shares outstanding at the end of the reporting period.
  ○ Description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the company is required to repurchase.

- Description of the terms and conditions that are relevant to understanding the likelihood of the maximum dilution of ordinary shares for each class of potential ordinary shares.

- Financial instruments that include an obligation for the entity to purchase its own shares/equity instruments – including:
  - The amount removed from equity and included in financial liabilities on initial recognition, and what component of equity it was removed from.
  - Gains/losses on remeasurement and on settlement.
  - Amount removed from financial liabilities and included in equity if the obligation has expired unexercised during the reporting period.
- Other disclosures – information on:
  - Terms and conditions that become, or stop being, effective with the passage of time and do not cause the reclassification of the instrument.
  - Reclassification of financial instruments as financial liabilities/equity.
  - Financial liabilities that include contractual obligations to pay amounts based on a company's performance or changes in the company's net assets
  - Significant judgements made in classifying the financial instrument, or its component parts, as a financial liability or as an equity instrument are disclosed.

Amendments to IFRS 7: ED reference: Paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7 | IASB Snapshot: Pages 13-21

Amendments to the forthcoming Subsidiaries without Public Accountability: ED reference: Paragraphs 54, 61A–61E and 124 of 'IFRS XX' | IASB Snapshot: Page 24

Reasons for selecting the topic and staff considerations

47. We note that the disclosure requirements that are proposed to be added to IFRS 7 appear extensive. However, given that financial instruments with characteristics of debt and equity tend to be bespoke, rather than standardised, and differ from one entity to another, it could be argued that providing specific information about such instruments (when they are material) would be useful for investors – as they may not be able to infer this information from their experience with other types of financial instruments, etc. On balance, we were supportive of the disclosure requirements – but we wanted to check for TRG Members' feedback.

48. In relation to the proposed disclosures to be added into the forthcoming IASB Standard *Subsidiaries without Public Accountability*:

    (a) We note that these proposals may be relevant to New Zealand, given that the forthcoming Standard on *Subsidiaries without Public Accountability* may be used in developing Tier 2 disclosure requirements for for-profit entities in New Zealand. Therefore, we wanted to check if the TRG had any feedback on the ED proposals in this area.

    (b) We have considered how the proposed FICE disclosures to be added into *Subsidiaries without Public Accountability* compare with existing Tier 2 disclosure requirements. However, for most of the proposed disclosures, it was challenging to find analogous existing disclosure requirements, making this comparison challenging.

Summary of TRG discussion

49. TRG Members did not have any feedback on the proposed disclosure requirements.

Implications for our comment letter

50. Given that we did not hear concerns or strong views from the TRG or other New Zealand stakeholders about the proposed disclosures in the ED, we recommend not to comment on ED Questions 7 and 10. However, we recommend noting generally on the cover page that while the disclosures appear extensive, we are supportive of them, for the reasons noted above.

Other ED topics

51. TRG Members did not raise any concerns in relation to any of the other ED proposals, and we are not aware of significant concerns or strong views about these topics among New Zealand stakeholders. We recommend not to comment on any of the other ED topics.

Draft comment letter and next steps

52. The draft comment letter is attached as Agenda Item 4.2. Based on the outcomes of our outreach, we propose to specifically respond to Question 1 only, and to provide some general comments on the letter's cover page, as explained in the previous section.

53. Given that the comment letter is due to the IASB by 29 March 2024 (the day after the NZASB meeting, which is a public holiday), Board Members are kindly asked to provide their comments on the draft comment letter to staff (Gali Slyuzberg) by the end of **Wednesday, 20 March 2024**.

54. We will update the comment letter for Board Members' feedback before the NZASB meeting on 28 March 2024, and will ask the Board to approve the updated letter at the meeting.

Questions for the Board

Q1. Does the Board have any feedback on the draft comment letter, attached as Agenda Item 4.2?

(Please send your feedback to staff by the end of Wednesday, 20 March – we will update the comment letter for your feedback and will check for further feedback at the meeting.)

Q2. Does the Board approve the comment letter?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
IFRS Foundation
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

28 March 2024

Submitted to: www.ifrs.org

Dear Andreas

IASB/ED/2023/5 Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1) ('the ED')

Thank you for the opportunity to comment on the ED.

We are broadly supportive of the ED proposals and note the following in this regard:

- The ED proposals, including the proposed clarification of the classification and measurement requirements for obligations to purchase the entity's own shares and for financial instruments with contingent settlement features, are expected to reduce diversity in practice, assist preparers of financial statements to apply the requirements of IAS 32 consistently, and improve comparability in financial statements.
- While the proposed disclosure requirements in the ED appear extensive, we note that financial instruments with characteristics of both debt and equity tend to be bespoke, rather than standardised, and differ from one entity to another – therefore, requiring disclosure of specific information about such instruments (when they are material) would arguably be useful for investors, as they may not be able to infer this information from their experience with other types of financial instruments, etc.

However, we recommend improving the clarity of the proposed requirements relating to the effect of laws and regulations. Please refer to the Appendix to this letter for more information.

If you have any queries or require clarification of any matters in this letter, please contact Gali Slyuzberg (gali.slyuzberg@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

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Appendix

Question 1 – The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

(a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and

(b) a contractual right or obligation that is not solely created by laws or regulations, but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response to Question 1

1. The wording of the ED paragraphs relating to the effects of laws and regulations on classification could lead to some confusion and application challenges.

2. In reading paragraphs 15A(b) and AG24B, there seems to be an ambiguity as to whether rights/obligations arising from laws or regulations are to be disregarded when classifying issued financial instruments. That is:

    (a) Proposed paragraph 15A(b) says that an entity "shall not consider any right or obligation created by relevant laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement". This could be read as if rights/obligations that are specified in the contract but arise from laws/regulations should never be considered when classifying a financial instrument as a liability or equity.

    (b) However, paragraph AG24B implies that when a contractual right/obligation arises partially, but not solely, from applicable laws or regulations, the right/obligation is to be considered in its entirety – which implies that rights/obligations created by laws or regulations are not to be completely ignored.

3. Also, there could be situations where a law imposes a requirement relating to a financial instrument, but provides several options as to how the requirement could be satisfied, or does not specify how the requirement may be satisfied. If the entity's contractual arrangement refers to that legal requirement and specifies how it is to be satisfied, it is not currently clear whether the right/obligation should be taken into account for the purpose of classifying the financial instrument, or whether it should it be disregarded.

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4. Furthermore, when the contractual terms of a financial instrument include rights and obligations that arise from laws/regulations, as well as rights and obligations that add to legal/regulatory requirements, it is currently not clear how much weight should be placed on each type of right or obligation when determining the classification of the financial instrument.

   (a) For example, paragraph AG24B acknowledges that some contractual rights/obligations would arise partially from laws/regulations, and partially from the specific contractual terms that are not in laws/regulations – e.g. when the law specifies a minimum dividend payment for a certain type of instrument, but the issuing entity specifies a higher minimum dividend payment for the instrument it issues.

   (b) However, for such situations, it is not clear what aspect of the right/obligation – the legal/regulatory element, or the additional contractual element that builds on the legal/regulatory requirement – would prevail in determining whether the right/obligation should be considered in classifying the financial instrument.

   (c) In the example in paragraph AG24B, the 'contractual' aspect of the obligation to pay a specific dividend amount (which is higher than the legal minimum) prevails, and the entire obligation to pay a dividend is classified as a financial liability. However, it is not clear whether this would always be the case.

5. If the intent of the proposed amendments is that contractual terms that mirror legal requirements *should not, in and of themselves, determine the classification* of the financial instrument, this does not seem to be clear from the proposed paragraphs 15A and AG24A-AG24B.

6. To address the matters above, we recommend that the IASB considers the following:

   (a) Consider moving paragraph AG24B into the core text of IAS 32, so that it is either part of or next to paragraph 15A. This should help clarify that despite the wording of paragraph 15A(b), rights and obligations that arise partially from laws/regulations may still need to be taken into account when classifying financial instruments.

   (b) Consider clarifying in IAS 32 that contractual terms giving rise to rights/obligations that mirror legal requirements do not on their own determine the classification of financial instruments – and clarifying how an entity considers different types of rights/obligations when classifying a financial instrument, e.g. by providing a hierarchy for such considerations, similarly to the hierarchy in IAS 21 for determining the functional currency.

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EXTERNAL REPORTING BOARD — Te Kāwai Ārahi Pūrongo Mōwaho

Agenda Item 5.1

Memorandum

Date:	12 March 2024
To:	NZASB Members
From:	Alex Stainer
Subject:	**Defer mandatory date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28)**

COVER SHEET

Project priority and complexity

Project priority	**Medium** **The mandatory date for the amending standard Amendments to NZ IFRS 10 and NZ IAS 28 is currently 1 January 2025. As this date is fast approaching and the IASB continue to have indefinitely deferred the amending standard, we propose deferring the mandatory date of the NZ equivalent again.**
Complexity of Board decision-making at this meeting	**Low** **The IASB expects to address the Amendment within the Equity Method project (ED H2 2024). This project is not expected to be completed prior to the current mandatory date. Therefore, we recommend deferring the mandatory date in recognition of the current status of this project.**

Overview of agenda item

Project Status	**NZASB had deferred the NZ equivalent of this Amendment in 2019 awaiting IASB outcomes to the Equity Method project.**
Project purpose	**The purpose of the project is to defer the mandatory date of the Amendment while awaiting IASB resolution on the Equity Method project.**
Board action required at this meeting	**AGREE to defer the mandatory date of Amendments to NZ IFRS 10 and NZ IAS 28 from 1 January 2025 to 1 January 2028.** **AGREE to a 14-day consultation via the website for the deferral of the mandatory date to 1 January 2028.**

Purpose and introduction[1]

1. The purpose of this paper is to outline Staff's recommendation for deferring the mandatory date of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28).
2. The mandatory date of these amendments has already been deferred twice[2]. Staff propose to extend the current mandatory date for a further three years.

Recommendations

3. The Board is asked to:

   (a) AGREE to defer the mandatory date of the *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2028;

   (b) AGREE to the proposed amendments to *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) and to consult on these amendments via the website with a 14-day comment period.

Background

4. In September 2014, the IASB issued S*ale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) with an effective date of annual periods beginning on or after 1 January 2016. The NZASB issued the equivalent amendments to NZ IFRS 10 and IAS 28 in October 2014, also with a mandatory date of annual periods beginning on or after 1 January 2016.

5. In August 2015, the IASB deferred the effective date of those amendments – but did not specify the new effective date. The IASB deferred the amendments "to a date to be determined by the IASB". The effective date was deferred to enable the IASB to consider more fully the equity method of accounting.

6. In New Zealand, standards are required to have a mandatory date. Therefore, in February 2016 the NZASB approved Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28, which deferred the mandatory date of the amendments to NZ IFRS 10 and NZ IAS 28 to annual periods beginning on or after 1 January 2020.

7. In 2019, as the IASB was still some time away from determining an effective date for these amendments, the NZASB decided to further defer the mandatory date of the equivalent amendments in NZ IFRS to annual periods beginning on or after 1 January 2025.

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[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).

[2] The IASB has deferred the effective date of the equivalent amendments to IFRS 10 and IAS 28 to "a date to be decided by the IASB". In New Zealand, we are required to have an effective date for application of standards issued by the XRB. As the IASB is still some time away from determining an effective date for these amendments, the NZASB has decided to defer the effective date of the equivalent amendments to NZ IFRS to avoid entities have to apply the amendments before the IASB has a specified effective date.

Structure of this memo

8. The remaining sections in this memo are:

   (a) IASB Equity Method Project

   (b) Our Approach

IASB Equity Method project

9. We asked the IASB for an update on the Equity Method project to gain a better understanding on whether the Amendment will become effective and when. In response to our queries[3] IASB staff have noted the following:

   (a) The conflict between IFRS 10 and IAS 28 (the subject matter of the 2014 Amendment that was indefinitely deferred) is one of the application questions within the scope of the Equity Method project.

   (b) At the IASB March 2023 meeting, the IASB completed its discussion on this application question[4]; and rejected the proposed treatment in the Amendment and tentatively decided to propose that an investor would recognise the full gain or loss on **all transactions** [5] with its associate.

   (c) The Exposure Draft will propose the removal of the indefinitely deferred Amendments to IFRS 10 and IAS 28.

Our approach

10. Given the likelihood that the Amendment will eventually be removed, we have considered whether we could withdraw the Amendment now. However, as the ED has not been released and will be subject to a comment period and finalisation, we do not think we have sufficient certainty at this point to do so. It is also worth noting that the Amendment is available for voluntary application within the IASB suite, and for consistency, we think it is important that we also keep the Amendment available for application until the IASB withdraw it.

11. While we wait for the conclusion of the project, a deferral of the Amendment's mandatory date of 1 January 2025 will be required. We consider it important to defer now so that our stakeholders do not prepare to apply this Amendment from 1 January 2025. After correspondence with the IASB we do not consider there is any benefit in waiting for the release of the ED which may inform of the IASB's proposed effective date. As noted before, it is likely the subject matter of the Amendment will be replaced and therefore there is no benefit in aligning the mandatory date of the Amendment to the expected effective date of the future IASB amending standard. With the expectation that we will likely withdraw this Amendment in the future, we have decided to propose deferring the mandatory date for a

[3] Email correspondence with Mostafa Mouit, IASB Staff lead on the Equity Method project in February 2024.

[4] See paragraphs 13 and 18(b) AP13B: Perceived conflict between IFRS 10 and IAS 28, the summary of the IASB decision in the following link under 'Equity Method' heading IASB Update March 2023 and the paper Summary of IASB's tentative decisions for additional context.

[5] As opposed to just transactions that constituted the sale of a business. This was the distinction the 2014 Amendments provided; prescribing partial recognition of gains and losses when the transaction involved a sale or contribution of assets instead.

further three years on the basis this would signal a conclusion to this application issue is in the nearer term rather than unknown.

Questions for the Board

Q1. Do the Board agree to defer the mandatory date of ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** **Amendments to NZ IFRS 10 and NZ IAS 28** to annual periods beginning on or after 1 January 2028?

Q2. Do the Board agree to the amendments to the original amending standard outlined in Appendix A?

Q3. Do the Board agree to consult on the change to the mandatory date for a 14-day period via the website?

Next steps

12. If the Board agrees we will seek approval of an amending standard (that amends the already issued amending standard) at the next Board meeting.

Appendix A

Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024) -

Amendments to the amending standard *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28)

Part B

Scope

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

Amendments to NZ IFRS 10 *Consolidated Financial Statements*

The amendments made by *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024) are* shown with new text underlined and deleted text struck through. Text with double strikethrough indicates that the last amendment also deleted this text but did not remove it when compiled – we have left this for reference as we will continue this treatment. In Appendix C, paragraph C1C is amended, and paragraph NZ C1D.3 is added.

Effective date

…

C1C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28), issued in October 2014, amended paragraphs 25–26 and added paragraph B99A. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after ~~1 January 2016~~ ~~1 January 2020~~[1] ~~1 January 2025~~ 1 January 2028. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

[1] Amended by *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28.*

…

NZ C1D.2 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, amended paragraph C1C. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

NZ C1D.3 *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024),* issued in XXXX XXXX, amended paragraph C1C. An entity shall apply that amendment for annual periods beginning on or after 1 January 2025. 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 XX XXXX XXXX and takes effect on XX XXX XXXX.

Appendix

This appendix creates a NZASB Basis for Conclusions on NZ IFRS 10.

In NZ IFRS 10, the Basis for Conclusions is added by *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28,* amended by *2019 Omnibus Amendment to NZ IFRS, and now amended by Mandatory Date Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*. The amendments made by *Mandatory Date Amendments to NZ IFRS 10 and NZ IAS 28 (2024) are* shown with new text underlined.

NZASB Basis for Conclusions on NZ IFRS 10

This Basis for Conclusions accompanies, but is not part of, NZ IFRS 10.

BC1 The New Zealand Accounting Standards Board (NZASB) issued *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* based on *Effective Date of Amendments to IFRS 10 and IAS 28* as issued by the IASB in December 2015. The IASB's amending standard deferred indefinitely the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) issued in October 2014. The IASB deferred the effective date of these amendments pending the completion of its equity accounting project.

BC2 The Financial Reporting Act 2013 requires all accounting standards issued in New Zealand to have an effective date. The NZASB has therefore determined that the *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* should be effective for annual periods beginning on or after 1 January 2020. The NZASB considered that this date would satisfy New Zealand's legislative requirements and provided an appropriate period for the IASB to complete its equity accounting project. If the IASB continues to defer the effective date of *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) beyond annual periods beginning on or after 1 January 2020, the NZASB will reassess the effective date of these amendments in New Zealand.

BC3 In all other respects *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28* is consistent with *Effective Date of Amendments to IFRS 10 and IAS 28.*

BC4 *2019 Omnibus Amendments to NZ IFRS* subsequently deferred the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.

BC5 *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)* subsequently deferred the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2028.

Amendments to NZ IAS 28 *Investments in Associates and Joint Ventures*

The amendments made by *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)* is shown with new text underlined and deleted text struck through. Paragraph 45C is amended and paragraph NZ 45K.2 is added. Text with double strikethrough indicates that the last amendment also deleted this text but did not remove it when compiled – we have left this for reference as we will continue this treatment.

Effective date and transition

...

45C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to NZ IFRS 10 and NZ IAS 28), issued in October 2014, amended paragraphs 28 and 30 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after ~~1 January 2016 1 January 2020~~[1] ~~1 January 2025~~1 January 2028. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

[1] Amended by *Effective Date of Amendments to NZ IFRS 10 and NZ IAS 28.*

...

NZ 45K.1 *2019 Omnibus Amendments to NZ IFRS*, issued in September 2019, amended paragraph 45C. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

NZ 45K.2 *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*, issued in XXXX XXXX, amended paragraph 45C. An entity shall apply that amendment for annual periods beginning on or after 1 January 2025. 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 XX XXX XXXX and takes effect on XX XXX XXXX.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Agenda Item 6.1

Memorandum

Date:	12 March 2024
To:	NZASB Members
From:	Carly Berry
Subject:	**IFRS 19 *Subsidiaries without Public Accountability: Disclosures* – implications for Tier 2 for-profit reporting requirements**

COVER SHEET

Project priority and complexity

Project priority	**High** The IASB is expected to publish IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in May this year. This is an optional IFRS Accounting Standard and therefore the Board will need to decide how / whether to incorporate IFRS 19 into the Tier 2 for-profit reporting requirements.
Complexity of Board decision-making at this meeting	**High** We are asking the Board to AGREE with our preferred approach to IFRS 19, which is based on the analysis in this memo.

Overview of agenda item

Project status	Decision on the approach to IFRS 19.
Project purpose	In light of the forthcoming publication of IFRS 19, consider the implications for Tier 2 for-profit disclosure requirements.
Board action required at this meeting	• AGREE with our recommended approach to IFRS 19. • Provide FEEDBACK on the proposed next steps.

Introduction and purpose[1]

1. The IASB expects to issue IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in May this year. IFRS 19 specifies the disclosure requirements that an eligible subsidiary is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards. The effective date of IFRS 19 will be 1 January 2027 (with earlier application permitted).

2. IFRS 19 is an optional IFRS Accounting Standard. In light of its imminent publication, the purpose of this agenda item is to analyse the possible approaches to IFRS 19 for Tier 2 for-profit reporting and make a recommendation to the Board on the preferred approach.

3. This agenda item will also provide the Board with an update on:
   (a) international developments relevant to this project; and
   (b) initial outreach we have conducted, since the Board last discussed this project in April 2023, on the Tier 2 for-profit population, user needs and the costs and benefits of each approach analysed in this paper.

4. The scope of this agenda item encompasses Tier 2 for-profit reporting only. Agenda item 6.2 considers the implications of IFRS 19 for Tier 2 PBE reporting, through application of the PBE Policy Approach.

Recommendations

5. We recommend that the Board:
   (a) AGREES with our recommended approach to IFRS 19, that is: ***Replace the current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19 (with an expanded scope)***
   (b) Provides FEEDBACK on the proposed next steps in this project.

Structure of this memo

6. The remaining sections in this memo are:
   (a) Background
   (b) Section 1: International update
   (c) Section 2: Analysis of possible approaches to IFRS 19 in New Zealand
   (d) Section 3: Next steps
   (e) Appendix 1: IFRS 19 – key facts
   (f) Appendix 2: Initial outreach

[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).

Background

7. At the April 2023 Board meeting, the Board recommenced discussions on the future of NZ IFRS RDR, given the current lack of trans-Tasman harmonisation and the future publication of IFRS 19. To provide the Board with an understanding of how NZ IFRS RDR currently compares to other (existing and proposed) frameworks internationally, we presented the Board with a comparison of NZ IFRS RDR to the IASB ED *Subsidiaries without Public Accountability: Disclosures*, IASB ED *Third edition of the IFRS for SMEs Accounting Standard* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. We found that:

   (a) there are many areas where NZ IFRS RDR and one (or more) of the international frameworks contain substantively the same disclosure requirements;

   (b) for some standards, one (or more) of the international frameworks contain more disclosure than NZ IFRS RDR (and vice versa for other standards); and

   (c) overall, NZ IFRS RDR requires more disclosure than the international frameworks.

8. We recommended the following proposed approach for the remainder of 2023.

   (a) Continue to monitor international developments relevant to this project.

   (b) Undertake additional research into the population of Tier 2 for-profit entities in New Zealand.

   (c) Perform targeted outreach on a cross-section of Tier 2 for-profit entities, for the purposes of understanding their current views on NZ IFRS RDR and any appetite for change.

   (d) Present feedback from steps (b) and (c) to the Board for discussion at a future meeting.

9. The Board agreed with our recommendations but decided that the focus should first be on obtaining more information about the Tier 2 population and the needs of the users of these entities' financial statements before any decisions can be made about if and/or how Tier 2 for-profit reporting requirements should be amended to best suit these needs. Our work in this area is set out in Appendix 2 of this paper.

10. The imminent publication of IFRS 19 means that we have decided to present the Board with our initial outreach findings at the same time as our recommended approach to IFRS 19 for the purposes of issuing a consultation document for public comment.

Section 1 – International updates

11. This section of the paper sets out recent developments at the IASB and AASB relevant to this project.

IASB

12. Since our last update to the Board in April 2023, the following key developments have occurred.

Key decisions

13. Include additional disclosure requirements and exclude (or amend) certain disclosure requirements that were proposed in the ED. [Note: the comparison to which we referred in paragraph 7 above will be updated once IFRS 19 is published].

14. Until the IASB issues an amendment to IFRS 19, eligible subsidiaries will be required to comply with disclosure requirements in amendments to IFRS Accounting Standards that have been issued after the publication of the ED.

15. Eligible subsidiaries will be permitted to apply IFRS 19 on 1 January 2027 (with earlier application permitted).

16. The IASB noted that potential amendments to IFRS 19 arising from a new or amended IFRS Accounting Standard will be considered:

    (a) Individually based on the principles for reducing disclosures; and

    (b) As a group to ensure that the effect of making the amendments is proportionate and preserves the goal of maintaining the usefulness of financial statements of eligible subsidiaries with reduced disclosure requirements.

Catch-up Exposure Draft (ED)

17. In November 2023, the IASB considered a project plan for a "catch-up ED". This ED is necessary because, during IFRS 19's development, the IASB considered the disclosures in IFRS Accounting Standards that had been issued as at 28 February 2021. However, since that date, the IASB has issued new and amendments to disclosure requirements in IFRS Accounting Standards. Eligible subsidiaries will be required to comply with these disclosures until amendments to IFRS 19 are made.

18. The ED will contain the IASB's views on whether and how to reduce these post-28 February 2021 additions and amendments to disclosure requirements in IFRS 19. The IASB plans to publish the ED as soon as possible after issuing IFRS 19.

Australian Accounting Standards Board

19. As noted at the Board's April 2023 meeting, the AASB considered possible options for the adoption of the IASB ED *Subsidiaries without Public Accountability: Disclosure* in Australia at its March 2023 meeting. No decisions were made on which option would be best, but the AASB directed staff to obtain evidence and undertake targeted outreach to better understand current Tier 2 financial reporting in Australia, which will help inform future AASB decisions.

20. At its November 2023 meeting, the AASB ultimately decided to defer making a decision on the adoption of IFRS 19 in Australia. The AASB has decided that outreach regarding this matter should be conducted as part of the post-implementation review of AASB 1060, which is due to commence in Q4 2024. Since amendments may be made to AASB 1060 to reflect the IASB's changes to its IFRS for SMEs Accounting Standard, the AASB also decided to consider the outcomes of the current IASB review of that Standard before making a decision on the adoption of IFRS 19.

Section 2: Analysis of the possible approaches to IFRS 19 in New Zealand

21. The framework for Tier 2 for-profit reporting is NZ IFRS RDR. IFRS 19 is a disclosure-only standard and therefore any approach taken to the new standard would not affect Tier 2 for-profit recognition and measurement requirements – only the current Tier 2 for-profit reduced disclosure requirements (referred to as "Tier 2 for-profit RDR") would potentially be affected.

Possible approaches

22. Table 1 sets out four possible approaches to IFRS 19 that the Board could take. Our view of the benefits and costs of each approach are also set out in this table.

23. In summary:

    (a) Approach 1 – replace the current Tier 2 for-profit RDR with a New Zealand-equivalent to IFRS 19 (with scope expanded)

    (b) Approach 2 – permit those Tier 2 for-profit entities that are also eligible subsidiaries to use IFRS 19 as an alternative to Tier 2 for-profit RDR

    (c) Approach 3 – amend current Tier 2 for-profit RDR to align with IFRS 19 disclosure requirements

    (d) Approach 4 – do not incorporate IFRS 19 into the for-profit suite of standards (but use it as an input into the decision on future disclosure concessions)

24. Please also note the following.

    (a) As stated in Section 1, the AASB has deferred making a decision on the adoption of IFRS 19 in Australia due to the timing of other, related, projects. Therefore, we have not taken trans-Tasman harmonisation into account when considering the benefits and costs of each approach.

    (b) The benefits and costs in Table 1 focus on the preparer's perspective. Based on initial outreach, as well as the broadly similar bases for determining reduced disclosures under NZ IFRS RDR and IFRS 19[2], our view is that users would likely be agnostic on the approach the Board decides to take on IFRS 19. However, we will look to feedback from the consultation phase of this project to inform this view.

[2] i.e., information in the financial statements meets user needs and the benefits of providing the disclosures exceeds the costs.

Table 1

Approach	Benefits	Costs
1. Replace the current Tier 2 for-profit RDR with a New Zealand-equivalent to IFRS 19		

The scope of IFRS 19 is expanded to be applicable to <u>all</u> Tier 2 for-profit entities (not just eligible subsidiaries).	• Tier 2 for-profit entities that are also eligible subsidiaries would be able to state compliance with IFRS Accounting Standards.
	• The Board would be required to do less standard-setting, as we would become a "standard taker" with respect to Tier 2 for-profit disclosure requirements (i.e. IFRS 19 is an IFRS Accounting Standard and is therefore subject to the IASB's due process with respect to initial development, future amendments, etc). Less domestic time would therefore be required for maintenance, freeing up time for the Board (and staff) to focus on other projects.
	• The standard-setting process for Tier 2 for-profit disclosure requirements would occur faster if IFRS 19 were adopted. The IASB expects to consider disclosure concessions for eligible subsidiaries at the exposure draft phase of new and amended IFRS Accounting Standards. This is in contrast to the current process for developing disclosure concessions under NZ IFRS RDR, whereby potential disclosure concessions are only considered once a new or amended NZ IFRS is published. Therefore, Tier 2 for-profit entities would be able to "see the whole picture" at an earlier stage with respect to the recognition, measurement and disclosure requirements that will be applicable to them.
	• Depending on how many jurisdictions adopt IFRS 19, multinational companies would benefit as compliance costs would be lower – no / minimal adjustments for local requirements would be needed for each set of subsidiary financial statements.
		• The format and structure of IFRS 19 would be a significant change for Tier 2 for-profit entities.
		  o These entities are used to seeing the required disclosures alongside the recognition and measurement requirements in each Standard and therefore IFRS 19 would represent a significant change.
		  o IFRS 19 makes a firm distinction between what is a "presentation" requirement and what is a "disclosure" requirement. Presentation requirements are not included in IFRS 19 – entities are required to comply with all presentation requirements in IFRS Accounting Standards. In some instances, cross-references are made from IFRS 19 to other IFRS Accounting Standards when the option to present or disclose in the notes is given for certain information. This could be confusing for entities.
		  o The cross-referencing to other IFRS Accounting Standards could lead to entities inadvertently omitting required disclosures.
		There would be transition costs for preparers, such as time and effort to become familiar with IFRS 19 (as noted above) and understanding which disclosures still need to be complied with (and which disclosures are no longer required).

Approach	Benefits	Costs
2. Permit eligible Tier 2 for-profit entities to use IFRS 19 as an alternative to Tier 2 for-profit RDR		
The scope of IFRS 19 is retained. This option permits a choice between two sets of disclosure requirements to a subset of Tier 2 for-profit entities.	• Tier 2 for-profit entities that are also eligible subsidiaries would be able to state compliance with IFRS Accounting Standards. • The Board would maintain international alignment (and continue with its "standard taker" stance with respect to IFRS) by adopting IFRS 19 "as is" (i.e. with its scope unchanged). • Depending on how many jurisdictions adopt IFRS 19, multinational companies would benefit as compliance costs would be lower – no / minimal adjustments for local requirements would be needed for each set of subsidiary financial statements.	• The Board would have to maintain two sets of disclosure requirements for Tier 2 for-profit entities, which would lead to: o potential confusion among stakeholders o more time and effort for the NZASB and staff. • The New Zealand Accounting Standards Framework would require amendment to incorporate the choice between two sets of disclosure requirements within Tier 2 for-profit reporting. Such a fundamental amendment would likely occur before a first-principles review of the ASF (timing as yet unknown) which may not be ideal from the XRB Board's point of view.
3. Amend current Tier 2 for-profit RDR to align with IFRS 19 disclosure requirements		
Current Tier 2 for-profit RDR is updated to: • include those disclosures in IFRS 19 that are not currently required under NZ IFRS RDR • remove those disclosures in current Tier 2 for-profit RDR that are not required under IFRS 19 Going forward, Tier 2 for-profit RDR would be aligned with the IFRS 19 disclosures for new and amended NZ IFRS. The current structure and format of NZ IFRS RDR will remain the same (i.e. the use of asterisks in NZ IFRS).	• Tier 2 for-profit entities that are also eligible subsidiaries would be able to state compliance with IFRS Accounting Standards. • The existing format and structure of NZ IFRS RDR would be maintained, which is familiar to stakeholders. • The Board would be required to do less standard-setting, as we would become a "standard taker" with respect to Tier 2 for-profit disclosure requirements (i.e. IFRS 19 is an IFRS Accounting Standard and is therefore subject to the IASB's due process with respect to initial development, future amendments, etc). Less domestic time would therefore be required for maintenance, freeing up time for the NZASB (and staff) to focus on other projects. • Depending on how many jurisdictions adopt IFRS 19, multinational companies would benefit as compliance costs would be lower – no / minimal adjustments for	• There would be transition costs for preparers, such as disclosing more information for some transactions and fewer disclosures for other transactions (depending on the differences between IFRS 19 and current Tier 2 for-profit RDR).

Approach	Benefits	Costs
	local requirements would be needed for each set of subsidiary financial statements.	
4. Do not incorporate IFRS 19 into the for-profit suite of standards		
IFRS 19 is used as an input into the NZASB's decision-making process regarding future disclosure concessions.	• The existing format and structure of NZ IFRS RDR would be maintained (i.e. the use of asterisks in NZ IFRS) which is familiar to preparers. • There would be no transition costs to preparers under this option – the existing format and structure of current Tier 2 for-profit RDR would be maintained and there would be no amendments to existing disclosure requirements.	• Tier 2 for-profit entities that are also eligible subsidiaries would not be able to state compliance with IFRS Accounting Standards. • This option would be contrary to the XRB's current position as "standard taker" with respect to IFRS Accounting Standards – this is despite IFRS 19 being an optional standard. There is a risk that New Zealand would fall out of international alignment (depending on the stance that other standard setters across the world take). • Although the Board would be able to refer to IFRS 19 when determining disclosure concessions, it would not be able to rely on the IASB's due process and standard-setting activities to the same extent as it would if it incorporated IFRS 19 into the for-profit suite of standards.

Determining our recommended approach

25. Each approach has several costs and benefits. To reach a conclusion on our recommended approach, we have analysed each approach against three key criteria in Table 2:

    (a) Standard-setting efficiency

    (b) International alignment

    (c) Preparer impact

26. The analysis draws on the costs and benefits set out in Table 1 and the content of Appendix 1 and Appendix 2.

27. The approaches have <u>not</u> been analysed against the following criteria:

(a) User impact – as noted in paragraph 19, our view is that users are agnostic on the approaches.

(b) Ability to state compliance with IFRS Accounting Standards – initial outreach suggests that this is not a priority for Tier 2 for-profit entities.

Table 2

Criteria	Approach 1	Approach 2	Approach 3	Approach 4
Standard-setting efficiency	**High** • Reliance on IASB's standard-setting activity and due process – reduces domestic standard-setting time.	**Low** • Costly to maintain two frameworks.	**Medium** • Reliance on IASB's standard-setting activity and due process but domestic standard-setting time still required to carry over IFRS 19 disclosures into the format and structure of NZ IFRS RDR.	**Low** • Some efficiencies from having IFRS 19 as an input into decision-making.
Degree of international alignment	**Medium** • Adoption of IFRS 19 but with an expanded scope.	**High** • Adoption of IFRS 19 with no change to scope.	**Medium** • Alignment with IFRS 19 but with an expanded scope.	**Low** • Not aligned.
Preparer impact	**Medium** • Transition costs for preparers due to: ○ unfamiliar structure and format ○ the need to understand the differences between the current Tier 2 for-profit RDR and IFRS 19. However, initial outreach suggests that preparers rely on disclosure checklists and their auditors (and advisors) for input when preparing their financial statements. Sufficient guidance material to accompany NZ IFRS 19 would help reduce the transition costs.	**Medium** • Entities can continue to apply the current Tier 2 for-profit RDR if they prefer. • However, the choice of frameworks would likely be confusing for stakeholders, including preparers.	**Medium** • Transition costs for preparers because they will need to understand how the disclosure requirements have changed in order to align with IFRS 19. • However, initial outreach suggests that preparers rely on disclosure checklists and their auditors (and advisors) for input when preparing their financial statements. Sufficient guidance material to accompany NZ IFRS 19 would help reduce the transition costs.	**Low** • No additional costs for preparers.

Staff recommendation

28. Based on the analysis in Table 2, we recommend ***Approach 1 – replace the current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19 (scope expanded)*** as the preferred approach to IFRS 19 in New Zealand. We believe this approach will maximise standard-setting efficiency and allow the for-profit suite of standards to maintain international alignment while providing a net benefit to preparers in the long run.

29. Our recommendation has implications for Tier 2 PBE reporting. We apply the PBE Policy Approach to IFRS 19 in agenda item 6.2.

Questions for the Board

Q1. Does the Board AGREE with our recommended approach in paragraph 28?

Q2. If the Board does not agree with our recommended approach, which approach does the Board prefer?

Section 3: Next steps

30. We intend to draft a consultation document (CD) which will, at a minimum, contain:

    (a) The reason for the consultation (i.e. the publication of IFRS 19)

    (b) The Board's preferred approach to IFRS 19 in New Zealand, with reasons provided.

    (c) An exposure draft of NZ IFRS 19.

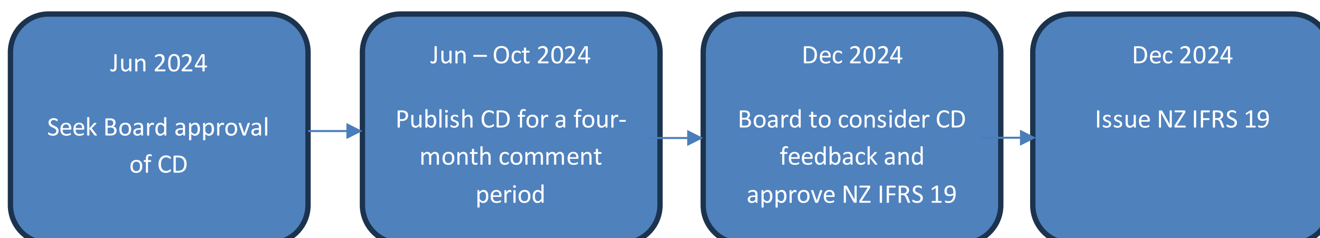
31. To accompany the consultation document, we intend to develop:

    (a) a snapshot of the NZ IFRS 19 requirements.

    (b) a guidance document which sets out the differences between the current Tier 2 for-profit RDR and NZ IFRS 19.

32. The IASB expects to issue IFRS 19 in May. The May Board meeting is scheduled for 9 May therefore, due to the timing for the release of board papers, we will not be able to provide the Board with a draft NZ IFRS 19 ED at the May meeting. Since the ED will be an integral part of the consultation, we intend to provide the Board with the draft consultation document at the 13 June meeting for approval. Should we receive this approval then we would aim to publish the consultation document for public comment by the end of June.

33. An indicative timeline is provided below.



Questions for the Board
Q3. Does the Board have any FEEDBACK on the proposed next steps?

Appendix 1: IFRS 19 – key facts

1. IFRS 19 is a voluntary standard which the IASB developed to allow for the simplified preparation of financial statements (through reduced disclosures) for eligible subsidiaries while maintaining usefulness for users. When an eligible subsidiary applies IFRS 19, that subsidiary is able to state compliance with IFRS Accounting Standards but, as part of its explicit and unreserved statement of such compliance it must also state that it has applied IFRS 19.

2. An eligible subsidiary is one that does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. The definition of public accountability is the same as that in the IFRS for SMEs Accounting Standard[3].

3. Subsidiaries that are eligible to apply IFRS 19 would also be eligible to apply IFRS for SMEs. Therefore, the IASB took the following approach to developing the IFRS 19 disclosure requirements.

   (a) When recognition and measurement requirements in the IFRS for SMEs Accounting Standard and IFRS Accounting Standards were the same – the IASB used the disclosure requirements in IFRS for SMEs subject to updated language.

   (b) When recognition and measurement requirements in the IFRS for SMEs Accounting Standard and IFRS Accounting Standards differed – the IASB started with the disclosure requirements for that topic or accounting policy option in IFRS Accounting Standards and then applied the same principles it used when developing the disclosure requirements in IFRS for SMEs.

4. The IASB has decided that subsidiaries applying IFRS 19 should be able to benefit from any reduced disclosures as soon as they apply a new or amended IFRS Accounting Standard. Therefore, the IASB will propose amendments to IFRS 19 as part of each ED of a new or amended IFRS Accounting Standard. In developing amendments to IFRS 19, the IASB will apply the six broad principles it used in developing the disclosure requirements for IFRS for SMEs.

5. IFRS 19 is a disclosure standard only – an eligible subsidiary must continue to apply the recognition, measurement and presentation requirements in other IFRS Accounting Standards. Therefore, in developing IFRS 19, the IASB focused on disclosure requirements that are appropriate for eligible subsidiaries. This approach included taking presentation requirements to mean requirements for information to be included in the primary financial statements, and disclosure requirements to mean those that related to information included in the notes. The IASB also decided to treat as disclosure requirements those requirements that offer preparers a choice about whether information in presented in the primary financial statements or disclosed in the notes.

[3] An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

6. The disclosure requirements in IFRS 19 are organised by IFRS Accounting Standard. Some disclosure requirements in other IFRS Accounting Standards remain applicable and are specified under the relevant subheading. Examples of those that continue to apply include disclosure requirements that:

   (a) should be easier for preparers to consider "in situ" because the paragraphs that follow them contain requirements about their application.

   (b) are embedded in paragraphs that include recognition, measurement or presentation requirements.

   (c) use the term "disclosure" in a broad sense, encompassing items presented on the face of the primary financial statements.

7. An eligible subsidiary may elect to apply IFRS 19 for reporting periods beginning on or after 1 January 2027 (with earlier application permitted). If the entity applies IFRS 19 in the current period but not in the immediately preceding period, it must provide comparative information with respect to the preceding period for all amounts reported in the current period's financial statements (unless IFRS 19 or another standard permits or requires otherwise).

Appendix 2: Initial outreach

1. Since the April 2023 Board meeting, we have discussed the Tier 2 for-profit reporting requirements with the TRG and with users from the banking industry. This initial outreach has assisted us with understanding the Tier 2 for-profit population and user needs. It has also provided us with additional insights into the costs and benefits for each possible approach to IFRS 19, which have informed the analysis set out in Section 2 of this paper.

TRG – May 2023

2. At the May 2023 meeting, we presented the TRG with some background information about the project. The TRG noted that there is a wide range of Tier 2 for-profit entities, including foreign-owned subsidiaries and large private companies.

3. We also asked the TRG members' specific questions – these questions, and TRG members' comments, are included in the table below. In order to respond to our questions, TRG members spoke to Tier 2 advisors within their firms.

Questions for the TRG	TRG comments
What are TRG Members' views on the nature of the users of Tier 2 for-profit financial statements and what these users require?	• Mostly limited to banks, the entity's parent and IRD. However, users such as banks can request more information if required. • Foreign parents get most of their information from reporting packs – the financial statements are therefore typically prepared for filing purposes only. • Tier 2 for-profit public sector entities prepare financial statements for accountability purposes and are published on websites. • Some users are less sophisticated than users of Tier 1 for-profit financial statements. • For many large private companies, preparation of the financial statements is a compliance exercise only – these financial statements are therefore not distributed to anyone.
What are TRG Members' views on how well current Tier 2 for-profit financial reporting requirements meet the needs of users?	• The Tier 2 for-profit requirements are not 'broken'. • For those less sophisticated users, more disclosure may be better (e.g., on topics such as significant events). Disclosures should be made if useful to the users, even where not strictly required. • Further reducing disclosures would be useful. • For small Tier 2 entities (such as start-ups) that are looking to list, NZ IFRS RDR is a good framework to use (for the recognition and measurement alignment with NZ IFRS). Other small Tier 2 entities may not require recognition and measurement alignment.

Questions for the TRG	TRG comments
Do you have feedback from Tier 2 for-profit entities on any Tier 2 reporting matters such as: • **What the costs vs the benefits of current requirements are?** • **Whether simpler disclosures are needed?** • **Whether changes to recognition and measurement requirements are needed?** • **Any application issues?**	• Entities with cross-border reporting requirements prefer to remain IFRS-aligned. • If Tier 2 entities could change recognition and measurement requirements in NZ IFRS RDR, they would revise the NZ IFRS 9 and NZ IFRS 16 requirements. • Many entities would appreciate further reduced disclosures, as there is a compliance cost. • There have been no complaints from for-profit public sector entities about too much disclosure. • Some Tier 2 entities would like the disclosures to be put in an appendix, to ensure none are missed – asterisks are not so easy to deal with. • Reviewing the current requirements would be a good idea.

4. TRG members also noted that auditors prefer NZ IFRS RDR, as it does not involve learning another framework. There are also instances of auditors requesting more disclosure from Tier 2 entities that are subsidiaries of Tier 1 entities.

TRG – March 2024

5. At the March 2024 TRG meeting, we presented the TRG with our analysis of the costs and benefits for each approach (as shown in Table 1 in Section 2 of this paper) and asked specific questions – these questions, and TRG members' comments, are included in the table below.

Questions for the TRG	TRG comments

What are TRG Members' views on the analysis? Specifically:
• **Do you agree with the benefits and costs for each approach?**
• **For one or more of the approaches, are there any additional benefits and/or costs that the NZASB should consider?**
• **Are there any other approaches that the NZASB should consider?**
	• Broad agreement with the costs and benefits.
	• One additional benefit of IFRS 19 was noted – multinational companies would benefit as compliance costs would be lower – no / minimal adjustments for local requirements would be needed for each set of subsidiary financial statements (one template could be used for everyone).
	• No other possible approaches were identified.
	• Other comments:
	  ○ IFRS 19 is designed for subsidiaries – Tier 2 includes other types of entities.
	  ○ Different frameworks in the reporting environment can cause confusion.
	  ○ Preparers will not appreciate the costs to transition to IFRS 19 – may cause confusion initially and will take some getting used to. But it was also noted that this would not be an ongoing cost – preparers will get used to the new structure.

Questions for the TRG	TRG comments
	◦ For those creating disclosure checklists, having the majority of disclosures in one standard, rather than across several standards, makes the process easier. ◦ There will be a difference between Tier 2 for-profit reporting and Tier 2 PBE reporting – could create issues for mixed groups. ◦ A "gap analysis" of the differences between the current Tier 2 for-profit RDR and IFRS 19 would help. • Overall, there was some support for Approach 1. No support for Approach 4. One member noted that the cost could outweigh the benefit of a change to IFRS 19 if there are not many differences anyway.
If they were given the opportunity, do you believe it would be important to eligible Tier 2 for-profit entities to be able to state compliance with IFRS Accounting Standards?	• Broad agreement that this is not important. • Certain sub-groups of Tier 2 entity may find it useful to state compliance, e.g.: ◦ companies about to list (however, many of these companies may opt up to Tier 1 in advance of listing); or ◦ companies targeted for acquisition by a large multinational – due diligence procedures often ask about the differences between local GAAP and IFRS. However, it is not difficult to explain the differences between NZ IFRS RDR and IFRS.
In your experience, do Tier 2 for-profit entities rely on disclosure checklists to prepare their financial statements?	• Broad agreement that this is the case. • Tier 2 entities also often rely on their auditors to tell them what has changed from last year.

Banks

6. We had a discussion with representatives from a big 4 bank, who work with institutional clients (such as listed entities and large private equity-funded corporates). We asked them whether (and how) they make use of financial statements prepared by Tier 2 for-profit entities. They provided us with the following comments.

   (a) Financial statements are used as part of understanding the client and its business, as well as for determining certain ratios. However, the primary focus is on forecasts, which are done in a management accounting format (and compared to budget).

   (b) Cash flow statements are the most meaningful. Information on risk in the financial statements is not used at all.

   (c) Plain language in the financial statements would be useful.

   (d) IFRS 16 lease accounting is confusing.

   (e) Ultimately, the bank can request the information it needs.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

Date:	12 March 2024
To:	NZASB Members
From:	Carly Berry
Subject:	**Application of the PBE Policy Approach to IFRS 19 *Subsidiaries without Public Accountability: Disclosures***

COVER SHEET

Project priority and complexity

Project priority	**To be determined** A project has not yet commenced. The Board will consider the application of the PBE Policy Approach to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* at this meeting.
Complexity of Board decision-making at this meeting	**High** Subject to the Board's final decision on the approach to IFRS 19 in the for-profit sector, we are asking the Board to AGREE to commence a project to incorporate IFRS 19 into the PBE suite of standards.

Overview of agenda item

Project status	Application of the PBE Policy Approach.
Project purpose	If we commence a project, the objective will be to incorporate IFRS 19 into the PBE suite of standards, while also ensuring that PBE Standards RDR remain fit-for-purpose in New Zealand.
Board action required at this meeting	• CONSIDER the application of the PBE Policy Approach to IFRS 19. • AGREE to commence a project to incorporate IFRS 19 into the PBE suite of standards – subject to the Board's final decision on the approach to IFRS 19 in the for-profit sector.

Introduction[1]

1. As discussed in agenda item 6.1, the IASB expects to issue IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in May this year. IFRS 19 is an optional IFRS Accounting Standard which specifies the disclosure requirements that an eligible subsidiary is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards.

2. Due to its optional nature, the Board has several possible approaches it can take to IFRS 19. In agenda item 6.1 we analyse these approaches and ask the Board to agree with our recommended approach – that is, ***Replace the current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19.*** In light of this approach, it becomes necessary to consider the implications for Tier 2 PBE reporting, in accordance with the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach).

3. We plan to consult stakeholders on the Board's preferred approach to IFRS 19. Therefore, the Board will only make a final decision on the approach to IFRS 19 in the for-profit sector later this year. Therefore, at this stage, we are only performing a preliminary analysis on the implications for Tier 2 PBE reporting. That is:

   (a) we are applying the PBE Policy Approach to IFRS 19 in this paper with the view to deciding whether IFRS 19 will be incorporated into the PBE suite of standards (subject to the outcome of the Tier 2 for-profit reporting project).

   (b) we are not making a recommendation on exactly how IFRS 19 would be incorporated – i.e., through development of a new PBE Standard for reduced disclosures or updating existing disclosures in PBE Standards.

Recommendation

4. We recommend that the Board:

   (a) CONSIDERS the application of the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach) to IFRS 19; and

   (b) AGREES, subject to the Board's final decision on the approach to IFRS 19 in the for-profit sector, to commence a project to incorporate IFRS 19 into the PBE suite of standards.

Application of the PBE Policy Approach

5. The PBE Policy Approach identifies triggers for changes to PBE Standards. One of these triggers is the IASB issuing a new IFRS Accounting Standard, therefore the imminent publication of IFRS 19 triggers a potential change to PBE Standards.

6. Paragraph 34 of the PBE Policy Approach establishes a rebuttable presumption that the NZASB will not include the new IFRS Accounting Standard in the suite of PBE Standards, unless:

   (a) the topic is relevant to PBEs; and

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[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).

(b) the IPSASB is not expected to develop a new standard on the same topic in an acceptable timeframe.

7. In considering whether to rebut this presumption the Board should, in accordance with paragraph 36 of the PBE Policy Approach:

   (a) firstly, consider whether IFRS 19 is relevant to PBEs and if so, whether the IPSASB is expected to develop a new standard on the same topic in an acceptable timeframe; and

   (b) secondly, consider other factors in the development principle to assess the costs and benefits of including IFRS 19 in the suite of PBE Standards.

8. These factors are considered in Table 1 and Table 2 on the following pages.

Table 1: Considerations under paragraph 36(a) of the PBE Policy Approach

Factor	Comment
Relevant topic for PBEs	IFRS 19 does not deal with one specific topic – it is a disclosure-only standard which contains reduced disclosures for eligible subsidiaries covering a wide range of topics. Some of the disclosures in IFRS 19 relate to IFRS Accounting Standards which have no equivalent in PBE Standards (e.g., IFRS 16 *Leases*). IFRS 19 also does not include disclosures relating to some PBE-specific topics (such as impairment of non-cash-generating assets). However, the intention of IFRS 19 is to provide reduced disclosures for those entities which, in New Zealand, form a sub-set of Tier 2 entities (i.e., subsidiaries without public accountability). Our recommendation to the Board in agenda item 6.1 proposes to replace the current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19. Tier 2 PBE entities currently report using PBE Standards RDR which contain disclosure concessions developed by the Board, which typically align with for-profit disclosure concessions where the topics are similar across the for-profit and PBE sectors. Therefore, IFRS 19 is a relevant consideration for Tier 2 PBE reporting due to the similar frameworks used for Tier 2 entities across the for-profit and PBE sectors.
The IPSASB's work on differential reporting	In March 2022, the IPSASB added Differential Reporting to its work program, in response to constituent feedback on its 2021 Mid-Period Work Program Consultation. The aim of the project was to explore the potential development of an international differential reporting model, since public sector entities vary substantially in size, complexity and capacity and therefore may face challenges with adoption and implementation of the accrual IPSAS suite of standards. The IPSASB undertook research and scoping activities to better understand the public need for such a model. Through these activities the IPSASB identified several considerations which did not support development of an international differential reporting model for the public sector. The IPSASB has therefore decided to pursue development of practical support material to help public sector entities better navigate, understand, and apply IPSAS, rather than develop an international differential reporting model. The Differential Reporting project has now been removed from the IPSASB's work program as it is no longer a standard-setting project. Further detail on this project and the IPSASB's conclusions can be found in the Differential Reporting Feedback Statement.

Table 2: Considerations under paragraph 36(b) of the PBE Policy Approach

Factors in the Development Principle	Comment
Whether the potential development will lead to higher quality financial reporting by public sector PBEs and not-for-profit entities, including public sector PBE groups and not-for-profit groups, than would be the case if the development was not made.	Incorporating IFRS 19 into the PBE suite of standards may result in added / removed / amended disclosures for some topics (based on the analysis performed in 2023 between the IASB ED and NZ IFRS RDR). Currently, reduced disclosures in the PBE sector are typically aligned with the for-profit sector where applicable. We believe the for-profit sector would benefit from the IASB's standard setting and due process for developing reduced disclosures – due to the alignment of PBE and for-profit disclosures where applicable, PBEs would also benefit.
Whether the benefits of a potential development will outweigh the costs, considering as a minimum: **(i)** ***relevance to the PBE sector as a whole:*** **for example, where the potential development arises from the issue of a new or amended IFRS, whether the type and incidence of the affected transactions in the PBE sector are similar to the type and incidence of the transactions addressed in the change to the NZ IFRS;** **(ii)** ***relevance to the not-for-profit or public sector sub-sectors:*** **whether there are specific user needs in either of the sub-sectors, noting that IPSAS are developed to meet the needs of users of the financial reports of public sector entities;** **(iii)** ***coherence:*** **the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);** **(iv)** ***the impact on mixed groups*****.**	• IFRS 19 is relevant for both not-for-profit and public sector subsectors, but for Tier 2 entities only. • Coherence of the entire suite of PBE Standards would not be affected, as IFRS 19 is a disclosure-only standard which would only affect the disclosures that Tier 2 PBE Standards currently comply with. • The key benefit of incorporating IFRS 19 into the PBE suite of standards is that our recommended approach for the for-profit sector is to replace current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19. Therefore, from a mixed group perspective, aligning with the for-profit sector in this regard would be beneficial. • Costs of incorporating IFRS 19 into the PBE suite of standards: ○ Depending on how IFRS 19 is incorporated, preparers may need guidance to assist them with the changes (e.g. disclosure checklist, analysis of the differences between current reduced disclosures and new reduced disclosures, etc). ○ Standard-setting costs will likely increase in the short term, due to having to align with the new basis for determining for-profit reduced disclosure requirements.

9. Based on the analysis in Tables 1 and 2 above, we believe that there is cause to rebut the presumption in paragraph 34 in the PBE Policy Approach. Therefore, we recommend incorporating IFRS 19 into the PBE suite of standards, subject to the Board's final decision on the approach to IFRS 19 in the for-profit sector.

Question for the Board

Q1. Does the Board AGREE with our recommendation in paragraph 9?

EXRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Agenda Item 7.1

Memorandum

Date:	12 March 2024
To:	NZASB Members
From:	Leana van Heerden
Subject:	**Update on the 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 not being asked to make any decision but rather to note the IASBs consideration of feedback received during phase 2 of the PIR.

Overview of agenda item

Project status	Consideration of the feedback received during phase 2 of the PIR of IFRS 15
Project purpose	In phase 2 of the PIR of IFRS 15 the IASB gathered comments which are now being considered. A report will be created by the IASB with a feedback statement summarising the findings and, if any, next steps.
Board action required at this meeting	NOTE the update on the IASB PIR of IFRS 15 and provide FEEDBACK.

Purpose and introduction[1]

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 was 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. A NZASB comment letter on the PIR of IFRS 15 was issued to the IASB on 25 October 2023.

2. In its January and February 2024 meetings, the IASB commenced its consideration of the IFRS 15 PIR feedback.

3. This memo updates the Board on the IASB's assessment of the IFRS 15 PIR feedback and the decisions made thus far. Additionally, we link it to the issues raised in the PIR of IFRS 15 NZASB comment letter.

Recommendation

4. We recommend that the Board NOTES the update on the PIR of IFRS 15 and provides FEEDBACK.

Structure of this memo

5. This memo includes the following sections.

   (a) Summary of feedback

   (b) IASB's Framework for taking action on PIR recommendations

   (c) Topics covered at the February 2024 IASB meeting

   Appendix 1: Respondent's demographics

Summary of feedback

6. The Request for Information on the PIR of IFRS 15 closed on 27 October 2023. The IASB received 74 responses to the RFI. Appendix 1 illustrates the respondents' demographics by geographical location and respondent type.
7. The below table provides a high-level summary from the IASB staff papers of the responses received to each topic.

[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).

Table 1: Summary of feedback

Topic	Summary of feedback
Overall assessment of IFRS 15	Respondents have a positive view of IFRS 15, recognising its achievement of objectives and its suitability as a basis for analysing revenue contracts. The standard's well-organised structure, along with supporting application guidance and illustrative examples, has assisted entities in making informed judgments. Despite the initial learning curve, respondents believe that the benefits outweigh the costs, although certain industries still face high application costs due to transaction volumes and diversity or complexity of contracts. Some challenges in application persist which are discussed further below.
Identifying performance obligations in a contract	Many respondents find IFRS 15 to provide a clear and sufficient basis for identifying performance obligations in most contracts. However, despite the general clarity of requirements, practical application remains challenging for certain transactions. Complexity arises from underlying arrangements, offerings, and business models which may lead to diversity in practice. Most of the challenges related to assessing the criteria for determining whether a good or service is distinct such as: a) Identifying performance obligations in bundled arrangements; b) Distinguishing promises to transfer goods or services from activities that do not transfer a good or service to the customer; c) Non-refundable upfront fees charged to customers; and d) Identifying performance obligations in arrangements involving multiple parties.
Determining the transaction price	Most respondents said that IFRS 15 provides a clear and sufficient basis for determining the transaction price in contracts. However, specific application challenges were identified. Feedback primarily focused on consideration payable to a customer especially relating to accounting for marketing incentives and negative revenue. Further comments were also raised on variable consideration, sales-based taxes, significant financing components and non-cash consideration.
Determining when to recognise revenue	Respondents indicated that generally, IFRS 15 provides a clear and sufficient basis for determining when to recognise revenue. However, many respondents reported challenges with specific difficulties experienced in: a) Applying the concept of control and the criteria for over time revenue recognition; and b) Selecting the appropriate method for measuring progress. A few users requested more detailed information about entities' judgments in determining revenue recognition timing. Additionally, some respondents observed diversity in timing, particularly among software companies.

Topic	Summary of feedback
Principal versus agent consideration	This was one of the most common topics raised by respondents who consider it to be a major application matter. Many respondents indicated that the requirements are generally clear and sufficient and they agreed with the main control principle but challenges arise especially when applying judgment to complex fact patterns. Key challenges include: a) applying the concept of control and related indicators; b) estimating amounts charged to end customers; c) identifying a customer (issues around a customer's customer); d) identifying performance obligations and specified goods or services; and e) disclosures to improve the usefulness of information.
Licensing	Most respondents commented on accounting for licensing arrangements. Some of the respondents said that the requirements on accounting for licensing arrangements are generally clear, however, some also identified licensing as a major application matter especially for service industries. The main challenges related to: a) identifying performance obligations in licensing arrangements; b) lack of clarity on accounting for license renewals; c) determining the nature of a licence (the 'right to access' versus the 'right to use'); d) lack of clarity on what a licence is; and e) accounting for sales-based or usage-based royalties.
Disclosure requirements	Respondents said that the more comprehensive disclosure requirements compared to the previous revenue standard have led entities to provide sufficient and useful information to users of financial statements. Users appreciate the improved quality of disclosed information, making it easier to forecast future revenue and cash flows. Some respondents expressed concerns and mixed views regarding disclosure requirements for remaining performance obligations and contract assets and liabilities. It was also noted that there was a variation in the quality of disclosures. From a user's perspective it was noted that more entity-specific information would enhance usefulness rather than wording copied directly from the Standard. While respondents find the disclosure requirements balanced it was noted that setting up necessary systems and processes was challenging and costly, but ongoing costs are manageable.
Transition requirements	Many respondents said that while the transition to IFRS 15 was challenging, the modified retrospective method and practical expedients were helpful. These provisions achieved an appropriate balance between reducing costs for preparers and providing useful information to users of financial statements. While some users appreciated the smooth transition and the disclosed effects of implementing IFRS 15, a few still prefer a fully retrospective method for assessing trends and detailed disclosures.

Topic	**Summary of feedback**
Applying IFRS 15 with other IFRS Accounting Standards	Comments were received on the following application of IFRS 15 with other Accounting Standards: • IFRS 3 *Business Combinations* – challenges related to the difference in the IFRS 3 vs IFRS 15 measurement principles; • IFRS 9 *Financial Instruments* – diversity in practice in cases when an entity accepts lower consideration from a customer and whether it is a price concession or an expected credit loss. Furthermore, diversity in practice on the classification of some liabilities arising from revenue transactions such as loyalty programmes or gift cards, refund liabilities and prepayments refundable at the customer's request; • IFRS 16 *Lease*s – challenges reported included how to separate lease and non-lease components and how to assess whether the transfer of an asset in a sale and leaseback transaction is a sale in accordance with IFRS 15; • IFRS 10 *Consolidated Financial Statements* – whether an entity should account for corporate wrapper transactions under IFRS 10 or IFRS 15; • IFRS 11 *Joint Arrangements* – whether collaborative arrangement is in the scope of IFRS 15, IFRS 11 or another Standard. How to account for arrangement that contain both a supplier-customer and joint control components and how to account for arrangement when no joint control is established and when neither party is seen as a customer. • IFRIC 12 *Service Concession Arrangements* – comments raised on classification and recognition of specific concession arrangement assets and liabilities under IFRIC 12 vs IFRS 15 as well as discounting of significant financing components. • Interaction with other Standards – a few respondents also commented on other Standards which will be analysed in future IASB papers.

We have not included a summary on convergence with the FASB Topic 606 as this is of limited relevance in New Zealand and it was not commented on in the NZASB letter to the IASB on the PIR of IFRS 15.

IASB's Framework for taking action on PIR recommendations

8. The IASB PIR process set out a framework for deciding whether and when to take further action in response to specific application matters. Firstly, the IASB evaluates whether the PIR findings provide evidence of:

   a) Fundamental questions about the clarity and suitability of the new requirements.
   b) Significantly lower benefits to users of financial statements resulting from applying the requirements (e.g., due to diversity in application).
   c) Significantly greater costs of applying the new requirements, including auditing and enforcement.

9. If any of the characteristics described above are present, the IASB determines the prioritisation of the matter as high, medium or low based on whether the matter has substantial consequences, is pervasive, can be addressed by the IASB or IFRIC and the benefits of the action outweigh the cost.

10. This framework was applied in considering the comments raised on the PIR of IFRS 15 and whether to take any action.

Topics covered at the February 2024 IASB meeting

11. The IASB commenced further analysis of the topics raised in the feedback to the IFRS 15 PIR in its February 2024 meeting. The below topics were covered (and are discussed in more detail below):
   - Identification of the performance obligations in a contract;
   - Principal vs agent; and
   - Licensing.

Identification of the performance obligations in a contract

12. The IASB papers discussed three main application matters:

   (a) applying the notion of 'distinct';

   (b) identifying a promise to transfer goods or services; and

   (c) matters related to convergence with FASB ASC Topic 606.

13. The NZASB comment letter raised points relevant to (a) and (b) above in relation to identification of distinct goods or services in context of a contract as well as determining whether implementation type activities are a promised good or service. We recommended updating illustrative examples to be more relevant to today's business environment.

14. The IASB's staff papers on this topic recommended that no action be taken except for considering at a later stage whether to move some of the paragraphs (BC 105 and BC 116K) from the Basis of Conclusions into the Standard. The staff recommendation received a favourable vote from the IASB members.

Principal vs agent

15. As mentioned above, this was one of the topics that received most responses. The application challenges referred to in the IASB staff paper included:

    (a) applying the concept of control and related indicators (particular attention given to service and intangible industries);
    (b) identifying a customer of a supplier that sells its goods or services through an intermediary;
    (c) identifying performance obligations; and
    (d) disclosure requirements.

16. The NZASB comment letter also focused on this topic. The main points raised were that the indicators for principal versus agent accounting are not well aligned with the concept of control. The indicators are more suitable for goods than for services and intangibles, which adds to the difficulty of applying them. The recommendations were:

- give greater prominence to the transfer of control which may be achieved through moving BC385H to the Standard;
- substantively revise the indicators; and
- add new, up-to-date illustrative examples.

17. The recommendations by IASB staff included adding the matter in relation to assessing control over services and intangible assets as a low priority item to the next agenda consultation, as well as to consider at a later stage whether to add specified BC paragraphs into the Standard. No further actions were recommended on other application matters. The staff recommendations received a favourable vote from IASB members.

Licensing

18. The main challenges analysed by the IASB staff paper on this topic included:
    (a) accounting for licence renewals;
    (b) determining the nature of a licence;
    (c) determining the scope of licensing guidance; and
    (d) accounting for sales-based or usage-based royalties.

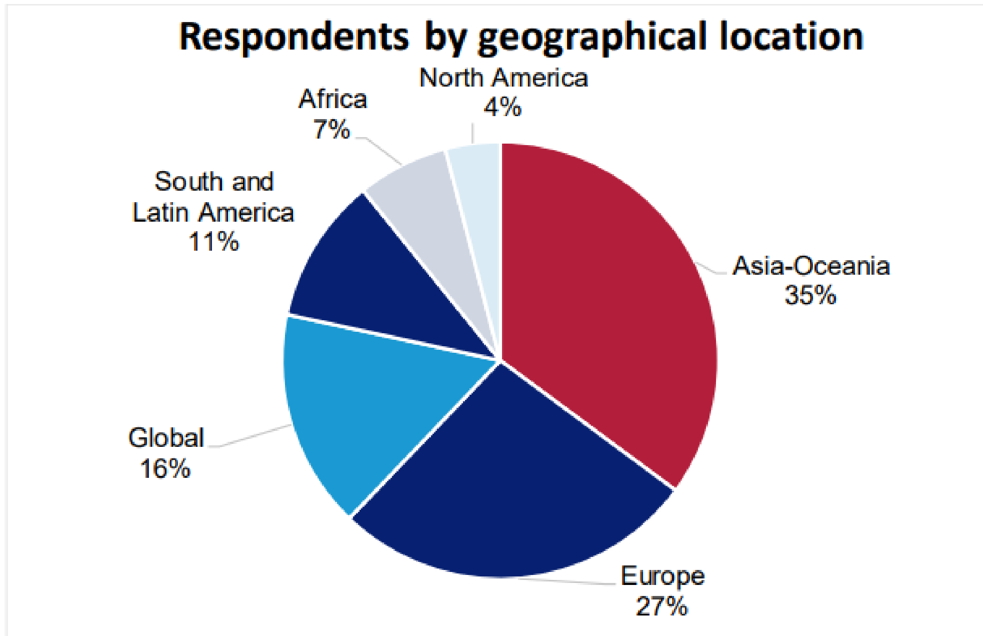
19. The NZASB comment letter did not cover this topic.

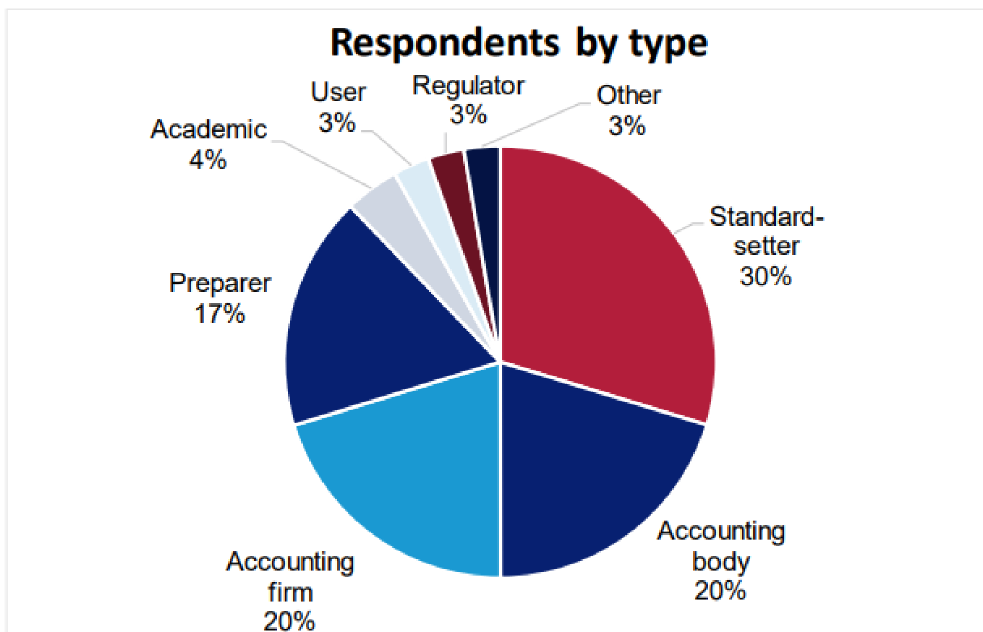
20. The IASB staff recommended no further action on this topic which received a favourable vote from IASB members.

Question for the Board
Q1. Does the Board have any FEEDBACK?

Appendix 1 – Respondents' demographics

The below respondents' demographics have been copied from the IASB's January 2024 meeting agenda paper 6.





Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Agenda Item 7.2

Memorandum

Date:	12 Mar 2024
To:	NZASB Members
From:	Tereza Bublikova and Gali Slyuzberg
Subject:	**Project update: *PIR of IFRS 9 – Impairment***

COVER SHEET

Project priority and complexity

Project priority	**Medium** • The 'expected credit loss' (ECL) impairment requirements of IFRS 9 *Financial Instruments* are relevant to many for-profit reporting entities, given that they apply to commonly held financial assets such as receivables. • The IASB's post-implementation review (PIR) did not identify any 'fatal flaws' regarding the impairment requirements in IFRS 9. However, respondents to the PIR, including the NZASB, identified specific matters where entities experience application challenges and diversity in practice.
Complexity of Board decision-making at this meeting	**Low** This item is a project update – the Board is not being asked to make decisions at this stage.

Overview of agenda item

Project status	The IASB started deliberations of the PIR feedback received.
Project purpose	To check whether the ECL impairment requirements in IFRS 9 are working as intended and whether there are application issues that the IASB should resolve and whether stakeholders have specific application questions regarding the ECL impairment requirements – which may not be fundamental but may still require a response.
Board action required at this meeting	The Board is asked to NOTE the project update, and we welcome any feedback Board Members may have.

Purpose and introduction[1]

1. The IASB is conducting a three-stage post-implementation review (PIR) of IFRS 9 – with the current stage focusing on the 'expected credit loss' (ECL) impairment requirements that were introduced by IFRS 9 for financial assets.

2. In May 2023, the IASB issued Request for Information: Post-implementation Review of IFRS 9 *Financial Instruments*—Impairment (the RFI). The RFI sought feedback on how well the ECL impairment requirements in IFRS 9 are working in practice.

3. The comment period closed on 27 September 2023. The IASB received 78 responses, including the NZASB's comment letter. The IASB is currently deliberating on the feedback received.

4. The purpose of this memo is to update the Board about:

   (a) the feedback that the IASB received from stakeholders and the IFRS Interpretations Committee (IFRIC) in relation to the ECL requirements of IFRS 9; and

   (b) the outcomes to date of the IASB's ongoing deliberations, which we linked to the issues raised in the NZASB comment letter.

5. Appendix A of this paper provides list of matters raised by the respondents to the RFI that will be deliberated by the IASB at its coming meetings.

Recommendation

6. We recommend that the Board NOTES this project update, and we welcome any feedback.

Structure of this memo

7. This memo includes the following sections.

   (a) Overview of feedback on the RFI

      i. Key message from the RFI feedback

      ii. The NZASB's comment letter

   (b) Overview of the IASB's deliberations to date

   (c) Topics covered at the February 2024 IASB meeting

      i. The general approach to recognising ECL

      ii. Determining significant increases in credit risk

      iii. Outcome of the IASB deliberations

   (d) IFRIC input to the RFI discussion

   (e) Forthcoming IASB deliberations and next steps

      i. The IASB March meeting – Measuring ECL

      ii. IASB PIR project plan

   (f) Appendix: Matters raised by the RFI respondents yet to be discussed by the IASB

[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).

Overview of feedback on the RFI

Key message from the RFI feedback

8. Overall, the PIR feedback was very positive and did not identify any 'fatal flaws'. Most respondents agreed that the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to IAS 39 and that during periods of uncertainty, such as the COVID-19 pandemic, or the recent geopolitical and economic uncertainties, the impairment model demonstrated to be based on robust principles.

9. Respondents identified specific matters where entities experience application challenges and diversity in practice, and expressed concerns over the lack of consistency in the credit risk disclosures.

10. Most PIR feedback focussed on application issues arising from:

    (a) the interaction between the impairment requirements and the requirements in IFRS 9 for modifications, derecognition and write-off; and

    (b) diversity in application of, and potential improvements to, the disclosure.

11. Respondents generally suggested the IASB makes specific improvements, mainly in the form of application guidance or illustrative examples.

The NZASB's comment letter

12. The NZASB's comment letter focused on corporate entities that are not banks or financial institutions. No 'fatal flaws' have been identified with respect to the ECL requirements in IFRS 9, but the NZASB recommended to the IASB to address following matters:

    (a) Application challenges in the context of the simplified approach to ECL;

    (b) Challenges in applying the ECL requirements to intercompany balances;

    (c) Disclosures in relation to credit risk and ECL often being voluminous and 'boiler plate', rather than focused on relevant information; and

    (d) Misconceptions regarding the full scope of assets that the ECL requirements in IFRS 9 apply to.

13. So far, out of the matters raised by the NZASB, the IASB deliberated only the matters relating to intercompany balances, as part of the discussion on the general approach to ECL – see paragraphs 20 to 26. The IASB tentatively decided not to take standard-setting action in relation to this matter.

14. We note that some of the other matters raised in the NZASB's comment letter were also raised by other RFI respondents, and are expected to be deliberated by the IASB at future meetings. For example, like the NZASB, some respondents noted that entities that are not financial institutions experience some application challenges in applying the simplified ECL model (see Appendix A of this memo).

Overview of the IASB's deliberations to date

15. At its November 2023 meeting, the IASB discussed a high level summary of the feedback received and the plan for the next phase of the project. This was followed by the deliberations of the RFI feedback at the IASB's February 2024 meeting, where the IASB discussed two overarching areas of the impairment requirements:

    (a) the general approach to recognition of the expected credit loss; and

    (b) determining significant increases in credit risk (SICR).

16. The IASB made a tentative decision to take no standard-setting action in response to those matters. Nevertheless, they decided to seek additional input from the IFRIC regarding a few application matters.

17. At its March 2024 meeting, the IASB will deliberate feedback related to measuring ECL and the deliberations will continue through the coming meetings. The IASB expects to complete the discussions by the second quarter of 2024.

18. Appendix A to this paper provides list of matters raised by the respondents to the RFI that will be deliberated by the IASB at its coming meetings.

Topics covered at the IASB February 2024 meeting

The general approach to recognising ECL

The general approach to ECL – background and overview of feedback

19. Almost all RFI respondents supported the general approach to ECL in IFRS 9, which requires an entity to measure the loss allowance for a financial asset at an amount equal to:

    (a) 12-month ECL, if the credit risk on that financial instrument has not increased significantly since initial recognition; or

    (b) the lifetime ECL, if the credit risk on that financial instrument has increased significantly since initial recognition.

20. However, in the context of balancing costs and benefits, respondents suggested the IASB reconsider the application of the general approach to:

    (a) financial instruments between entities under common control (intragroup financial instruments);[2] and

    (b) financial instruments issued on non-commercial terms or for reasons that are not purely commercial (non-commercial financial instruments).

[2] For the purpose on IASB February meeting, intragroup financial instruments refer to instruments issued between parents and their subsidiaries or between entities under common control. They do not include financial instruments with associates and joint ventures.

The general approach to ECL – intragroup and non-commercial financial instruments

21. Some respondents, including the NZASB, said that the costs of applying the general approach to intragroup financial instruments exceed the benefits of the resulting information to users of financial statements. Application of the general approach can be challenging since some contractual terms are not at an arm's length basis and generally there is no historical experience of, or future expectations for, credit losses.

22. Similar comments were made about the non-commercial financial instruments, such as loans to employees or sovereign debts.

23. In the context of the intercompany balances the NZASB recommend that the IASB consider:

    (a) Either amending IFRS 9 so that it specifically allows the application of the 'simplified approach' when determining ECL for intercompany receivables and intercompany loans; or

    (b) Examining whether there is a subset of intercompany receivables and/or loans to which the ECL requirements should not apply, due to cost/benefit considerations, and to develop other requirements for impairing such assets; and

    (c) Issuing educational material on the application of the ECL requirements to intercompany receivables.

24. The IASB staff analysis concluded that IFRS 9 provides an adequate basis for entities to determine ECL for intragroup and non-commercial financial instruments, since the existing requirements and several simplifications and rebuttable presumptions allow an entity to adjust its ECL approach so that it is largely cost-effective, i.e.:

    (a) IFRS 9 provides objectives and principles and does not prescribe specific techniques or methods for assessing SICR or measuring ECL;

    (b) IFRS 9 notes that estimating a probability-weighted ECL amount may not need to be a complex analysis (paragraph B5.5.42);

    (c) Both the assessment of SICR and the measurement of ECL are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort (paragraphs B5.5.49-B5.5.54 of IFRS 9);

    (d) IFRS 9 provides several simplifications and rebuttable presumptions to assess changes in credit risk or measure ECL. For example, there is an exemption that allows an entity not to recognise 'lifetime' ECL for instruments that have low credit risk at the reporting date, to provide operational relief for financial instruments with a low risk of default (paragraphs 5.5.10 and B5.5.22-B5.5.24 of IFRS 9).

25. The IASB noted that one of the main benefits of the principles-based IFRS 9 requirements is that one impairment model applies to all economically similar financial instruments. Since intragroup financial instruments can be economically similar to instruments issued to third parties and do not always have low loss risk, the IASB considered that an exemption from the

impairment requirements in IFRS 9, or from the general approach to ECL, would not be justified for intragroup financial instruments.

26. The IASB also considered the suggestion to provide more application guidance or additional education material on the application of the general approach to ECL to intragroup financial instruments. The IASB and IASB staff noted the following in this regard:

    (a) Adding more guidance to what is already in the Standard[3] is unlikely to result in significant incremental benefits, since it will not remove the need to holistically consider the characteristics of the financial instrument being assessed.

    (b) While some RFI respondents recommended educational material, others have indicated that educational materials are not the best tool for changing behaviour or improving consistency in practice because they are non-authoritative and therefore not enforceable and are not commonly translated or applied in some jurisdictions and asked the IASB to incorporate key conclusions from specific educational material into the Standard. Therefore, the IASB staff does not consider educational material to be an adequate response to respondents' issues.

27. Nonetheless, the IASB sought input from the IFRIC (on top of the feedback received from the respondents to RFI) to obtain further evidence on whether the application challenges reported for intragroup financial instruments have substantial consequences and whether they arise from a financial reporting issue that can be addressed by the IASB or the IFRIC.

Determining significant increases in credit risk (SICR)

Background and analysis

28. Respondents to the RFI supported the principles-based approach in IFRS 9 to assess SICR and did not identify any 'fatal flaws' with the requirements. However, many respondents think the requirements are not always applied consistently. Therefore, many respondents made general suggestions for additional application guidance or illustrative examples to support a more consistent assessment of 'significance' in the context of determining SICR.

29. The IASB noted that the requests for additional guidance do not necessarily arise because objectives or other requirements in IFRS 9 are unclear, inappropriate, or insufficient. Respondents generally asked for more explicit guidance to reduce the extent of judgement required in determining the significance of changes in credit risk.

30. For the most part, the approaches recommended by respondents to support consistent application are those that the IASB had deliberated and rejected during the development of IFRS 9.

31. The IASB noted that additional examples or guidance can be useful if they apply to a common arrangement type. However, providing examples for specific complex fact patterns would be unlikely to help many entities as the outcome could be dependent on small changes to facts

[3] Specifically, what's already in paragraphs B5.5.49-B5.5.54 of IFRS 9.

and circumstances and such additional examples or guidance would result in little incremental benefits.

Outcome of the IASB deliberations

32. Following the IASB staff analysis, the IASB made a tentative decision to take no standard-setting action in response to the matters identified with regards to the general approach in IFRS 9 and requirements for determining SICR.

33. Nonetheless, the IASB sought input to the PIR discussion from the IFRIC—specifically, on application matters related to determining expected credit losses (ECL) for:

    (a) Intragroup financial instruments;

    (b) Loan commitments;

    (c) Financial guarantee contracts; and

    (d) Purchased or originated credit-impaired (POCI) financial assets.

34. The purpose of reaching out to the IFRIC was to find out whether the matters raised by the RFI respondents are pervasive and/or have substantial consequences and to understand root cause for the matter so that the IASB could decide about an appropriate response.

35. Appendix A provides further details about matters on which the IASB sought IFRIC's input.

IFRIC input to the RFI discussion

36. The IFRIC supported the IASB's conclusion that no standard-setting action should be taken in regarding the application of the ECL requirements to intragroup financial instruments. At the same time, the IFRIC admitted that the challenges in this area are pervasive and that there is a space for "overcooking" the ECL calculations for intragroup financial instruments. Therefore, some education material – e.g. in a form of example or fact pattern – would be useful.

37. In respect of the other matters mentioned above, the IFRIC recommended the IASB takes no standard setting activity, on the basis that:

    (a) The diversity in practice occurs mainly in situations that require judgement and that depend on facts and circumstances that are specific to that entity and its credit exposures.

    (b) Most entities have already developed accounting policies and established practices for assessing whether financial guarantee contracts are 'integral to' or 'part of' the contractual terms and for identifying loan commitments, therefore any amendments to the requirements could lead to disruption in practice and result in additional costs.

    (c) The issues discussed are not pervasive and the cost of standard-setting activity would be expected to outweigh the benefits of the resulting improvements.

Forthcoming IASB discussions and next steps

The IASB March meeting – Measuring ECL part 1

38. At its 18 – 21 March meeting the IASB will start deliberation of RFI feedback in relation to measuring ECL. This topic will be further discussed at the April meeting.

39. Almost all respondents provided feedback about measuring ECL and did not identify any fatal flaws with the principle-based requirements. However, they noted diversity in practice primarily in:

    (a) the number of *forward-looking scenarios*, the variables entities consider, and the weightings they attach to a particular scenario; and

    (b) the way *post-model adjustments or management overlays (PMAs)* are recognised and a general lack of transparency about how PMAs a is determined.

40. Paragraph 5.5.17 of IFRS 9 requires an entity to measure ECL of a financial instrument in a way that reflects:

    (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

    (b) the time value of money; and

    (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

41. The main points from the IASB staff analysis include the following:

    (a) An entity is required to apply judgement when determining the appropriate number of scenarios and the probabilities assigned to each scenario. Such judgement will depend on facts and circumstances that are specific to that entity and its credit exposures, and will need to be periodically reassessed as facts and circumstances change. Therefore, diversity in measurement outcomes is inherent to the principle-based requirements for measurement of ECL.

    (b) Most entities have already developed accounting policies and established practices for scenario analysis, therefore any amendments to the requirements could lead to disruption in practice and result in additional costs.

    (c) PMAs have been a helpful tool to support timely recognition of ECL, because they compensate for the lack of historical information. However, by nature, PMAs involve a high degree of subjective management assessment and could have a significant effect on measuring ECL.

    (d) IFRS 9 has well-described objectives of what an entity is required to achieve in measuring ECL, but it does not prescribe specific techniques for measuring ECL, and it allows entities the flexibility to apply judgement and select methods that are most appropriate for their circumstances. This principle-based approach is designed to accommodate a wide range of circumstances, including the use of PMAs.

42. The IASB staff recommend that the IASB makes no changes to the requirements or the application guidance in IFRS 9 regarding measuring ECL. However, IASB staff note that the following:

    (a) As part of the Climate-related and other uncertainties in the financial statements project, the IASB is considering to provide some illustrative examples, including a potential example illustrating disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* about the effects of climate-related risks on an entity's credit risk management practices and how these practices relate to measuring ECL.

    (b) Lack of transparency surrounding PMAs can hinder the ability of investors to understand and assess the impact of PMAs on ECL measurements. To address this issue, IASB staff will consider whether enhancing disclosures could provide a more effective solution. The IASB will discuss the feedback analysis on credit risk disclosures at a future meeting.

IASB PIR project plan

43. The table below summarises the expected IASB timing of the PIR feedback discussion. Appendix A provides brief summary of the main matters raised by the respondents to RFI that haven't been deliberated by the IASB yet.

Topics for discussion	**Expected Timing[4]**
1. General approach to recognition of ECL	February 2024
2. Significant increases in credit risk	February 2024
3. Measuring ECL	
General	March 2024
Loan commitments and financial guarantee contracts	April 2024
4. Purchased or originated credit-impaired	April 2024
5. Interaction between impairment requirements in IFRS 9 and other IFRS Accounting requirements	April 2024
6. Credit risk disclosures	Q2 2024
7. Other matters	Q2 2024

44. Please note that the majority of points raised in the NZASB comment letter, including comments regarding simplified approach, will be discussed by the IASB as a part of the 'Other matters'.

45. We will continue to monitor the IASB's deliberations on the PIR of the impairment requirements in IFRS 9, and will update the NZASB as the IASB discussions progress.

Question for the Board

Q1. Does the Board have any feedback on the project update?

[4] The timing of papers on specific topics may change depending on the staff's further analysis of the feedback and the timing of discussions with the IASB's consultative bodies.

Appendix A: Matters raised by the RFI respondents yet to be discussed by the IASB

The IASB discussed a high level summary of the RFI feedback received at its November meeting.

Matters raised by the responses which have not yet been discussed yet by the IASB include the following.

Application matters in determining ECL discussed with the IFRIC are highlighted blue.

Measuring ECL

1. Some respondents identified application challenges on the measurement of ECL for revolving credit facilities, such as credit cards and overdraft facilities and for *loan commitments* issued at below-market terms. Respondents asked for the following:

   a) additional application guidance about the characteristics of *loan commitments* that fall in scope of the exception in paragraph 5.5.20 of IFRS 9 – specifically, whether facilities, such as corporate overdrafts, that are managed on an individual basis are outside the scope of this exception and, thus, their ECL is required to be measured over the maximum contractual period; or

   b) providing a definition of '*loan commitment'* – noting that the paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9 explains that 'loan commitments are firm commitments to provide credit under pre-specified terms and conditions'.

2. Some respondents identified diversity in practice in how entities assess whether a *financial guarantee contract* held by an entity is 'integral to' or 'part of' the contractual terms, and thus required to be included in the measurement of ECL.

3. Respondents also found paragraph 4.2.1(c) of IFRS 9 insufficiently clear for entities to determine the accounting outcome for *financial guarantee contracts* for which the premiums are received over time, rather than upfront. Furthermore, some respondents said there are no explicit requirements in IFRS 9 or other IFRS Accounting Standards on accounting for financial guarantee contracts that are not considered integral to the contractual terms.

Simplified approach

4. Some respondents, particularly some standard-setters (including NZASB) and accounting firms, said that *non-financial institutions experience some application challenges* such as including forward-looking information in a provision matrix.

Purchased or originated credit-impaired financial assets (POCI)

5. Some respondents observed diversity in how entities *assess whether a modified financial asset is originated credit-impaired*. Some entities derecognise restructured financial assets and recognise new assets as POCI, others continue to recognise them as Stage 3 assets.

6. There is also diversity in how entities recognise the *effects of improvements in credit risk after initial recognition of a POCI financial asset* - some recognise it as a negative entry to the ECL

allowance, others recognise it as an adjustment to the gross carrying amount of a POCI financial asset.

Interaction of impairment requirements with other requirements

7. Many respondents said IFRS 9 does not provide sufficient guidance for entities *to distinguish between credit losses from other changes in expected cash flows*, such as modification losses, revision of estimated contractual cash flows, derecognition, including forgiveness, and write-offs. Most feedback related to two questions:

   (a) does the reason for any cash shortfalls (credit vs non-credit related) affect the accounting outcome, including presentation of losses; and

   (b) what is the order in which entities shall apply IFRS 9 requirements, i.e. are the requirements for derecognition, modifications or impairment applied first?

8. Some respondents said there are various challenges related to recognition and presentation of *write-offs*. For example, they said IFRS 9 is not clear about accounting for write-offs, particularly for an asset for which the write-off is greater than the ECL loss allowance or the recognition of recoveries from amounts previously written off.

Credit risk disclosures

9. Most respondents said that the combination of disclosure objectives and minimum disclosure requirements is the right approach for a general purpose (rather than industry specific) accounting standard such as IFRS 7.

10. However, most respondents said the requirements are not applied consistently. To support *greater consistency*, respondents provided many suggestions, including that the IASB add minimum disclosure requirements in specific areas. Most feedback focused on disclosure *about PMAs, sensitivity analysis and determining SICR*.