

Board Meeting Agenda

Virtual — Thursday, 9 May 2024

Est Time	Item	Topic	Objective		Page
NON-PUBLIC SESSION					
PUBLIC SESSION					
9.20 am	3	NZ IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	(CB)		
30 min	3.1	Board memo	Consider	Paper	2
	3.2	Draft NZ IFRS 18	Approve	Paper	25
	3.3	Draft signing memo	Approve	Paper	175
	3.4	IASB IFRS 18 project summary	Note	Paper	180
9.50 am	4	IPSASB ED 88 – Arrangements for Conveying Rights over Assets	(JC)		
25 min	4.1	Board memo	Consider	Paper	197
	4.2	IPSAS ED 88	Consider	Paper	211
	4.3	Draft comment letter	Approve	Paper	232
10.15 am 10 min	Morning tea				
10.25 am	5	PBE Revenue and Transfer Expenses – New Zealand enforcement mechanisms and project update	(LvH and CB)		
60 min	5.1	Board memo	Consider	Paper	238
11.25 am	6	Omnibus Amendments to PBE Standards	(TB/GS)		
20 min	6.1	Board memo	Consider	Paper	259
	6.2	Draft ED	Approve	Paper	270
	6.3	Draft Consultation Document	Approve	Paper	281
	6.4	Draft <i>Improvements to IPSAS 2023</i>	Consider	Paper	293
11.45 am	7	Defer mandatory date of amendments to NZ IFRS 10 and NZ IAS 28	(AS)		
5 min	7.1	Board memo	Consider	Paper	312
	7.2	Draft amending standard	Approve	Paper	315
	7.3	Draft signing memo	Approve	Paper	323
NON-PUBLIC SESSION					
1.00 pm	Finish				

Next NZASB meeting: 13 June 2024, Auckland

Date: 26 April 2024
To: NZASB Members
From: Carly Berry
Subject: **NZ IFRS 18 *Presentation and Disclosure in Financial Statements***

COVER SHEET

Project priority and complexity

Project priority	<p>High</p> <p>IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> is a major new IFRS Accounting Standard that sets out requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity’s assets, liabilities, equity, income and expenses.</p> <p>The New Zealand equivalent to IFRS 18, NZ IFRS 18, is expected to affect all for-profit reporting entities in New Zealand.</p>
Complexity of Board decision-making at this meeting	<p>Medium</p> <p>We are asking the Board for approval to issue NZ IFRS 18.</p> <p>We are also asking the Board to agree with our approach to RDR concessions in NZ IFRS 18 for Tier 2 for-profit entities, as well as our conclusion on the application of the PBE Policy Approach to NZ IFRS 18.</p>

Overview of agenda item

Project status	Approval of NZ IFRS 18.
Project purpose	Issue NZ IFRS 18.
Board action required at this meeting	<p>APPROVAL to issue NZ IFRS 18.</p> <p>AGREEMENT on approach to RDR concessions in NZ IFRS 18 for Tier 2 for-profit entities.</p> <p>AGREEMENT NOT to develop a PBE Standard using NZ IFRS 18 as a starting point in advance of the IPSASB completing its Presentation of Financial Statements project.</p>

Introduction and purpose¹

1. In April 2024, the IASB published IFRS 18 *Presentation and Disclosure in Financial Statements*. Consequently, in line with the Board's standard-setting process for the for-profit sector, the purpose of this memo is to:
 - (a) seek the Board's approval to issue NZ IFRS 18 *Presentation and Disclosure in Financial Statements*;
 - (b) seek the Board's agreement with our recommended approach to RDR concessions in NZ IFRS 18 for Tier 2 for-profit entities; and
 - (c) ask the Board to consider the application of the *Policy Approach to Developing the Suite of PBE Standards* ([PBE Policy Approach](#)) to NZ IFRS 18 and to seek the Board's agreement with our recommendation in this regard.

Recommendations

2. We recommend that the Board:
 - (a) AGREES with our approach to RDR concessions in NZ IFRS 18 for Tier 2 for-profit entities;
 - (b) APPROVES NZ IFRS 18 for issue;
 - (c) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue NZ IFRS 18; and
 - (d) CONSIDERS the application of the PBE Policy Approach and AGREES NOT to develop a PBE Standard using NZ IFRS 18 as a starting point in advance of the IPSASB completing its Presentation of Financial Statements project.

Background²

3. The publication of IFRS 18 is the culmination of the IASB's work over several years, through its Primary Financial Statements project, to address investor concerns about the comparability and transparency of companies' performance reporting. A key milestone of the Primary Financial Statements project was the publication of ED *General Presentation and Disclosures* in December 2019. The main proposals in the ED were to:
 - (a) require companies to present additional defined subtotals in the statement of profit or loss.
 - (b) strengthen requirements for disaggregating information in a useful way in the financial statements – including requirements to analyse operating expenses and identify unusual income and expenses.
 - (c) require companies to disclose information about management performance measures in the notes to the financial statements, including a reconciliation to measures specified by IFRS Accounting Standards

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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

² [Appendix 2](#) contains a summary of key milestones occurring from 2019 (i.e. when the IASB's exposure draft was published) up to the publication of IFRS 18.

4. The Board issued the ED for comment in New Zealand around the same time. We undertook a number of outreach activities with New Zealand constituents to obtain their feedback on the ED's proposals, which helped to inform the Board's [comment letter](#). The Board did not receive any comment letters from New Zealand constituents.
5. The IASB received 216 comment letters from its world-wide constituents, including the Board's submission and a submission from [Chartered Accountants Australia and New Zealand](#).
6. Between October and December 2022, the IASB conducted targeted outreach on selected key decisions made during their redeliberations on the ED's proposals. New Zealand constituents participated in two roundtable events³ and provided feedback to IASB representatives at these events.
7. With the publication of IFRS 18 in April 2024, the IASB's Primary Financial Statements project is now complete. However, the IASB intends to provide implementation support, via a dedicated [webpage](#), to constituents from now until 2027.

High-level overview of the requirements in IFRS 18

Key new requirements

8. IFRS 18 introduces:
 - (a) the presentation of new defined subtotals in the statement of profit or loss – “operating profit” and “profit before financing and income taxes”.
 - (b) disclosure of management-defined performance measures.
 - (c) enhanced requirements for grouping (aggregation and disaggregation) of information.

Other notable changes

9. IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. The requirements in IAS 1 have therefore been:
 - (a) replaced by new requirements in IFRS 18
 - (b) transferred to IFRS 18 with only limited wording changes; or
 - (c) moved to IAS 8 *Basis of Preparation of Financial Statements*⁴ or IFRS 7 *Financial Instruments: Disclosure* with limited wording changes.

The IASB has published [reference material](#) which shows how the contents of IAS 1 and IFRS 18 or other IFRS Accounting Standards correspond. This material also includes a table which provides mark-ups of the requirements that the IASB has brought forward from IAS 1 to IFRS 18.

10. IFRS 18 has also made changes to IAS 7 *Statement of Cash Flows*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*.
11. Agenda item 3.3 is an [IASB project summary](#) which provides more detailed information on the requirements of IFRS 18.

³ One event was jointly hosted by the XRB and AASB and the other event was solely hosted by the XRB.

⁴ Previous IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

RDR concessions

12. As noted in paragraphs 8 and 9, IFRS 18 introduces new disclosure requirements and also either replaces or incorporates some of the existing IAS 1 disclosure requirements. Those IAS 1 disclosure requirements that are not replaced by, or incorporated into, IFRS 18 have been moved to IAS 8 or IFRS 7.
13. Therefore, when considering RDR concessions with respect to NZ IFRS 18, the Board will need to consider each of the following.
 - (a) New disclosure requirements in NZ IFRS 18.
 - (b) NZ IAS 1 disclosure requirements moved to NZ IFRS 18, NZ IAS 8 or NZ IFRS 7.
14. The considerations referred to above must take place within the context of recent developments impacting on the future of NZ IFRS RDR. In summary:
 - (a) The IASB expects to publish NZ IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in May 2024. This new standard will contain reduced disclosures for eligible subsidiaries.
 - (b) At its March 2024 meeting, the Board agreed with our recommended approach to IFRS 19 in New Zealand – that is, to replace the current Tier 2 for-profit reduced disclosure requirements with a New Zealand-equivalent to IFRS 19 (with an expanded scope).
 - (c) We plan to publish a consultation document which will contain this approach (as above) and an exposure draft of NZ IFRS 19 (Tier 2 consultation). Timing for publication is still to be determined but is expected to occur during Q3 2024.
 - (d) In July 2024, the IASB is expected to publish a “catch-up” exposure draft, which will contain the IASB’s views on whether and how to reduce the disclosures in new Standards and amendments issued after 28 February 2021 in IFRS 19⁵. This ED may include proposals for reduced disclosures for IFRS 18. The ED is not expected to include proposals for reduced IAS 1 disclosures – at its March 2024 meeting, the IASB tentatively decided not to propose amending disclosure requirements that are carried forward from IAS 1 to IFRS 18 because the IASB has already considered them during the development of IFRS 18.

New disclosure requirements in NZ IFRS 18

15. We do not recommend proposing any RDR concessions with respect to the new disclosure requirements in NZ IFRS 18 (i.e. those disclosure requirements that do not originate from NZ IAS 1) at this time. The IASB’s catch-up ED will be exposed for comment here in New Zealand, either as part of the Tier 2 consultation, or as a separate consultation. Tier 2 for-profit entities

⁵ As noted in agenda item 6.1 from the March 2024 meeting – 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.

will therefore have the opportunity to provide their feedback on any proposals for reduced disclosures in IFRS 18.

16. Once the Board has considered the feedback from the Tier 2 consultation and made its final decision on the approach to IFRS 19 in New Zealand, we will take one of the following actions:
 - (a) *If the Board's final decision is to replace RDR with NZ IFRS 19 (or similar)⁶ – we will adopt the IASB's proposed reduced IFRS 18 disclosures (if any).*
 - (b) *If the Board's decision is not to replace RDR with NZ IFRS 19 (or similar)⁶ – we will consider the feedback from New Zealand constituents on any proposals for reduced IFRS 18 disclosures when determining RDR concessions.*

NZ IAS 1 disclosure requirements moved to NZ IFRS 18, NZ IAS 8 or NZ IAS 7

17. There are already RDR concessions relating to NZ IAS 1 disclosure requirements. Refer to [Appendix 1](#) for a view of the existing RDR concessions in NZ IAS 1 and where they are now located.
18. With respect to these RDR concessions, we recommend retaining the current RDR concessions on NZ IAS 1 disclosures that are now incorporated into NZ IFRS 18, NZ IAS 8 or NZ IFRS 7 (where there are only minor wording changes⁷). This approach would allow Tier 2 entities that want to early adopt NZ IFRS 18 to make use of the existing RDR concessions on NZ IAS 1 disclosures that are now incorporated into NZ IFRS 18. Until the outcome of the Tier 2 consultation is known, there is no practical reason to disallow existing RDR concessions.
19. We have not identified any costs that cannot be mitigated and that would outweigh the benefit of allowing Tier 2 entities to continue making use of the existing RDR concessions. These potential costs include:
 - (a) stakeholder confusion as to why there are RDR concessions in a new NZ IFRS, as our due process requires a consultation on proposed RDR requirements, which typically occurs after a new NZ IFRS is published. However, when NZ IFRS 18 is published we can explain that the RDR concessions in NZ IFRS 18 relate to unchanged NZ IAS 1 disclosures and therefore a consultation is not required.
 - (b) additional standard-setting time moving RDR concessions into NZ IFRS 18, NZ IAS 8 and NZ IFRS 7 (as applicable) before we know the outcome of the Tier 2 consultation (as these RDR concessions may then change anyway). However, standard setting time is minimal, as it will involve merely transferring the RDR concessions from one standard to another.
 - (c) not considering NZ IFRS 18 as a whole – instead, we will be addressing RDR concessions in the standard on a “piecemeal” basis due to our recommendation in paragraph 15. However, this is only temporary – depending on the outcome of the Tier 2 consultation, we will either amend the RDR concessions to align with IFRS 19 or we will reconsider RDR concessions for NZ IFRS 18 as a whole.

⁶ A “similar” Board decision would be to amend RDR to align with IFRS 19 disclosure requirements.

⁷ Wording changes that are not minor would likely result in the disclosure requirement being “new” for the purposes of our RDR approach in this agenda item – in such cases, the recommendation in paragraph 15 would be applicable.

Consistency with Australian Accounting Standards

20. The Australian Accounting Standards Board (AASB) expects to approve AASB 18 *Presentation and Disclosure in Financial Statements*, which incorporates the requirements of IFRS 18 at its June meeting.
21. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis – with respect to AASB 18, this will occur at a future meeting.

Question for the Board

Q1. Does the Board AGREE with our approach to RDR concessions in NZ IFRS 18?

Specifically, does the Board AGREE:

- not to propose any RDR concessions with respect to the new disclosure requirements in NZ IFRS 18 (i.e. those disclosure requirements that do not originate from NZ IAS 1) at this time?
- to retain the current RDR concessions on NZ IAS 1 disclosures that are now incorporated into NZ IFRS 18, NZ IAS 8 or NZ IFRS 7 (where there are only minor wording changes)?

Due process

22. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED *General Presentation and Disclosures* and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB’s July 2023 meeting.⁸
23. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.
24. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft standard and signing memorandum

25. Attached as agenda item 3.2 is a draft copy of NZ IFRS 18. NZ IFRS 18 is identical to IFRS 18 except for:
- (a) New Zealand-specific introduction and numbering;

⁸ A summary of the IASB’s February 2023 meeting is available at: [IFRS - IASB Update July 2023](#)

- (b) a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 for-profit entities;
- (c) the inclusion of RDR paragraphs applicable to Tier 2 for-profit entities;
- (d) New Zealand specific wording for commencement and application of the amending standard; and
- (e) consequential amendments to FRS-42 *Prospective Financial Statements*, FRS-43 *Summary Financial Statements*, FRS-44 *New Zealand Additional Disclosures* and XRB A1 *Application of the Accounting Standards Framework*.

26. In addition to the above, we have made minor wording changes to IFRS 18.B129(b)⁹. IFRS 18.B129 provides authoritative guidance around the rebuttable presumption that a subtotal of income and expenses that an entity uses in public communications outside its financial statements communicates to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole. Specifically, paragraph B129(b) states that:

Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management’s view of an aspect of the financial performance of the entity as a whole are that the subtotal...communicates performance related to financial statements prepared in accordance with an accounting framework other than IFRS Accounting Standards.

27. We have made minor wording changes to paragraph B129(b), which do not change the IASB’s intended meaning of the paragraph, as follows:

Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management’s view of an aspect of the financial performance of the entity as a whole are that the subtotal... ~~communicates performance related to financial statements prepared in accordance with an accounting framework other than~~ which are not prepared in accordance with IFRS Accounting Standards NZ IFRS or NZ IFRS RDR”.

The wording changes have been made:

- (a) to avoid referring to NZ IFRS as an “accounting framework” – NZ IFRS is instead part of the New Zealand Accounting Standards Framework and is applicable to Tier 1 for-profit entities.
- (b) to ensure that those entities applying NZ IFRS RDR will be able to make use of NZ IFRS 18.B129(b).

⁹ IFRS 18.B29(b): Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management’s view of an aspect of the financial performance of the entity as a whole are that the subtotal...communicates performance related to financial statements prepared in accordance with an accounting framework other than IFRS Accounting Standards.

Amendments affecting the entire suite of NZ IFRS

28. As a consequence of the publication of NZ IFRS 18 there are two amendments which will affect the entire suite of NZ IFRS.
- (a) Amending the full name of NZ IFRS – from “New Zealand equivalents to International Financial Reporting Standards” to “New Zealand equivalents to **IFRS Accounting Standards**”. This change is required because the IASB has changed references to “IFRS”, “IFRSs”, “IFRS Standards” and “International Financial Reporting Standards” to “IFRS Accounting Standards”.
 - (b) The title of NZ IAS 8 has changed. This will require an update to the rubric in many NZ IFRSs. As an example, the rubric for NZ IFRS 18 is shown below with the reference to NZ IAS 8 highlighted.

New Zealand Equivalent to IFRS 18 *Presentation and Disclosure in Financial Statements* is set out in paragraphs 1–132 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary. The Standard should be read in the context of its objective, the IASB’s Basis for Conclusions on IFRS 18 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018. **NZ IAS 8 *Basis of Preparation of Financial Statements*** provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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

The references referred to in (a) and (b) above have been updated throughout NZ IFRS 18 and the consequential amendments to other NZ IFRS in agenda item 3.2. For other affected NZ IFRSs, we will look to make the necessary editorial changes in the near future.

29. Attached as agenda item 3.3 is a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Commencement and application

30. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply “must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect”. Furthermore, the Legislation Act 2019 does not allow legislation to have retrospective effect in New Zealand.
31. We have considered whether any modifications to IFRS 18 are needed to ensure consistency with the abovementioned legislative restrictions.

Mandatory date

32. As shown in Agenda Item 3.2, NZ IFRS 18 will be applicable to New Zealand for-profit entities for annual reporting periods beginning on or after 1 January 2027 – with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect (standards take effect on the 28th day after gazetting). This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

Use of the term “retrospective” in IFRS 18

33. IFRS 18 uses the term “retrospective” in the context of:
- (a) retrospective application of accounting policies and retrospective restatements of item (paragraph 37 and the related heading, and paragraphs 107-108); and
 - (b) the effective date of IFRS 18 and transition requirements (paragraphs C2 and C7).
34. References to “retrospective” in the context of paragraph 33(a) above are included in IFRS 18 paragraphs originating from IAS 1. Therefore, these paragraphs are not new and are already effective in New Zealand through the application of NZ IAS 1. These paragraphs also do not relate to the application of the Standard itself as secondary legislation.
35. References to “retrospective” in the context of paragraph 33(b) above are included in new paragraphs in IFRS 18 (i.e. in paragraphs not originating from IAS 1). These paragraphs also relate to the application of the Standard itself. While such retrospective application does not constitute ‘retrospective effect’ for legislative purposes, we have amended the wording in these paragraphs to avoid perceived inconsistency with the Legislation Act 2019. Therefore, instead of “retrospective” NZ IFRS 18 uses the phrase “as if it had always been applied”.

Questions for the Board

- Q2. Does the Board APPROVE for issue NZ IFRS 18 *Presentation and Disclosure in Financial Statements*?
- Q3. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board, requesting approval to issue NZ IFRS 18?

PBE Policy Approach

36. IFRS 18 will replace IAS 1 when it becomes applicable. The IPSASB’s standard, IPSAS 1 *Presentation of Financial Statements*, is drawn primarily from IAS 1, therefore we are required to apply the PBE Policy Approach to determine whether to develop a PBE Standard using NZ IFRS 18 as a starting point.
37. The relevant requirements from the PBE Policy Approach are set out below.
- (a) Paragraph 28 states that, in considering a change to an NZ IFRS that relates to a topic for which there is an existing PBE Standard based on an IPSAS, the Board will consider the factors in the development principle in determining whether to initiate a development of the PBE Standards.
 - (i) Particular emphasis in this case needs to be placed on the IPSASB’s likely response to the change, including whether the IPSASB is expected to address the change in an acceptable timeframe.
 - (b) Paragraph 29 states that, given the presumption that any IPSAS issued by the IPSASB will be included in the PBE Standards, there are considerable potential costs and risks associated with “getting ahead of the IPSASB”. Therefore, the Board needs to decide whether to:

- (ii) develop a PBE Standard ahead of the IPSASB; or
- (iii) wait for the IPSASB's response.

If the issue is already on the IPSASB's active work plan, the Board would normally wait for the IPSASB to complete its work, unless the Board is of the view that there is an urgent need for action in New Zealand or is of the view that the IPSAS is unlikely to be appropriate in the New Zealand context.

38. Table 1 below considers the factors in the development principle as it applies to NZ IFRS 18.

Table 1

Factor in the Development Principle	Comment
<p>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.</p>	<p>IFRS 18 was developed to address investor concerns about the comparability and transparency of companies’ performance reporting. IFRS 18 also contains enhanced requirements for aggregation and disaggregation of information.</p> <p>Improvements to comparability and transparency of performance reporting, along with enhanced aggregation and disaggregation of information is likely to lead to higher quality financial reporting by PBEs.</p>
<p>Whether the benefits of a potential development will outweigh the costs, considering as a minimum:</p> <p>(i) <i>relevance to the PBE sector as a whole</i>: 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;</p> <p>(ii) <i>relevance to the not-for-profit or public sector sub-sectors</i>: 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;</p> <p>(iii) <i>coherence</i>: the impact on the entire suite of PBE Standards (e.g. can the change be adopted without destroying the coherence of the suite);</p> <p>(iv) <i>the impact on mixed groups</i>.</p>	<ul style="list-style-type: none"> NZ IFRS 18 sets out requirements for the presentation and disclosure of information in general purpose financial statements. The purpose of NZ IFRS 18 is therefore relevant to both not-for-profit and public sector sub-sectors, as well as the PBE sector as a whole. NZ IFRS 18 replaces NZ IAS 1. An equivalent PBE Standard would replace PBE IPSAS 1 <i>Presentation of Financial Reports</i>. Coherence in the suite of PBE Standards will be maintained, as long as references to PBE IPSAS 1 are replaced by references to a new PBE Standard based on NZ IFRS 18 and the appropriate consequential amendments are made to other PBE Standards (such as PBE IPSAS 2 <i>Cash Flow Statements</i> and PBE IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>). Regarding mixed groups – there are no new recognition and measurement requirements in NZ IFRS 18, therefore consolidation adjustments are not a relevant factor in this decision. The financial statements of entities in different sectors would be less comparable, due to the new presentation requirements in NZ IFRS 18. Developing a PBE Standard using NZ IFRS 18 as a starting point may help to make for-profit and PBE financial statements more comparable, depending on public sector and not-for-profit-specific requirements.
<p>The IPSASB’s likely response to the change (e.g. whether the IPSASB is expected to develop an IPSAS on the topic in an acceptable time frame).</p>	<p>The IPSASB has an active project on its work program – Presentation of Financial Statements. The objective of this project is to enhance communication of financial information by replacing IPSAS 1 to help all public sector entities communicate their financial information better for accountability purposes and to the decision-makers that use this information.</p> <p>As part of this project, the IPSASB will analyse relevant IASB developments (such as the publication of IFRS 18) to consider the extent to which equivalent changes should be proposed in the new IPSAS to replace IPSAS 1.</p> <p>The IPSASB formally agreed to commence this project in September 2023. Expected completion of this project is December 2027, upon IPSASB approval of the final pronouncement.</p>

Factor in the Development Principle	Comment
	<p>This is a significant project for the IPSASB, which will necessarily take several years to complete. Any new PBE Standard developed using the new IPSAS as a starting point would likely become applicable several years after the mandatory date of NZ IFRS 18.</p> <p>Currently, the IPSASB expects to expose its proposals for comment during two stages – in 2025 (consultation paper with illustrative ED) and in 2026 (ED). Therefore, New Zealand constituents will have an opportunity to provide comments on the direction of the IPSASB’s project at key stages during the project. We are also in the position to provide feedback, via the New Zealand IPSASB member, on the project throughout its life. This is likely to be a better use of standard-setting time than developing a PBE Standard ahead of the IPSASB, especially since there is no indication that a new presentation and disclosure standard in New Zealand is urgently required at this time.</p>

Staff recommendation

- 39. Based on our analysis of the factors in Table 1, our recommendation is not to develop a PBE Standard using NZ IFRS 18 as a starting point in advance of the IPSASB completing its Presentation of Financial Statements project.
- 40. We will monitor the IPSASB’s Presentation of Financial Statements project and proactively seek feedback from New Zealand constituents on the IPSASB’s proposals in 2025 and 2026. To assist with speeding up the process of developing a PBE Standard based on the new IPSAS, we will also consider how the IPSASB’s proposals can be applied to not-for-profit entities.

Question for the Board

- Q4. Does the Board AGREE NOT to develop a PBE Standard using NZ IFRS 18 as a starting point in advance of the IPSASB completing its Presentation of Financial Statements project?

Next steps – communications with stakeholders

41. We are considering our communications strategy with respect to NZ IFRS 18. Our key objectives with communications to stakeholders are to:
 - (a) inform stakeholders about the substantive changes around presentation and disclosure in financial statements; and
 - (b) provide support for for-profit entities with implementing the new requirements.
42. We expect the timeframe for communications to span from April 2024 (when IFRS 18 is first published) through to 2027 (when NZ IFRS 18 becomes mandatory).
43. The nature and frequency of communications will vary over this timeframe. As at the date of this memo, we have:
 - (a) notified stakeholders of the publication of IFRS 18 through the XRB’s Pitopito Kōrero;
 - (b) put an international update relating to IFRS 18 on the XRB’s website; and
 - (c) engaged with the IASB to determine whether a joint XRB-IASB education session with stakeholders (either virtual or hybrid) is possible, potentially together with the AASB. Such a session may take place in late October/early November and is expected to include participation from an IASB board member.
44. Other activities in 2024 would involve alerting stakeholders to the publication of NZ IFRS 18 and communicating key aspects of the Standard in the next Accounting Need to Know session.
45. We are considering our communications strategy with respect to NZ IFRS 18. Our key objectives with communications to stakeholders are to:
46. Throughout 2025-2027, we plan to (where appropriate):
 - (a) share implementation experiences from early adopters (both international and domestic) where these would benefit for-profit entities;
 - (b) prepare “key focus” guidance pieces (which could include webinars with guest speakers) on specific elements, where necessary, to aid for-profit entities’ considerations of key areas, and maintain stakeholders’ awareness of these new requirements; and
 - (c) issue key NZ IFRS 18 reminder communications in the lead up to the mandatory date.
47. The IASB will also be conducting various implementation support activities over this timeframe, which we will engage with to ensure there is no inconsistencies or duplication with

Attachments

- Agenda item 3.2: Draft NZ IFRS 18 *Presentation and Disclosure in Financial Statements*
- Agenda item 3.3: Draft signing memorandum
- Agenda item 3.4: IFRS 18 project summary

Appendix 1: Mapping of existing RDR concessions in NZ IAS 1 to NZ IFRS 18, NZ IFRS 8 or NZ IFRS 7

The table below sets out the new location for NZ IAS 1 disclosures for which there is an RDR concession. The table also indicates whether any changes to the wording of the NZ IAS 1 disclosure requirements are minor – if so, we recommend that the RDR concession is moved to the new location (as recommended in paragraph 18).

RDR concession in NZ IAS 1	New location	Minor wording changes only?
<p>10(f) A complete set of financial statements comprises...a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.</p>	<p>NZ IFRS 18.10(g) A complete set of financial statements comprises...a statement of financial position as at the beginning of the preceding period if required by paragraph 37.</p>	<p>Yes</p>
<p>*15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the New Zealand Equivalent to the IASB <i>Conceptual Framework for Financial Reporting</i> issued in 2018 (2018 NZ <i>Conceptual Framework</i>). The application of NZ IFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.</p> <p>RDR 15.1 Financial statements shall present fairly the financial position, financial performance and cash flows of a Tier 2 entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 2018 NZ <i>Conceptual Framework</i>. The application of the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), with additional</p>	<p>NZ IAS 8.6A Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the New Zealand Equivalent to the IASB <i>Conceptual Framework for Financial Reporting</i> issued in 2018 (2018 NZ <i>Conceptual Framework</i>). The application of NZ IFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.</p> <p>RDR 6A.1 Financial statements shall present fairly the financial position, financial performance and cash flows of a Tier 2 entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 2018 NZ <i>Conceptual Framework</i>. The application of the New Zealand equivalents to IFRS Accounting Standards Reduced Disclosure Regime (NZ IFRS RDR), with additional disclosure when</p>	<p>Yes</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.	necessary, is presumed to result in financial statements that achieve fair presentation.	
<p>*16 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.</p> <p>RDR 16.1 A Tier 2 entity would not be able to state compliance with IFRSs.</p>	<p>NZ IAS 8.6B</p> <p>An entity whose financial statements comply with IFRS Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRS Accounting Standards unless they comply with all the requirements of IFRS Accounting Standards.</p> <p>RDR 6B.1 A Tier 2 entity would not be able to state compliance with IFRS Accounting Standards.</p>	<p>Yes</p>
<p>*40A An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:</p> <p>(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and</p> <p>(b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.</p>	<p>NZ IFRS 18.37</p> <p>An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the comparative information required in paragraphs 31–32 if:</p> <p>(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and</p> <p>(b) the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position as at the beginning of the preceding period.</p>	<p>Yes</p>
<p>*40B In the circumstances described in paragraph 40A, an entity shall present three statements of financial position as at:</p> <p>(a) the end of the current period;</p> <p>(b) the end of the preceding period; and</p>	<p>NZ IFRS 18.38</p> <p>In the circumstances described in paragraph 37, an entity shall present three statements of financial position – a statement of financial position as at:</p> <p>(a) the end of the current reporting period;</p>	<p>Yes</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
(c) the beginning of the preceding period.	(b) the end of the preceding period; and (c) the beginning of the preceding period.	
*40C When an entity is required to present an additional statement of financial position in accordance with paragraph 40A, it must disclose the information required by paragraphs 41–44 and NZ IAS 8. However, it need not present the related notes to the opening statement of financial position as at the beginning of the preceding period.	NZ IFRS 18.39 When an entity is required to present a third statement of financial position applying paragraph 37, it shall disclose the information required by paragraphs 33–36 and NZ IAS 8. However, it need not provide the related notes to the statement of financial position as at the beginning of the preceding period.	Yes
*40D The date of that opening statement of financial position shall be as at the beginning of the preceding period regardless of whether an entity’s financial statements present comparative information for earlier periods (as permitted in paragraph 38C).	NZ IFRS 18.40 The date of that third statement of financial position shall be as at the beginning of the preceding period regardless of whether an entity’s financial statements provide comparative information for earlier periods (as permitted by paragraphs B15-B15).	Yes
*42(b) When it is impracticable to reclassify comparative amounts, an entity shall disclose the nature of the adjustments that would have been made if the amounts had been reclassified.	NZ IFRS 18.34(b) When it is impracticable to reclassify comparative amounts, an entity shall disclose the nature of the adjustments that would have been made if the amounts had been reclassified.	Yes
*61 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period; and (b) more than twelve months after the reporting period.	NZ IFRS 18.97 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than 12 months after the reporting period; and (b) more than 12 months after the reporting period.	Yes
*65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NZ IFRS 7 <i>Financial Instruments: Disclosures</i> requires	NZ IFRS 18.B93	Yes

RDR concession in NZ IAS 1	New location	Minor wording changes only?
<p>disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.</p>	<p>Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NZ IFRS 7 requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories, and the expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that it expects to recover more than 12 months after the reporting period.</p>	
<p>80A If an entity has reclassified</p> <p>(a) a puttable financial instrument classified as an equity instrument, or</p> <p>(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument.</p> <p>between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.</p>	<p>NZ IFRS 7.19B</p> <p>If an entity has reclassified any of the following financial instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:</p> <p>(a) a puttable financial instrument classified as an equity instrument applying paragraphs 16A–16B of NZ IAS 32; or</p> <p>(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument applying paragraphs 16C–16D of NZ IAS 32.</p>	<p>Yes</p>
<p>*90 An entity shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.</p>	<p>NZ IFRS 18.93</p> <p>An entity shall either present in the statement presenting comprehensive income or disclose in the notes the amount of income taxes relating to each item of other comprehensive income, including reclassification adjustments (see paragraphs 61A and 63 of NZ IAS 12).</p>	<p>Yes</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
<p>*92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.</p> <p>*94 An entity may present reclassification adjustments in the statement(s) of profit or loss and other comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.</p>	<p>NZ IFRS 18.90</p> <p>An entity shall present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income (see paragraphs B88–B89).</p> <p>NZ IFRS 18.92</p> <p>An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.</p>	<p>Yes</p>
<p>*104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.</p>	<p>NZ IFRS 18.83</p> <p>An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:</p> <p>(a) the total for each of:</p> <ul style="list-style-type: none"> (i) depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of NZ IAS 16 <i>Property, Plant and Equipment</i>, paragraph 79(d)(iv) of NZ IAS 40 <i>Investment Property</i> and paragraph 53(a) of NZ IFRS 16 <i>Leases</i>; (ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of NZ IAS 38 <i>Intangible Assets</i>; (iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying NZ IAS 19 <i>Employee Benefits</i> and the amount for services received from employees recognised by an entity applying NZ IFRS 2 <i>Share-based Payment</i>; 	<p>No</p> <p>The NZ IFRS 18 requirement explicitly requires additional disclosure of certain expenses by nature compared to the NZ IAS 1 disclosure requirement.</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
	<ul style="list-style-type: none"> (iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of NZ IAS 36 <i>Impairment of Assets</i>; and (v) write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of NZ IAS 2; and (b) for each total listed in (a)(i)–(v): <ul style="list-style-type: none"> (i) the amount related to each line item in the operating category (see paragraph B84); and (ii) a list of any line items outside the operating category that also include amounts relating to the total. 	
<p>107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.</p> <p>RDR 107.1 A Tier 2 entity is not required to disclose the related amount per share of dividends recognised as distributions to owners during the period.</p>	<p>NZ IFRS 18.110</p> <p>An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share.</p> <p>RDR 110.1 A Tier 2 entity is not required to disclose the related amount per share of dividends recognised as distributions to owners during the period.</p>	<p>Yes</p>
<p>*131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses</p>	<p>NZ IAS 8.31G</p> <p>Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the</p>	<p>Yes</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.	asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.	
*134 An entity shall disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.	NZ IFRS 18.126 An entity shall disclose in the notes information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital.	Yes
<p>*135 To comply with paragraph 134, the entity discloses the following:</p> <p>(a) qualitative information about its objectives, policies and processes for managing capital, including:</p> <p>(i) a description of what it manages as capital;</p> <p>(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and</p> <p>(iii) how it is meeting its objectives for managing capital.</p> <p>(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).</p> <p>(c) any changes in (a) and (b) from the previous period.</p> <p>(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.</p>	<p>NZ IFRS 18.127</p> <p>To comply with paragraph 126 an entity shall disclose in the notes:</p> <p>(a) qualitative information about its objectives, policies and processes for managing capital, including:</p> <p>(i) a description of what it manages as capital;</p> <p>(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and</p> <p>(iii) how it is meeting its objectives for managing capital.</p> <p>(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges).</p> <p>(c) any changes in (a) and (b) from the preceding reporting period.</p>	Yes

RDR concession in NZ IAS 1	New location	Minor wording changes only?
<p>(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.</p> <p>The entity bases these disclosures on the information provided internally to key management personnel.</p>	<p>(d) whether during the reporting period it complied with any externally imposed capital requirements to which it is subject.</p> <p>(e) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.</p> <p>NZ IFRS 18.128</p> <p>An entity shall base the note disclosures in paragraph 127 on the information provided internally to key management personnel.</p>	
<p>*136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user’s understanding of an entity’s capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.</p>	<p>NZ IFRS 18.129</p> <p>An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user’s understanding of an entity’s capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.</p>	<p>Yes</p>
<p>*136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):</p> <p>(a) summary quantitative data about the amount classified as equity;</p> <p>(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;</p> <p>(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and</p>	<p>NZ IFRS 7.19A</p> <p>For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of NZ IAS 32, an entity shall disclose (to the extent not disclosed elsewhere):</p> <p>(a) summary quantitative data about the amount classified as equity;</p> <p>(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;</p>	<p>Yes</p>

RDR concession in NZ IAS 1	New location	Minor wording changes only?
(d) information about how the expected cash outflow on redemption or repurchase was determined.	(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and (d) information about how the expected cash outflow on redemption or repurchase was determined.	
<p>*137 An entity shall disclose in the notes:</p> <p>(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and</p> <p>(b) the amount of any cumulative preference dividends not recognised.</p>	<p>NZ IFRS 18.132</p> <p>An entity shall disclose in the notes:</p> <p>(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the related amount per share; and</p> <p>(b) the amount of any cumulative preference dividends not recognised.</p>	<p>Yes</p>
<p>*138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:</p> <p>(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);</p> <p>(b) a description of the nature of the entity’s operations and its principal activities;</p> <p>(c) the name of the parent and the ultimate parent of the group; and</p> <p>(d) if it is a limited life entity, information regarding the length of its life.</p>	<p>NZ IFRS 18.116</p> <p>If not disclose elsewhere in information published with the financial statements, an entity shall disclose in the notes:</p> <p>(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);</p> <p>(b) a description of the nature of the entity’s operations and its principal activities;</p> <p>(c) the name of the parent and the ultimate parent of the group; and</p> <p>(d) if it is a limited life entity, information regarding the length of its life.</p>	<p>Yes</p>

Appendix 2: Timeline of key milestones from 2019 to 2024

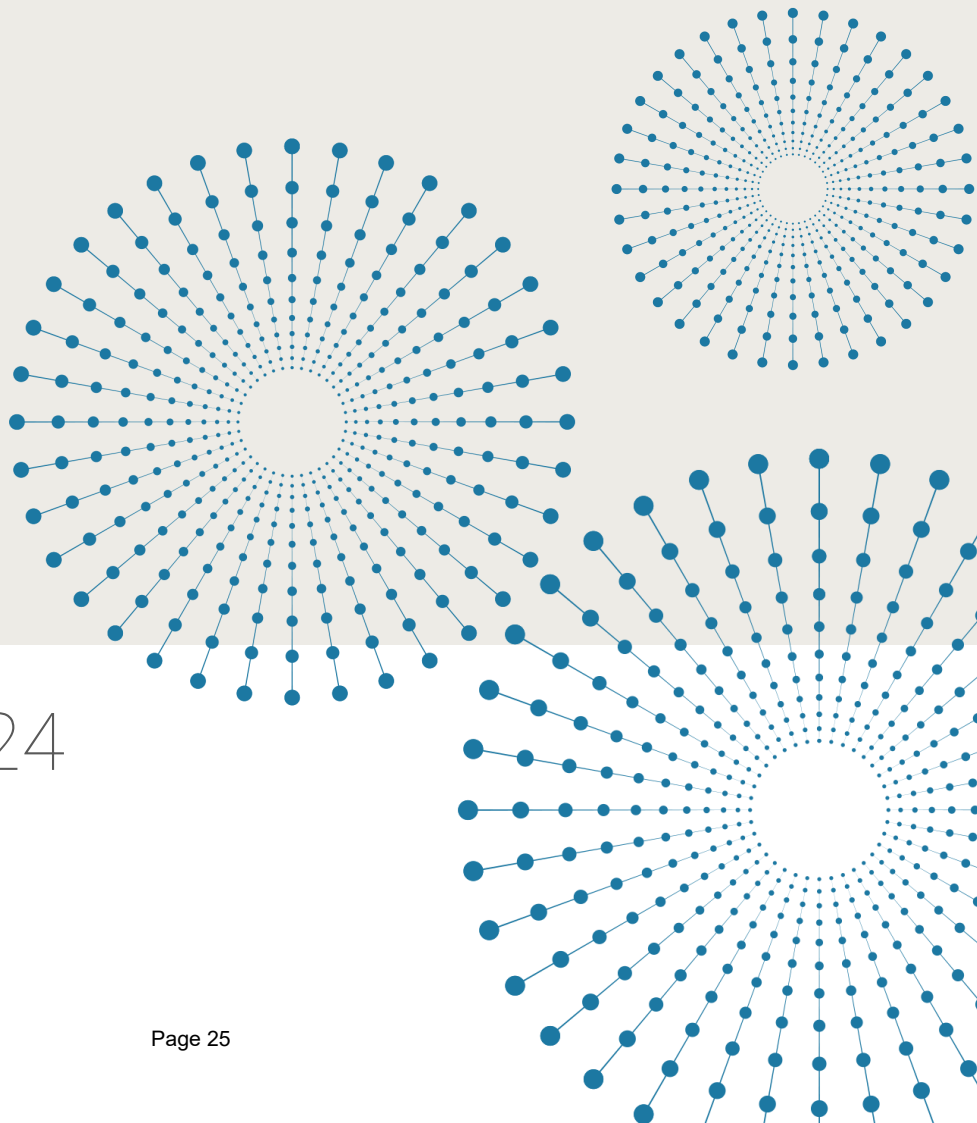
Date	Activity
Sep-Dec 2019	XRB staff conduct targeted outreach on the IASB's forthcoming proposals.
Dec 2019	The IASB issues Exposure Draft ED/2019/7 <i>General Presentation and Disclosures</i> (ED/2019/7).
Dec 2019/Jan 2020	The Board issues ED/2019/7 for comment in New Zealand.
Feb-Aug 2020	XRB staff conduct targeted outreach to New Zealand constituents on ED/2019/7
Sep 2020	The Board submits its comment letter on ED/2019/7.
May 2022	XRB staff provide the Board with an update on the IASB's redeliberations following the analysis of feedback on ED/2019/7. This update includes the IASB's response to issues raised in the Board's comment letter.
Oct-Nov 2022	The IASB conducts targeted outreach on selected key decisions made during their redeliberations on ED/2019/7. XRB staff organise for New Zealand constituents to provide feedback to the IASB during two roundtable events in November 2022.
Jul 2023	The IASB reviews the due process steps it has taken since the publication of ED/2019/7 and concludes that the applicable due process steps have been completed.
Apr 2024	The IASB issues IFRS 18.

NZ IFRS 18

Presentation and Disclosure in Financial Statements

Effective from 1 January 2027

Issued May 2024



New Zealand Equivalent to International Financial Reporting Standard 18 Presentation and Disclosure in Financial Statements (NZ IFRS 18)

Issued May 2024

This Tier 1 and Tier 2 For-profit Accounting Standard has been issued as a result of a new IFRS® Accounting Standard.

NZ IFRS 18 incorporates the equivalent IFRS Accounting Standard as issued by the International Accounting Standards Board (IASB).

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

Legal status of Standard

This Standard was issued on xx May 2024 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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

The Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The Standard was published under the Legislation Act 2019 on xx May 2024 and takes effect on xx June 2024.

Commencement and application

The Standard has a mandatory date of 1 January 2027, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this Standard takes effect – refer to paragraphs NZ C1.1 – NZ C1.3 of this Standard.

Tier 1 for-profit entities that comply with NZ IFRS 18 will simultaneously be in compliance with IFRS 18 *Presentation and Disclosure in Financial Statements*.

NZ IFRS 18 includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 for-profit accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (*). However, an entity is required to comply with any RDR paragraph associated with a disclosure concession that is adopted.

This Standard, when applied, will supersede NZ IAS 1 *Presentation of Financial Statements*.

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HISTORY OF AMENDMENTS

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

APPROVAL BY THE IASB OF IFRS 18 *PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS* ISSUED IN APRIL 2024

IASB BASIS FOR CONCLUSIONS ON IFRS 18 *PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS*

IASB ILLUSTRATIVE EXAMPLES ON IFRS 18 *PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS*

New Zealand Equivalent to IFRS 18 *Presentation and Disclosure in Financial Statements* is set out in paragraphs 1–132 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary. The Standard should be read in the context of its objective, the IASB’s Basis for Conclusions on IFRS 18 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018. NZ IAS 8 *Basis of Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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

New Zealand Equivalent to International Financial Reporting Standard 18 *Presentation and Disclosure in Financial Statements*

Objective

- 1 This Standard sets out requirements for the presentation and disclosure of information in *general purpose financial statements* (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

Scope

- NZ 1.1 This Standard applies to Tier 1 and Tier 2 for-profit entities.**
- NZ 1.2 A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**
- 2 **An entity shall apply this Standard in presenting and disclosing information in financial statements prepared in accordance with NZ IFRS.**
- 3 This Standard sets out general and specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. This Standard also sets out requirements for the disclosure of information in the *notes*. NZ IAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information. However, the general requirements for financial statements in paragraphs 9–43 and 113–114 apply to the statement of cash flows.
- 4 Other NZ IFRSs set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.
- 5 This Standard does not apply to the presentation and disclosure of information in condensed interim financial statements prepared applying NZ IAS 34 *Interim Financial Reporting*. However, paragraphs 41–45 and 117–125 apply to such financial statements.
- 6 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.
- 7 Similarly, entities that do not have equity as defined in NZ IAS 32 *Financial Instruments: Presentation* (for example, some mutual funds) and entities whose share capital is not equity (for example, some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.
- 8 Many entities provide a financial review by management, which is separate from the financial statements (see paragraph 10), that describes and explains the main features of the entity's financial performance and financial position, as well as the principal uncertainties it faces. Such a review is outside the scope of NZ IFRS.

General requirements for financial statements

Objective of financial statements

- 9 The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

A complete set of financial statements

- 10 **A complete set of financial statements comprises:**
- (a) **a statement (or statements) of financial performance for the reporting period (see paragraph 12);**
 - (b) **a statement of financial position as at the end of the reporting period;**

- (c) a statement of changes in equity for the reporting period;
- (d) a statement of cash flows for the reporting period;
- (e) notes for the reporting period;
- (f) comparative information in respect of the preceding period as specified in paragraphs 31–32; and
- *(g) a statement of financial position as at the beginning of the preceding period if required by paragraph 37.

11 The statements listed in paragraphs 10(a)–10(d) (and their comparative information) are referred to as the *primary financial statements*. An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title ‘balance sheet’ instead of ‘statement of financial position’. In addition, although this Standard uses terms such as ‘*other comprehensive income*’, ‘*profit or loss*’ and ‘*total comprehensive income*’, an entity may use other terms to label the totals, subtotals and line items required by this Standard as long as they are labelled in a way that faithfully represents the characteristics of the items, as required by paragraph 43. For example, an entity may use the term ‘net income’ to label ‘profit or loss’.

12 An entity shall present its statement(s) of financial performance as either:

- (a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections—if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or
- (b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss—if this option is chosen, the statement of profit or loss shall immediately precede the statement presenting comprehensive income.

13 In this Standard:

- (a) the profit or loss section described in paragraph 12(a) and the statement of profit or loss described in paragraph 12(b) are referred to as the statement of profit or loss; and
- (b) the other comprehensive income section described in paragraph 12(a) and the statement presenting comprehensive income described in paragraph 12(b) are referred to as the statement presenting comprehensive income.

14 An entity shall present each of the primary financial statements with equal prominence in a complete set of financial statements.

The roles of the primary financial statements and the notes

15 **To achieve the objective of financial statements (see paragraph 9), an entity presents information in the primary financial statements and discloses information in the notes. An entity need only present or disclose *material information* (see paragraphs 19 and B1–B5).**

16 **The role of the primary financial statements is to provide structured summaries of a reporting entity’s recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:**

- (a) obtaining an understandable overview of the entity’s recognised assets, liabilities, equity, income, expenses and cash flows;
- (b) making comparisons between entities, and between reporting periods for the same entity; and
- (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

17 **The role of the notes is to provide material information necessary:**

- (a) to enable users of financial statements to understand the line items presented in the primary financial statements (see paragraph B6); and
- (b) to supplement the primary financial statements with additional information to achieve the objective of financial statements (see paragraph B7).

18 An entity shall use the roles of the primary financial statements and the notes, described in paragraphs 16–17, to determine whether to include information in the primary financial statements or in the notes. The different roles of the primary financial statements and the notes mean that the extent of the information required in the notes differs from that in the primary financial statements. The differences mean that:

- (a) to provide the structured summaries described in paragraph 16, information provided in the primary financial statements is more aggregated than information provided in the notes; and
- (b) to provide the information described in paragraph 17, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including the *disaggregation* of information presented in the primary financial statements, is provided in the notes.

Information presented in the primary financial statements or disclosed in the notes

- 19 **Some NZ IFRSs specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by NZ IFRS if the information resulting from that presentation or disclosure is not material. This is the case even if NZ IFRS contains a list of specific requirements or describe them as minimum requirements.**
- 20 **An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in NZ IFRS is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.**

Information presented in the primary financial statements

- 21 Paragraph 16 establishes that the role of the primary financial statements is to provide structured summaries that are useful for the purposes specified in that paragraph (referred to hereafter as a *useful structured summary*). An entity shall use the role of the primary financial statements to determine what material information to present in those statements, as set out in paragraphs 22–24.
- 22 **To provide a useful structured summary in a primary financial statement, an entity shall comply with specific requirements that determine the structure of the statement. The specific requirements are:**
- (a) **for the statement of profit or loss—the requirements in paragraphs 47, 69, 76 and 78;**
 - (b) **for the statement presenting comprehensive income—the requirements in paragraphs 86–88;**
 - (c) **for the statement of financial position—the requirements in paragraphs 96 and 104;**
 - (d) **for the statement of changes in equity—the requirements in paragraph 107; and**
 - (e) **for the statement of cash flows—the requirements in paragraph 10 of NZ IAS 7.**
- 23 **Some NZ IFRSs require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if NZ IFRS contains a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).**
- 24 **An entity shall present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary. When an entity presents additional line items or subtotals, those line items or subtotals shall (see paragraph B9):**
- (a) **comprise amounts recognised and measured in accordance with NZ IFRS;**
 - (b) **be compatible with the statement structure created by the requirements listed in paragraph 22;**
 - (c) **be consistent from period to period, in accordance with paragraph 30; and**
 - (d) **be displayed no more prominently than the totals and subtotals required by NZ IFRS .**

Identification of the financial statements

- 25 **An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraph B10).**
- 26 NZ IFRS applies only to financial statements, and not necessarily to other information provided in an annual report, a regulatory filing or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using NZ IFRS from other information that may be useful to users but is not the subject of those requirements.

27 **An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall disclose prominently, and repeat when necessary for the information provided to be understandable:**

- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
- (b) whether the financial statements are of an individual entity or a group of entities;
- (c) the date of the end of the reporting period or the period covered by the financial statements;
- (d) the presentation currency, as defined in NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and
- (e) the level of rounding used for the amounts in the financial statements (see paragraph B11).

Frequency of reporting

28 **An entity shall provide a complete set of financial statements at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:**

- (a) the reason for using a longer or shorter period; and
- (b) the fact that amounts included in the financial statements are not entirely comparable.

29 Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Consistency of presentation, disclosure and classification

30 **An entity shall retain the presentation, disclosure and *classification* of items in the financial statements from one reporting period to the next unless:**

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for selecting and applying accounting policies in NZ IAS 8 *Basis of Preparation of Financial Statements* (see paragraph B12); or
- (b) an NZ IFRS requires a change in presentation, disclosure or classification.

Comparative information

31 **Except when NZ IFRS permits or require otherwise, an entity shall provide comparative information (that is, information for the preceding reporting period) for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is necessary for an understanding of the current period's financial statements (see paragraph B13).**

32 **An entity shall present a current reporting period and preceding period in each of its primary financial statements and in the notes. Paragraphs B14–B15 set out requirements relating to additional comparative information.**

Change in accounting policy, retrospective restatement or reclassification

33 **If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):**

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

34 **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

- (a) the reason for not reclassifying the amounts; and

- *(b) the nature of the adjustments that would have been made if the amounts had been reclassified.**
- 35 Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.
- 36 NZ IAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.
- *37 **An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the comparative information required in paragraphs 31–32 if:**
- (a) **it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and**
 - (b) **the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position as at the beginning of the preceding period.**
- *38 In the circumstances described in paragraph 37 an entity shall present three statements of financial position—a statement of financial position as at:
- (a) the end of the current reporting period;
 - (b) the end of the preceding period; and
 - (c) the beginning of the preceding period.
- *39 When an entity is required to present a third statement of financial position applying paragraph 37, it shall disclose the information required by paragraphs 33–36 and NZ IAS 8. However, it need not provide the related notes to the statement of financial position as at the beginning of the preceding period.
- *40 The date of that third statement of financial position shall be as at the beginning of the preceding period regardless of whether an entity’s financial statements provide comparative information for earlier periods (as permitted by paragraphs B14–B15).

Aggregation and disaggregation

Principles of aggregation and disaggregation

- 41 **For the purposes of this Standard, an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any *aggregation* or *disaggregation* of such assets, liabilities, equity, income, expenses or cash flows. A line item is an item that is presented separately in the primary financial statements. Other material information about items is disclosed in the notes. Unless doing so would override specific aggregation or disaggregation requirements in NZ IFRS, an entity shall (see paragraphs B16–B23):**
- (a) **classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;**
 - (b) **disaggregate items based on characteristics that are not shared;**
 - (c) **aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);**
 - (d) **aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and**
 - (e) **ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3).**
- 42 Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material. If, applying paragraph 41(c), an entity does not present material information in the primary financial statements, it shall disclose the information in the notes. Paragraphs B79 and B111 set out examples of income, expenses, assets, liabilities and items of equity that might have sufficiently dissimilar

characteristics that presentation in the statement of profit or loss or statement of financial position or disclosure in the notes is necessary to provide material information.

- 43 **An entity shall label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.**

Offsetting

- 44 **An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an NZ IFRS (see paragraphs B27–B28).**
- 45 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, reduces users' ability to understand the transactions and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and allowances for expected credit losses on financial assets—is not offsetting.

Statement of profit or loss

- 46 **An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an NZ IFRS requires or permits otherwise (see paragraphs 88–95 and B86).**

Categories in the statement of profit or loss

- 47 **An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):**
- (a) **the operating category (see paragraph 52);**
 - (b) **the investing category (see paragraph 53–58);**
 - (c) **the financing category (see paragraphs 59–66);**
 - (d) **the income taxes category (see paragraph 67); and**
 - (e) **the discontinued operations category (see paragraph 68).**
- 48 Paragraphs 52–68 set out requirements for classifying income and expenses in the operating, investing, financing, income taxes and discontinued operations categories. In addition, paragraphs B65–B76 set out requirements on how foreign exchange differences, the gain or loss on the net monetary position, and gains and losses on derivatives and designated hedging instruments are classified in the categories.

Entities with specified main business activities

- 49 To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity—that is a main business activity of (see paragraphs B30–B41):
- (a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53); or
 - (b) providing financing to customers.
- 50 Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.
- 51 If an entity:
- (a) invests in assets as a main business activity, it shall disclose that fact.
 - (b) provides financing to customers as a main business activity, it shall disclose that fact.

- (c) identifies a different outcome from its assessment of whether it invests in assets or provides financing to customers as a main business activity (see paragraph B41), it shall disclose:
 - (i) the fact the outcome of the assessment has changed and the date of the change.
 - (ii) the amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for the items for which the classification has changed because of the changed outcome of the assessment, unless it is impracticable to do so. If an entity does not disclose the information because it is impracticable to do so, the entity shall disclose that fact.

The operating category

52 **An entity shall classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in (see paragraph B42):**

- (a) **the investing category;**
- (b) **the financing category;**
- (c) **the income taxes category; or**
- (d) **the discontinued operations category.**

The investing category

53 **Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:**

- (a) **investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);**
- (b) **cash and cash equivalents; and**
- (c) **other assets if they generate a return individually and largely independently of the entity’s other resources (see paragraphs B45–B49).**

54 **The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):**

- (a) **the income generated by the assets;**
- (b) **the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and**
- (c) **the incremental expenses directly attributable to the acquisition and disposal of the assets—for example, transaction costs and costs to sell the assets.**

Entities with specified main business activities

55 For the assets specified in paragraph 53(a) (that is, investments in associates, joint ventures and unconsolidated subsidiaries) that an entity invests in as a main business activity (see paragraph B38), the entity shall classify the income and expenses specified in paragraph 54:

- (a) in the investing category if the assets are accounted for applying the equity method (see paragraphs B43(a) and B44(a)); or
- (b) in the operating category if the assets are not accounted for applying the equity method (see paragraphs B43(b)–(c) and B44(b)–(c)).

56 For the assets specified in paragraph 53(b) (that is, cash and cash equivalents), an entity shall classify the income and expenses specified in paragraph 54 in the investing category unless:

- (a) it invests as a main business activity in financial assets within the scope of paragraph 53(c)—in which case it shall classify the income and expenses in the operating category.
- (b) it does not meet the requirements in (a) but provides financing to customers as a main business activity—in which case it shall classify:

- (i) the income and expenses from cash and cash equivalents that relate to providing financing to customers, for example cash and cash equivalents held for related regulatory requirements—in the operating category.
- (ii) the income and expenses from cash and cash equivalents that do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 54 in the operating category or the investing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from liabilities in paragraph 65(a)(ii).

57 If an entity applying paragraph 56(b) cannot distinguish between the cash and cash equivalents described in paragraphs 56(b)(i) and 56(b)(ii), it shall apply the accounting policy choice in paragraph 56(b)(ii) to classify income and expenses from all cash and cash equivalents in the operating category.

58 For the assets specified in paragraph 53(c) (that is, other assets if they generate a return individually and largely independently of the entity’s other resources) that an entity invests in as a main business activity (see paragraph B40), the entity shall classify the income and expenses specified in paragraph 54 in the operating category.

The financing category

59 **To determine what income and expenses to classify in the financing category, an entity shall distinguish between:**

- (a) **liabilities that arise from transactions that involve only the raising of finance (see paragraphs B50–B51); and**
- (b) **liabilities other than those described in (a)—that is, liabilities that arise from transactions that do not involve only the raising of finance (see paragraph B53).**

60 **For the liabilities specified in paragraph 59(a) (that is, liabilities that arise from transactions that involve only the raising of finance), except as set out in paragraphs 63–66, an entity shall classify in the financing category the amounts included in the statement of profit or loss for:**

- (a) **income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities (see paragraph B52); and**
- (b) **the incremental expenses directly attributable to the issue and extinguishment of the liabilities—for example, transaction costs.**

61 **For the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance), except as set out in paragraphs 63–64, an entity shall classify in the financing category:**

- (a) **interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in NZ IFRS; and**
- (b) **income and expenses arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in NZ IFRS.**

62 Paragraphs B56–B57 set out how an entity shall apply the requirements in paragraphs 59–61 to hybrid contracts that contain a host that is a liability.

63 The requirements in paragraphs 60–61 do not apply to gains and losses on derivatives and designated hedging instruments. An entity shall apply paragraphs B70–B76 to classify such gains and losses.

64 An entity shall exclude from the financing category and classify in the operating category:

- (a) income and expenses from issued investment contracts with participation features recognised applying NZ IFRS 9 *Financial Instruments* (see paragraph B58); and
- (b) insurance finance income and expenses included in the statement of profit or loss applying NZ IFRS 17 *Insurance Contracts*.

Entities with specified main business activities

65 If an entity provides financing to customers as a main business activity, it shall classify income and expenses (see paragraph B59):

- (a) from the liabilities specified in paragraph 59(a) (that is, liabilities that arise from transactions that involve only the raising of finance):

- (i) if the liabilities relate to providing financing to customers—in the operating category.
 - (ii) if the liabilities do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 60 in the operating category or the financing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from cash and cash equivalents in paragraph 56(b)(ii).
- (b) from the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance):
- (i) if the income and expenses are specified in paragraph 61—in the financing category; or
 - (ii) if the income and expenses are not specified in paragraph 61—in the operating category.

66 If an entity applying paragraph 65(a) cannot distinguish between the liabilities described in paragraphs 65(a)(i) and 65(a)(ii), it shall apply the accounting policy choice in paragraph 65(a)(ii) to classify income and expenses from all such liabilities in the operating category.

The income taxes category

67 An entity shall classify in the income taxes category tax expense or tax income that is included in the statement of profit or loss applying NZ IAS 12 *Income Taxes*, and any related foreign exchange differences (see paragraphs B65–B68).

The discontinued operations category

68 An entity shall classify in the discontinued operations category income and expenses from discontinued operations as required by NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Totals and subtotals to be presented in the statement of profit or loss

69 **An entity shall present totals and subtotals in the statement of profit or loss for:**

- (a) *operating profit or loss* (see paragraph 70);
- (b) *profit or loss before financing and income taxes* (see paragraph 71), subject to paragraph 73; and
- (c) **profit or loss** (see paragraph 72).

70 Operating profit or loss comprises all income and expenses classified in the operating category.

71 Profit or loss before financing and income taxes comprises:

- (a) operating profit or loss; and
- (b) all income and expenses classified in the investing category.

72 Profit or loss is the total of income less expenses included in the statement of profit or loss. Accordingly, it comprises all income and expenses classified in all categories in the statement of profit or loss (see paragraph 47).

73 An entity shall not apply paragraph 69(b) if it applies the accounting policy set out in paragraph 65(a)(ii) of classifying in the operating category income and expenses from liabilities that do not relate to the provision of financing to customers. However, such an entity shall apply paragraph 24 to determine whether to present an additional subtotal after operating profit and before the financing category. For example, the entity would present a subtotal for operating profit or loss and income and expenses from investments accounted for using the equity method if the entity determines doing so is necessary to provide a useful structured summary of its income and expenses.

74 If an entity described in paragraph 73 presents an additional subtotal comprising operating profit or loss and all income and expenses classified in the investing category, it shall not label the subtotal in a way that implies the subtotal excludes financing amounts, such as ‘profit before financing’. Applying paragraph 43, the entity shall label the subtotal in a way that faithfully represents the amounts included in the subtotal.

Items to be presented in the statement of profit or loss or disclosed in the notes

- 75 An entity shall present in the statement of profit or loss line items for (see paragraph B77):
- (a) amounts required by this Standard, namely:
 - (i) revenue, presenting separately the line items described in (b)(i) and (c)(i);
 - (ii) operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);
 - (iii) share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (iv) income tax expense or income; and
 - (v) a single amount for the total of discontinued operations (see NZ IFRS 5);
 - (b) amounts required by NZ IFRS 9, namely:
 - (i) interest revenue calculated using the effective interest method;
 - (ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of NZ IFRS 9;
 - (iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;
 - (iv) any gain or loss arising from the difference between the fair value of a financial asset and its previous amortised cost at the date of reclassification from amortised cost measurement to measurement at fair value through profit or loss; and
 - (v) any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss at the date of reclassification of a financial asset from measurement at fair value through other comprehensive income to measurement at fair value through profit or loss; and
 - (c) amounts required by NZ IFRS 17, namely:
 - (i) insurance revenue;
 - (ii) insurance service expenses from contracts issued within the scope of NZ IFRS 17;
 - (iii) income or expenses from reinsurance contracts held;
 - (iv) insurance finance income or expenses from contracts issued within the scope of NZ IFRS 17; and
 - (v) finance income or expenses from reinsurance contracts held.

- 76 An entity shall present in the statement of profit or loss (outside all the categories described in paragraph 47) an allocation of profit or loss for the reporting period attributable to:
- (a) non-controlling interests; and
 - (b) owners of the parent.

77 Paragraphs B78–B79 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of profit or loss or disclose items in the notes.

Presentation and disclosure of expenses classified in the operating category

- 78 In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):
- (a) the nature of expenses; or
 - (b) the function of the expenses within the entity.
- 79 Any individual line item shall comprise operating expenses aggregated on the basis of only one of these characteristics, but the same characteristic does not have to be used as the aggregation basis for all line items (see paragraph B81).
- 80 In classifying expenses by nature ('nature expenses'), an entity provides information about operating expenses related to the nature of the economic resources consumed to accomplish the entity's activities

without reference to the activities in relation to which those economic resources were consumed. Such information includes information about raw material expense, employee benefit expense, depreciation and amortisation.

81 In classifying expenses by function within the entity, an entity allocates and aggregates operating expenses according to the activity to which the consumed resource relates. For example, cost of sales is a function line item that combines expenses relating to an entity's production or other revenue-generating activities such as: raw material expense, employee benefit expense, depreciation and amortisation. Therefore, when classifying expenses by function, an entity might:

- (a) allocate to several function line items (such as cost of sales and research and development) expenses relating to economic resources of the same nature (such as employee benefit expense); and
- (b) include in a single function line item an allocation of expenses relating to economic resources of several natures (such as raw material expense, employee benefit expense, depreciation and amortisation).

82 If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall:

- (a) present a separate line item for its cost of sales, if the entity classifies operating expenses in functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of NZ IAS 2 *Inventories*.
- (b) disclose a qualitative description of the nature of expenses included in each function line item.

83 **An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:**

- (a) **the total for each of:**
 - (i) **depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of NZ IAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of NZ IAS 40 *Investment Property* and paragraph 53(a) of NZ IFRS 16 *Leases*;**
 - (ii) **amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of NZ IAS 38 *Intangible Assets*;**
 - (iii) **employee benefits, comprising the amount for employee benefits recognised by an entity applying NZ IAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying NZ IFRS 2 *Share-based Payment*;**
 - (iv) **impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of NZ IAS 36 *Impairment of Assets*; and**
 - (v) **write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of NZ IAS 2; and**
- (b) **for each total listed in (a)(i)–(v):**
 - (i) **the amount related to each line item in the operating category (see paragraph B84); and**
 - (ii) **a list of any line items outside the operating category that also include amounts relating to the total.**

84 Paragraph 41 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 83 is exempt from disclosing:

- (a) in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 83; and
- (b) in relation to nature expenses specifically required by an NZ IFRS to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 83.

85 The exemption in paragraph 84 relates to disaggregation of operating expenses. However, it does not exempt an entity from applying specific disclosure requirements relating to those expenses in NZ IFRS.

Statement presenting comprehensive income

- 86 An entity shall present in the statement presenting comprehensive income totals for:
- (a) profit or loss;
 - (b) other comprehensive income (see paragraphs B86–B87); and
 - (c) comprehensive income, being the total of profit or loss and other comprehensive income.
- 87 An entity shall present an allocation of comprehensive income for the reporting period attributable to:
- (a) non-controlling interests; and
 - (b) owners of the parent.

Other comprehensive income

- 88 An entity shall classify income and expenses included in the statement presenting comprehensive income in one of two categories:
- (a) income and expenses that will be reclassified to profit or loss when specific conditions are met; and
 - (b) income and expenses that will not be reclassified to profit or loss.
- 89 An entity shall present, in each of the categories of the statement presenting comprehensive income, line items for:
- (a) the share of other comprehensive income of associates and joint ventures accounted for using the equity method; and
 - (b) other items of other comprehensive income.
- *90 An entity shall present in the statement presenting comprehensive income or disclose in the notes *reclassification adjustments* relating to components of other comprehensive income (see paragraphs B88–B89).
- 91 Other NZ IFRSs specify whether and when amounts previously included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. An entity includes a reclassification adjustment with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. An entity might have included these amounts in other comprehensive income as unrealised gains in the current or prior periods. An entity shall deduct them from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.
- *92 An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.
- *93 An entity shall either present in the statement presenting comprehensive income or disclose in the notes the amount of income taxes relating to each item of other comprehensive income, including reclassification adjustments (see paragraphs 61A and 63 of NZ IAS 12).
- 94 An entity may present items of other comprehensive income either:
- (a) net of related tax effects; or
 - (b) before related tax effects, with one amount shown for the aggregate amount of income taxes relating to those items.
- 95 If an entity selects the alternative in paragraph 94(b), it shall allocate the tax between the categories set out in paragraph 88.

Statement of financial position

Classification of assets and liabilities as current or non-current

- 96 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 99–102 except when a presentation based on liquidity provides a more useful structured summary. When that

exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B90–B93).

*97 **Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled:**

- (a) no more than 12 months after the reporting period; and
- (b) more than 12 months after the reporting period.

98 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).**

Current assets

99 **An entity shall classify an asset as current when (see paragraphs B94–B95):**

- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within 12 months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in NZ IAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

100 An entity shall classify all assets other than those specified in paragraph 99 as non-current.

Current liabilities

101 **An entity shall classify a liability as current when:**

- (a) it expects to settle the liability in its normal operating cycle (see paragraphs B96 and B107–B108);
- (b) it holds the liability primarily for the purpose of trading (see paragraph B97);
- (c) the liability is due to be settled within 12 months after the reporting period (see paragraphs B97–B98 and B107–B108); or
- (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period (see paragraphs B99–B108).

102 An entity shall classify all liabilities other than those specified in paragraph 101 as non-current.

Items to be presented in the statement of financial position or disclosed in the notes

103 **An entity shall present in the statement of financial position line items for:**

- (a) property, plant and equipment;
- (b) investment property;
- (c) intangible assets;
- (d) goodwill;
- (e) financial assets (excluding amounts shown under (g), (j) and (k));
- (f) portfolios of contracts within the scope of NZ IFRS 17 that are assets, disaggregated as required by paragraph 78 of NZ IFRS 17;
- (g) investments accounted for using the equity method;
- (h) biological assets within the scope of NZ IAS 41 *Agriculture*;
- (i) inventories;
- (j) trade and other receivables;
- (k) cash and cash equivalents;

- (l) **the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with NZ IFRS 5;**
 - (m) **trade and other payables;**
 - (n) **provisions;**
 - (o) **financial liabilities (excluding amounts shown under (m) and (n));**
 - (p) **portfolios of contracts within the scope of NZ IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of NZ IFRS 17;**
 - (q) **liabilities and assets for current tax, as defined in NZ IAS 12;**
 - (r) **deferred tax liabilities and deferred tax assets, as defined in NZ IAS 12; and**
 - (s) **liabilities included in disposal groups classified as held for sale in accordance with NZ IFRS 5.**
- 104 **An entity shall present in the statement of financial position:**
- (a) **non-controlling interests; and**
 - (b) **issued capital and reserves attributable to owners of the parent.**
- 105 Paragraphs B109–B111 set out requirements on how an entity uses its judgement to determine whether to present additional line items in the statement of financial position or disclose items in the notes.
- 106 Subject to paragraph 96, this Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. In addition, the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide a useful structured summary of the entity’s assets, liabilities and equity. For example, a financial institution may amend the descriptions in paragraph 103 to provide a useful structured summary of the assets, liabilities and equity of a financial institution.

Statement of changes in equity

Information to be presented in the statement of changes in equity

- 107 **An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity shall include:**
- (a) **total comprehensive income for the reporting period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;**
 - (b) **for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with NZ IAS 8; and**
 - (c) **for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) presenting changes resulting from:**
 - (i) **profit or loss;**
 - (ii) **other comprehensive income; and**
 - (iii) **transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.**
- 108 NZ IAS 8 requires retrospective adjustments for changes in accounting policies, to the extent practicable, except when the transition requirements in another NZ IFRS require otherwise. NZ IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when NZ IFRS requires retrospective adjustment of another component of equity. Paragraph 107(b) requires an entity to present in the statement of changes in equity the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. An entity shall present these adjustments for each prior reporting period and the beginning of the period.

Information to be presented in the statement of changes in equity or disclosed in the notes

- 109 For each component of equity an entity shall either present in the statement of changes in equity or disclose in the notes an analysis of other comprehensive income by item (see paragraph 107(c)(ii)).
- 110 An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to owners during the reporting period, and the related amount of dividends per share.
- RDR 110.1 A Tier 2 entity is not required to disclose the related amount per share of dividends recognised as distributions to owners during the period.
- 111 In paragraph 107, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.
- 112 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period.

Notes

Structure

- 113 An entity shall disclose in the notes:
- (a) information about the basis of preparation of the financial statements (see paragraphs 6A–6N of NZ IAS 8) and the specific accounting policies used (see paragraphs 27A–27I of NZ IAS 8);
 - (b) information required by NZ IFRS that is not presented in the primary financial statements; and
 - (c) other information that is not presented in the primary financial statements, but is necessary for an understanding of any of them (see paragraph 20).
- 114 An entity shall, as far as practicable, present notes in a systematic manner (see paragraph B112). In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes. If amounts disclosed in the notes are included in one or more line items in the primary financial statements, an entity shall disclose in the note the line item(s) in which the amounts are included.
- 115 An entity may disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies used in a separate section of the financial statements.
- *116 If not disclosed elsewhere in information published with the financial statements, an entity shall disclose in the notes:
- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
 - (b) a description of the nature of the entity's operations and its principal activities;
 - (c) the name of the parent and the ultimate parent of the group; and
 - (d) if it is a limited-life entity, information regarding the length of its life.

Management-defined performance measures

Identification of management-defined performance measures

- 117 A *management-defined performance measure* is a subtotal of income and expenses that (see paragraphs B113–B122):
- (a) an entity uses in public communications outside financial statements;

- (b) **an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole; and**
- (c) **is not listed in paragraph 118, or specifically required to be presented or disclosed by NZ IFRS.**

118 Subtotals of income and expenses that are not management-defined performance measures are:

- (a) gross profit or loss (revenue minus cost of sales) and similar subtotals (see paragraph B123);
- (b) operating profit or loss before depreciation, amortisation and impairments within the scope of NZ IAS 36;
- (c) operating profit or loss and income and expenses from all investments accounted for using the equity method;
- (d) for an entity that applies paragraph 73, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category;
- (e) profit or loss before income taxes; and
- (f) profit or loss from continuing operations.

119 **An entity shall presume that a subtotal of income and expenses that it uses in public communications outside its financial statements communicates to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole, unless, applying paragraph 120, the entity rebuts the presumption.**

120 An entity is permitted to rebut the presumption described in paragraph 119 and assert that a subtotal does not communicate management’s view of an aspect of the financial performance of the entity as a whole, but only if it has reasonable and supportable information available that demonstrates the basis for the assertion (see paragraphs B124–B131).

Disclosure of management-defined performance measures

121 **The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:**

- (a) **the aspect of financial performance that, in management’s view, is communicated by a management-defined performance measure; and**
- (b) **how the management-defined performance measure compares with the measures defined by NZ IFRS.**

122 **An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management’s view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.**

123 **An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management-defined performance measure, the entity shall disclose:**

- (a) **a description of the aspect of financial performance that, in management’s view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management’s view, the management-defined performance measure provides useful information about the entity’s financial performance.**
- (b) **how the management-defined performance measure is calculated.**
- (c) **a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS (see paragraphs B136–B140).**
- (d) **the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).**
- (e) **a description of how the entity applies paragraph B141 to determine the income tax effect required by (d).**

124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance

measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

- (a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.
- (b) the reasons for the change, addition or cessation.
- (c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of NZ IAS 8.

125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Capital

*126 **An entity shall disclose in the notes information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

*127 To comply with paragraph 126 an entity shall disclose in the notes:

- (a) qualitative information about its objectives, policies and processes for managing capital, including:
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (for example, components arising from cash flow hedges).
- (c) any changes in (a) and (b) from the preceding reporting period.
- (d) whether during the reporting period it complied with any externally imposed capital requirements to which it is subject.
- (e) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

*128 An entity shall base the note disclosures in paragraph 127 on the information provided internally to key management personnel.

*129 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

130 **An entity shall either present in the statement of financial position or the statement of changes in equity or disclose in the notes:**

- (a) **for each class of share capital:**
 - (i) **the number of shares authorised;**
 - (ii) **the number of shares issued and fully paid, and issued but not fully paid;**
 - (iii) **par value per share, or a statement that the shares have no par value;**
 - (iv) **a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;**

- (v) **the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**
 - (vi) **shares in the entity held by the entity or by its subsidiaries or associates; and**
 - (vii) **shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and**
- (b) **a description of the nature and purpose of each reserve within equity.**
- 131 **An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 130(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.**
- *132 **An entity shall disclose in the notes:**
- (a) **the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the reporting period, and the related amount per share; and**
 - (b) **the amount of any cumulative preference dividends not recognised.**

Appendix A Defined terms

This appendix is an integral part of the NZ IFRS 18 Presentation and Disclosure in Financial Statements

aggregation	The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.
classification	The sorting of assets, liabilities, equity, income, expenses and cash flows based on shared characteristics.
disaggregation	The separation of an item into component parts that have characteristics that are not shared.
general purpose financial reports	<p>Reports that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:</p> <ul style="list-style-type: none"> (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity’s management’s actions that affect the use of the entity’s economic resources. <p>General purpose financial reports include—but are not restricted to—an entity’s general purpose financial statements and sustainability-related financial disclosures.</p>
general purpose financial statements	A particular form of <i>general purpose financial reports</i> that provide information about the reporting entity’s assets, liabilities, equity, income and expenses.
New Zealand equivalents to IFRS Accounting Standards (NZ IFRS)	<p>Standards and Interpretations issued by the New Zealand Accounting Standards Board of the External Reporting Board comprising:</p> <ul style="list-style-type: none"> (a) New Zealand equivalents to: <ul style="list-style-type: none"> (i) International Financial Reporting Standards; (ii) International Accounting Standards; (iii) IFRIC Interpretations; and (iv) SIC Interpretations. (b) domestic Financial Reporting Standards.
New Zealand equivalents to IFRS Accounting Standards Reduced Disclosure Regime (NZ IFRS RDR)	NZ IFRS with disclosure concessions for Tier 2 for-profit entities.
management-defined performance measure	<p>A subtotal of income and expenses that:</p> <ul style="list-style-type: none"> (a) an entity uses in public communications outside financial statements; (b) an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole; and (c) is not listed in paragraph 118 of NZ IFRS 18, or specifically required to be presented or disclosed by NZ IFRS.
material information	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
notes	Information in financial statements provided in addition to that presented in the primary financial statements.

operating profit or loss	The total of all income and expenses classified in the operating category.
other comprehensive income	Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other NZ IFRSs.
owners	Holders of claims classified as equity.
primary financial statements	The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.
profit or loss	The total of income less expenses included in the statement of profit or loss.
profit or loss before financing and income taxes	The total of operating profit or loss and all income and expenses classified in the investing category.
reclassification adjustments	Amounts reclassified to profit or loss in the current reporting period that were included in other comprehensive income in the current or prior periods.
total comprehensive income	The change in equity during a reporting period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.
useful structured summary	<p>A structured summary provided in a primary financial statement of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows that is useful for:</p> <ul style="list-style-type: none"> (a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows; (b) making comparisons between entities, and between reporting periods for the same entity; and (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

Appendix B

Application guidance

This appendix is an integral part of NZ IFRS 18. It describes the application of paragraphs 1–132 and has the same authority as the other parts of NZ IFRS 18.

General requirements for financial statements

Materiality

- B1 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
- B2 Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- B3 Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:
- (a) material information about an item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
 - (b) material information about an item, transaction or other event is scattered throughout the financial statements;
 - (c) dissimilar items, transactions or other events are inappropriately aggregated;
 - (d) similar items, transactions or other events are inappropriately disaggregated; and
 - (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.
- B4 Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.
- B5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

The roles of the primary financial statements and the notes

- B6 Applying paragraph 17(a), an entity provides in the notes information necessary for users of financial statements to understand the line items presented in the primary financial statements. Examples of such information include:
- (a) disaggregation of the line items presented in the primary financial statements;
 - (b) descriptions of the characteristics of the line items presented in the primary financial statements; and
 - (c) information about the methods, assumptions and judgements used in recognising, measuring and presenting the items included in the primary financial statements.
- B7 Applying paragraph 17(b), an entity supplements the primary financial statements with additional information necessary to achieve the objective of financial statements—that is:
- (a) information specifically required by NZ IFRS (see paragraph 19)—for example:

- (i) information required by NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* about an entity's unrecognised contingent assets and contingent liabilities; and
 - (ii) information required by NZ IFRS 7 *Financial Instruments: Disclosures* about an entity's exposure to various types of risks, such as credit risk, liquidity risk and market risk; and
- (b) information additional to that specifically required by NZ IFRS (see paragraph 20).

Information presented in the primary financial statements

- B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by NZ IFRS. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).
- B9 Conversely, applying paragraph 24, an entity shall present additional line items to those listed in paragraphs 75 and 103 if such presentations are necessary for the statement of profit or loss to provide a useful structured summary of income and expenses or for the statement of financial position to provide a useful structured summary of assets, liabilities and equity (see paragraphs B78–B79 and B109–B111).

Identification of the financial statements

- B10 Paragraph 25 requires an entity to clearly identify the financial statements and distinguish them from other information in the same published document. An entity meets these requirements by providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of providing such information. For example, if an entity provides the financial statements electronically, an entity considers other ways to meet the requirements—for example, by appropriate digital tagging of information provided in the financial statements.
- B11 An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This practice is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Consistency of presentation, disclosure and classification

- B12 Paragraph 30(a) requires an entity to change the presentation, disclosure or classification of items in the financial statements if it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the financial statements, might suggest that the financial statements need to be changed. An entity is permitted to change the presentation, disclosure or classification of items in its financial statements only if the change provides information that is more useful to users of financial statements and if the entity is likely to continue using the revised presentation, disclosure or classification, so that inter-period comparability is not impaired. When making such changes, an entity reclassifies its comparative information in accordance with paragraphs 33–34.

Comparative information

Required comparative information

- B13 In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users of financial statements might benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Additional comparative information

- B14 An entity may provide comparative information in addition to the comparative information required by NZ IFRS, as long as that information is prepared in accordance with NZ IFRS. This additional comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but

need not comprise a complete set of financial statements. When this is the case, the entity shall disclose in the notes information for those additional primary financial statements.

- B15 For example, an entity may present a third statement (or statements) of financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (that is, an additional primary financial statement comparative). The entity is required to disclose in the notes the comparative information related to that additional statement(s) of financial performance.

Aggregation and disaggregation

Principles of aggregation and disaggregation

Process of aggregation and disaggregation

- B16 Financial statements result from entities processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income, expenses and cash flows.
- B17 To apply the requirements in paragraph 41, an entity shall aggregate items based on shared characteristics (that is, aggregate items that have similar characteristics) and disaggregate items based on characteristics that are not shared (that is, disaggregate items that have dissimilar characteristics). In doing so, an entity shall:
- (a) identify the assets, liabilities, equity, income, expenses and cash flows that arise from individual transactions or other events;
 - (b) classify and aggregate assets, liabilities, equity, income, expenses and cash flows into items based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) so as to result in the presentation in the primary financial statements of line items and disclosure in the notes of items that have at least one similar characteristic; and
 - (c) disaggregate items based on dissimilar characteristics:
 - (i) in the primary financial statements, as necessary to provide useful structured summaries (as described in paragraph 16); and
 - (ii) in the notes, as necessary to provide material information (as described in paragraph 17).
- B18 An entity may apply the steps in paragraphs B17(a)–B17(c) in varying order to apply the principles of aggregation and disaggregation in paragraph 41.

Basis of aggregation and disaggregation

- B19 Paragraphs B16–B18 explain that an entity uses its judgement to aggregate and disaggregate assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar and dissimilar characteristics. Paragraphs B78 and B110 set out examples of characteristics an entity considers in making its judgements.
- B20 The more similar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that aggregating them will fulfil the role of the primary financial statements (that is, to provide useful structured summaries as described in paragraph 16) or the notes (that is, to provide material information as described in paragraph 17). The more dissimilar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes.
- B21 The items aggregated and presented as line items in the primary financial statements shall have at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows. However, because the role of the primary financial statements is to provide useful structured summaries, the line items in the primary financial statements are also likely to aggregate items that have sufficiently dissimilar characteristics that information about the disaggregated items is material.
- B22 Applying paragraph 41, an entity shall disaggregate items that have dissimilar characteristics when the resulting information is material. A single dissimilar characteristic could result in information about disaggregated items being material.
- B23 For example, an entity might present in the statement of financial position financial assets that comprise equity investments and debt investments separately from non-financial assets. The financial assets have dissimilar characteristics because they have different measurement bases—some are measured at fair value

through profit or loss and others at amortised cost. The entity might therefore determine that to provide a useful structured summary it is necessary to present line items that disaggregate the financial assets based on those measurement bases. That disaggregation results in a line item comprising equity investments and debt investments measured at fair value through profit or loss and a line item comprising debt investments measured at amortised cost. Because equity investments are dissimilar to debt investments in that each exposes the entity to different risks, the entity would assess whether further disaggregation in the statement of financial position of financial assets measured at fair value through profit or loss into equity investments and debt investments is needed to provide a useful structured summary. If not, and if the resulting information were material, the entity would need to disclose in the notes the equity investments separately from the debt investments. In addition if, for example, the equity investments had other dissimilar characteristics, the entity would be required to disaggregate further those equity investments in the notes if the resulting information were material.

Description of items

- B24 Paragraph 43 requires an entity to label and describe items presented or disclosed in a way that faithfully represents the characteristics of the item. Such items will often be aggregations of items arising from individual transactions or other events and could vary in whether they are aggregations of items for which information is material and items for which information is immaterial. Specifically, in either the primary financial statements or in the notes:
- (a) an item for which information is material could be aggregated with other items for which information is also material—an entity might provide such an aggregation to summarise information but would also be required to disclose information about each item;
 - (b) an item for which information is material could be aggregated with items for which information is not material—an entity would be required to provide information about disaggregated items only if immaterial information obscured the material information; or
 - (c) an item for which information is not material could be aggregated with other items for which information is not material—an entity might provide such an aggregation to complete a list of items and would not be required to disclose information about disaggregated items, subject to paragraph B26(b).
- B25 An entity shall label items presented or disclosed as ‘other’ only if it cannot find a more informative label. Examples of how an entity might find a more informative label are:
- (a) if an item for which information is material is aggregated with items for which information is not material, finding a label that describes the item for which information is material; and
 - (b) if items for which information is not material are aggregated:
 - (i) aggregating items that share similar characteristics and describing them in a way that faithfully represents the similar characteristics; or
 - (ii) aggregating items with other items that do not share similar characteristics and describing them in a way that faithfully represents the dissimilar characteristics of the items.
- B26 If an entity cannot find a more informative label than ‘other’:
- (a) for any aggregation—the entity shall use a label that describes the aggregated item as precisely as possible, for example, ‘other operating expenses’ or ‘other finance expenses’.
 - (b) for an aggregation comprising only items for which information is not material—the entity shall consider whether the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material information. Accordingly, in such cases, the entity shall disclose further information about the amount—for example:
 - (i) an explanation that no items for which information would be material are included in the amount; or
 - (ii) an explanation that the amount comprises several items for which information would not be material, with an indication of the nature and amount of the largest item.

Offsetting

- B27 Paragraph 44 prohibits an entity from offsetting assets and liabilities or income and expenses unless required or permitted by an NZ IFRS. For example, NZ IFRS 15 *Revenue from Contracts with Customers* requires an

entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. The amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. In contrast, an entity might undertake, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The entity would present in the primary financial statements or disclose in the notes the results of such transactions, when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents in the primary financial statements or discloses in the notes gains and losses on the disposal of non-current assets by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with NZ IAS 37 and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

B28 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions— for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance applying paragraphs 47–68. However, an entity shall disclose such gains and losses separately in the notes if doing so provides material information.

Statement of profit or loss

Categories in the statement of profit or loss

B29 Paragraph 47 requires an entity to classify income and expenses included in the statement of profit or loss in one of five categories. The operating category comprises all income and expenses included in the statement of profit or loss that are not classified in the other categories (see paragraph 52). Income and expenses classified in the discontinued operations category applying paragraph 68 are not subject to the requirements for classifying items of income and expense in the categories listed in paragraphs 47(a)–(d). Income and expenses classified in the income taxes category applying paragraph 67 are not subject to the requirements for classifying items of income and expense in the categories listed in paragraphs 47(a)–(c).

Assessment of specified main business activities

B30 Paragraph 49 requires an entity to assess whether it invests in assets or provides financing to customers as a main business activity. An entity may have more than one main business activity. For example, an entity that manufactures a product and also provides financing to customers may determine that both its manufacturing activity and customer-finance activity are main business activities. To classify income and expenses into the categories of operating, investing and financing as required by this Standard, an entity need only determine whether either of, or both, investing in assets and providing financing to customers are main business activities.

B31 Examples of entities that might invest in assets as a main business activity include:

- (a) investment entities as defined by NZ IFRS 10 *Consolidated Financial Statements*;
- (b) investment property companies; and
- (c) insurers.

B32 Examples of entities that might provide financing to customers as a main business activity include:

- (a) banks and other lending institutions;
- (b) entities that provide financing to customers to enable those customers to buy the entity's products; and
- (c) lessors that provide financing to customers in finance leases.

B33 Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence.

B34 In general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if the entity uses a particular type of subtotal as an important indicator of operating performance.

The particular type of subtotal is a subtotal similar to gross profit (see paragraph B123) that includes income and expenses that would be classified in the investing or financing categories if investing in assets or providing financing to customers were not main business activities.

- B35 Evidence that subtotals similar to gross profit described in paragraph B123 are important indicators of operating performance includes using such subtotals to:
- (a) explain operating performance externally; or
 - (b) assess or monitor operating performance internally.
- B36 Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies NZ IFRS 8 *Operating Segments*. Specifically:
- (a) if a reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity; and
 - (b) if an operating segment comprises a single business activity, this indicates that the business activity might be a main business activity of the entity if the performance of the operating segment is an important indicator of the entity's operating performance as described in paragraph B34.
- B37 An entity shall assess whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets or providing financing to customers is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes.
- B38 An entity shall assess whether it invests as a main business activity in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method (see paragraphs B43(b)–(c) and B44(b)–(c)) by individual asset or using groups of assets with shared characteristics. If an entity prepares separate financial statements as specified in NZ IAS 27 *Separate Financial Statements* and performs the assessment for groups of assets, the entity shall use groups of assets that are consistent with the categories used to determine their measurement basis applying paragraph 10 of NZ IAS 27. An entity need not assess whether it invests as a main business activity in associates, joint ventures and non-consolidated subsidiaries accounted for using the equity method (see paragraphs B43(a) and B44(a)) because it is required to classify the income and expenses from those investments in the investing category (see paragraph 55(a)).
- B39 An entity need not assess whether it invests as a main business activity in cash and cash equivalents (see paragraph 53(b)). An entity is required to classify income and expenses from cash and cash equivalents in the investing category unless paragraphs 56(a) or 56(b) apply.
- B40 An entity shall assess whether it invests as a main business activity in other assets that generate a return individually and largely independently of the entity's other resources (see paragraph 53(c)) by assessing an individual asset or groups of assets with shared characteristics. When performing the assessment for groups of financial assets an entity shall use groups of financial assets that are consistent with the classes of financial assets identified by the entity in applying paragraph 6 of NZ IFRS 7.
- B41 An entity shall assess whether investing in assets or providing financing to customers is a main business activity based on the facts at the time, so a change in the outcome of the assessment does not change the outcome of the previous assessments. Accordingly, an entity classifies and presents income and expenses applying the change in the outcome of the assessment prospectively from the date of the change and does not reclassify amounts presented before the date of the change. Unless it is impracticable to do so, paragraph 51(c)(ii) requires an entity to disclose the amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for items for which the classification has changed because of the change in the outcome of the assessment.

Operating

- B42 The requirements in paragraphs 47–66 result in an entity classifying income and expenses from its main business activities in the operating category of the statement of profit or loss, except for any such income and expenses from investments accounted for using the equity method. Furthermore, the operating category is not limited to income and expenses from an entity's main business activities. It includes all income and expenses that are not classified by an entity in the other categories applying paragraphs 53–68, including such income or expenses that are volatile or non-recurring.

Investing

Investments in associates, joint ventures and unconsolidated subsidiaries

- B43 Paragraphs 53 and 55 set out requirements for the classification of income and expenses from investments in associates and joint ventures. These investments comprise:
- (a) investments in associates and joint ventures accounted for using the equity method in accordance with paragraph 16 of NZ IAS 28 *Investments in Associates and Joint Ventures* and paragraph 10(c) of NZ IAS 27;
 - (b) investments in associates and joint ventures (or a portion thereof) that an entity elects to measure at fair value through profit or loss in accordance with NZ IFRS 9 applying paragraphs 18–19 of NZ IAS 28 and paragraph 11 of NZ IAS 27; and
 - (c) investments in associates and joint ventures in separate financial statements that are accounted for at cost applying paragraph 10(a) of NZ IAS 27 or in accordance with NZ IFRS 9 applying paragraph 10(b) of NZ IAS 27.
- B44 Paragraphs 53 and 55 also set out requirements for the classification of income and expenses from unconsolidated subsidiaries. Investments in unconsolidated subsidiaries comprise:
- (a) investments in subsidiaries in separate financial statements accounted for using the equity method in accordance with paragraph 10(c) of NZ IAS 27;
 - (b) investments in subsidiaries held by an investment entity that are measured at fair value through profit or loss in accordance with paragraph 31 of NZ IFRS 10 and paragraph 11A of NZ IAS 27; and
 - (c) investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of NZ IAS 27 or in accordance with NZ IFRS 9 applying paragraph 10(b) of NZ IAS 27.

Assets that generate a return individually and largely independently of the entity's other resources

- B45 Paragraph 53(c) requires an entity to identify assets that generate a return individually and largely independently of the entity's other resources. The return could be positive or negative.
- B46 Assets that generate a return individually and largely independently of the entity's other resources in paragraph 53(c) typically include:
- (a) debt or equity investments; and
 - (b) investment properties, and receivables for rent generated by those properties.
- B47 Income and expenses specified in paragraph 54 from such assets typically include:
- (a) interest;
 - (b) dividends;
 - (c) rental income;
 - (d) depreciation;
 - (e) impairment losses and reversals of impairment losses;
 - (f) fair value gains and losses; and
 - (g) income and expenses from the derecognition of the asset, or its classification and remeasurement as held for sale (see paragraphs B60–B64).

Assets that do not generate a return individually and largely independently of the entity's other resources

- B48 Assets that an entity uses in combination to produce or supply goods or services do not generate a return individually and largely independently of the entity's other resources. Such assets typically include:
- (a) property, plant and equipment;

- (b) assets that arise from the production or supply of goods and services for which the income and expenses are classified in the operating category (for example, receivables for such goods and services); and
 - (c) if the entity provides financing to customers as a main business activity, any loans to a customer.
- B49 Income and expenses from the assets described in paragraph B48 are classified in the operating category—for example:
- (a) revenue for goods or services produced or supplied by the entity using a combination of assets;
 - (b) interest income;
 - (c) depreciation and amortisation;
 - (d) impairment losses and reversals of impairment losses;
 - (e) income and expenses from the derecognition of the asset, or its classification and remeasurement as held for sale (see paragraphs B60–B64); and
 - (f) income and expenses arising on a business combination that includes assets that will give rise to income and expenses that will be classified in the operating category, such as a gain on a bargain purchase and remeasurements of contingent consideration.

Financing

Liabilities arising from transactions that involve only the raising of finance

- B50 Paragraph 59(a) requires an entity to identify liabilities that arise from transactions that involve only the raising of finance. In such transactions, an entity:
- (a) receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of the entity's own equity instruments; and
 - (b) at a later date, will return in exchange cash or its own equity instruments.
- B51 Liabilities arising from transactions that involve only the raising of finance include:
- (a) a debt instrument that will be settled in cash, such as debentures, loans, notes, bonds and mortgages—an entity receives cash and will return cash in exchange;
 - (b) a liability under a supplier finance arrangement when the payable for goods or services is derecognised—an entity is discharged of the financial liability for the goods or services and will return cash in exchange;
 - (c) a bond that will be settled through delivery of an entity's shares—an entity receives cash and will return its own equity instruments in exchange; and
 - (d) an obligation for an entity to purchase its own equity instruments—an entity receives its own equity instruments and will return cash in exchange.
- B52 Examples of income and expenses from such liabilities that paragraph 60 requires an entity to classify in the financing category include:
- (a) interest expenses (for example, on debt instruments issued);
 - (b) fair value gains and losses (for example, on a liability designated at fair value through profit or loss);
 - (c) dividends on issued shares classified as liabilities; and
 - (d) income and expenses from the derecognition of the liability (see paragraph B61).

Liabilities arising from transactions that do not involve only the raising of finance

- B53 Paragraph 59(b) requires an entity to identify liabilities that arise from transactions that do not involve only the raising of finance. Such liabilities include:
- (a) payables for goods or services that will be settled in cash—an entity receives goods or services, not finance in the form described in paragraph B50(a);
 - (b) contract liabilities—an entity will return goods and services, not cash or its own equity instruments as described in paragraph B50(b);

- (c) lease liabilities—an entity receives a right-of-use asset, not finance in the form described in paragraph B50(a);
 - (d) defined benefit pension liabilities—an entity receives employee services, not finance in the form described in paragraph B50(a);
 - (e) decommissioning or asset restoration provisions—an entity receives an asset that is not finance in the form described in paragraph B50(a); and
 - (f) a litigation provision—an entity does not receive finance as described in paragraph B50(a).
- B54 Examples of income and expenses from such liabilities that paragraph 61 requires an entity to classify in the financing category include:
- (a) interest expenses on payables arising from the purchase of goods or services, applying NZ IFRS 9;
 - (b) interest expenses on a contract liability with a significant financing component as specified by NZ IFRS 15;
 - (c) interest expenses on a lease liability, applying NZ IFRS 16;
 - (d) net interest expense (income) on a net defined benefit liability (asset), applying NZ IAS 19; and
 - (e) the increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate on provisions, applying NZ IAS 37.
- B55 Examples of income and expenses that arise from transactions that do not involve only the raising of finance but that are not in the scope of paragraph 61, and accordingly are classified in the operating category, include:
- (a) expenses recognised for consumption of the purchased goods or services described in paragraph B54(a);
 - (b) current and past service cost arising from a defined benefit plan, applying NZ IAS 19; and
 - (c) remeasurements of the fair value of a liability for contingent consideration in a business combination recognised applying NZ IFRS 3 *Business Combinations*.

Classification of income and expenses from hybrid contracts containing a host that is a liability

- B56 How an entity classifies income and expenses from a hybrid contract with a host that is a liability depends on whether the embedded derivative is separated from the host contract. If the embedded derivative:
- (a) is separated from the host liability:
 - (i) for the separated host liability—an entity applies the requirements for income and expenses from liabilities, as specified in paragraphs 52, 59–61, 64(b) and 65–66; and
 - (ii) for the separated embedded derivative—an entity applies the requirements for income and expenses from derivatives, as specified in paragraphs B70–B76;
 - (b) is not separated from the host liability and if the hybrid contract arises from a transaction that involves only the raising of finance—an entity applies the requirements for liabilities that arise from such transactions, as specified in paragraphs 52, 60 and 65–66;
 - (c) is not separated from the host liability and if the hybrid contract does not arise from a transaction that involves only the raising of finance:
 - (i) if the host liability is a financial liability within the scope of NZ IFRS 9 that is measured at amortised cost—an entity classifies in the financing category income and expenses specified in paragraph 60 from the contract after initial recognition (instead of the income and expenses specified in paragraph 61) (see paragraph B59);
 - (ii) if the hybrid contract is an insurance contract within the scope of NZ IFRS 17—an entity applies the requirements in paragraphs 52 and 64(b); and
 - (iii) otherwise—an entity applies the requirements for income and expenses from liabilities that arise from such transactions, as specified in paragraphs 52 and 61.
- B57 An entity shall apply paragraphs B56(b) and B56(c) to all hybrid contracts containing a host liability for which the embedded derivative is not separated, regardless of whether the embedded derivative is not separated by the entity applying paragraph 4.3.3 of NZ IFRS 9 or applying paragraph 4.3.5 of NZ IFRS 9.

Liabilities arising from issued investment contracts with participation features

- B58 Paragraph 64(a) sets out requirements for income and expenses from liabilities arising from issued investment contracts with participation features recognised applying NZ IFRS 9. Examples of such investment contracts are:
- (a) an investment contract with participation features issued by an insurer that does not meet the definition in NZ IFRS 17 of an investment contract with discretionary participation features; and
 - (b) an investment contract with participation features issued by an investment entity.

Income and expenses classified in the operating category by an entity that provides financing to customers as a main business activity

- B59 Paragraph 65 requires an entity that provides financing to customers as a main business activity to classify in the operating category income and expenses from some or all liabilities that arise from transactions that involve only the raising of finance. An entity shall also apply the requirements in that paragraph to income and expenses from a derivative relating to a transaction that involves only the raising of finance specified in paragraph B73(a), but not to the income and expenses from a hybrid contract specified in paragraph B56(c)(i).

Derecognition and changes in classification*Derecognition of an asset or liability, or classification and remeasurement of an asset as held for sale*

- B60 Paragraphs B47(g) and B49(e) refer to income and expenses from the derecognition of an asset, or its classification as held for sale. An entity shall classify income and expenses on the derecognition of an asset, or its classification as held for sale and any subsequent measurement while held for sale, in the same category as it classified the income and expenses from the asset immediately before its derecognition. For example, an entity shall classify gains and losses:
- (a) on the disposal of property, plant and equipment—in the operating category;
 - (b) on the disposal of an investment property that an entity does not invest in as a main business activity—in the investing category; and
 - (c) from the remeasurement of an investment in an associate previously accounted for using the equity method on the step acquisition of a subsidiary—in the investing category.
- B61 An entity shall classify income and expenses from the derecognition of a liability by applying the requirements in paragraphs 52 and 59–60. For example, the entity classifies income and expenses from the derecognition of a liability:
- (a) in the financing category—if the liability arises from a transaction that involves only the raising of finance by an entity that does not provide financing to customers as a main business activity; and
 - (b) in the operating category—if as part of a supplier finance arrangement an entity derecognises a payable to a supplier and recognises a liability under that arrangement.

Change in use of an asset

- B62 A transaction or other event might change the category in the statement of profit or loss in which an entity classifies income and expenses from an asset, without the asset being derecognised. In such cases, an entity shall classify the income and expenses from the transaction or other event in the category in which it classified income and expenses from the asset immediately before the transaction or event. For example, an entity shall classify in the operating category any income or expenses recognised in the statement of profit or loss on the transfer of property from the scope of NZ IAS 16 to investment property in the scope of NZ IAS 40.

Groups of assets and liabilities

- B63 Paragraphs B60–B62 set out requirements for income and expenses from an asset or liability from its derecognition, classification and subsequent measurement while held for sale, or from its change in use. A transaction or other event might result in these outcomes for a group of assets (or a group of assets and liabilities) that generated income and expenses that an entity classified in different categories immediately

before the transaction or other event. An entity shall classify income or expenses from such a transaction or other event:

- (a) in the investing category if, other than any income tax assets, all the assets in the group generated income and expenses that the entity classified in the investing category immediately before the transaction or other event; and
- (b) in the operating category otherwise.

B64 For example, an entity classifies:

- (a) in the operating category—gains and losses on the disposal of a consolidated subsidiary, if the subsidiary included assets that generated income and expenses that the entity classified in the operating category immediately before the disposal. The gains and losses include the reclassification from equity to profit or loss of foreign exchange differences required by paragraph 48 of NZ IAS 21.
- (b) in the operating category—an impairment loss arising on the classification of a disposal group as held for sale by the entity applying NZ IFRS 5, if the disposal group included assets that generated income and expenses that the entity classified in the operating category immediately before its classification as held for sale.
- (c) in the investing category—gains and losses on disposal of a consolidated subsidiary, if the only assets of the subsidiary were investment property that the consolidated reporting entity did not invest in as a main business activity and related income tax assets. The gains and losses include the reclassification from equity to profit or loss of foreign exchange differences required by paragraph 48 of NZ IAS 21.

Classification of foreign exchange differences and the gain or loss on the net monetary position

B65 To apply paragraph 47, an entity shall classify foreign exchange differences included in the statement of profit or loss applying NZ IAS 21 in the same category as the income and expenses from the items that gave rise to the foreign exchange differences, unless doing so would involve undue cost or effort (see paragraph B68).

B66 For example, an entity classifies foreign exchange differences on:

- (a) a receivable described in paragraph B48(b) denominated in a foreign currency, in the same category as the income and expenses from that asset—that is, in the operating category; and
- (b) a debt instrument that is a liability described in paragraph B51(a) denominated in a foreign currency, in the same category as the income and expenses on that liability—that is, in the financing category (unless the entity provides financing to customers as a main business activity and classifies the income and expenses from the liability in the operating category applying paragraph 65).

B67 An entity might classify in more than one category income and expenses from a transaction that does not involve only the raising of finance. For example, the purchase of services in a transaction denominated in a foreign currency and negotiated on extended credit terms could give rise to an expense for the purchase of the services classified in the operating category (see paragraph B55(a)) and interest expenses classified in the financing category (see paragraph B54(a)). In such cases, subject to paragraph B68, an entity shall use its judgement to determine whether the foreign exchange difference relates to the amount classified in the financing category—and classify it in that category—or whether it relates to the amount classified in another category—and classify it in that category. An entity shall not allocate between categories a foreign exchange difference arising on a liability from a transaction that does not involve only the raising of finance. In making its judgements about how to classify the foreign exchange differences, an entity need not classify in the same category the foreign exchange differences on all such liabilities. However, an entity shall classify in the same category foreign exchange differences on similar liabilities.

B68 If applying the requirements in paragraphs B65 and B67 would involve undue cost or effort, an entity shall instead classify the affected foreign exchange differences in the operating category. An entity shall assess whether classifying foreign exchange differences as described in paragraphs B65 and B67 involves undue cost or effort for each item that gives rise to foreign exchange differences. The assessment is specific to the facts and circumstances related to each item. If the same facts and circumstances relate to a number of items, an entity could apply the same assessment to each of the items.

B69 Applying paragraph 28 of NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*, an entity might present the gain or loss on the net monetary position with other income and expense items associated with the net monetary position, such as interest income and expenses and foreign exchange differences. If the

entity does not present the gain or loss on the net monetary position with the associated income and expenses, it shall classify the gain or loss in the operating category.

Classification of gains and losses on derivatives and designated hedging instruments

- B70 Paragraph 47 requires an entity to classify income and expenses in categories in the statement of profit or loss. To apply paragraph 47, an entity shall classify gains and losses included in the statement of profit or loss on a financial instrument designated as a hedging instrument applying NZ IFRS 9 in the same category as the income and expenses affected by the risks the financial instrument is used to manage. However, if doing so would require the grossing up of gains and losses, an entity shall classify all such gains and losses in the operating category (see paragraphs B74–B75).
- B71 An entity shall classify gains and losses on an undesignated component of a designated hedging instrument in the same category as gains and losses on the designated component. An entity shall classify ineffective portions of a gain or loss in the same category as the effective portions.
- B72 An entity shall also apply the requirements in paragraph B70 to gains and losses on a derivative that is not designated as a hedging instrument applying NZ IFRS 9, but is used to manage identified risks. However, if doing so would require the grossing up of gains or losses (see paragraphs B74–B75) or involve undue cost or effort, the entity shall instead classify all gains and losses on the derivative in the operating category.
- B73 An entity shall classify gains and losses on a derivative that is not used to manage identified risks:
- (a) in the financing category, if the derivative relates to a transaction that involves only the raising of finance (for example, a purchased call option that allows the issuing entity to exchange a fixed amount of a foreign currency for a fixed number of the entity’s equity instruments), unless the entity that provides financing to customers as a main business activity classifies the gains and losses in the operating category applying paragraph B59; and
 - (b) in the operating category, if the conditions in (a) are not met.
- B74 Paragraphs B70 and B72 prohibit the grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instruments. The grossing up of gains and losses might arise from situations in which:
- (a) an entity uses such financial instruments to manage the risks of a group of items with offsetting risk positions (see paragraph 6.6.1 of NZ IFRS 9 for the criteria for a group of items to be an eligible hedged item); and
 - (b) the risks managed affect line items in more than one category of the statement of profit or loss.
- B75 For example, an entity may use a derivative to manage both the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category). In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expenses and the gains or losses on the derivative. However, the entity classifies the foreign exchange differences on the revenue in a different category from the foreign exchange differences on the interest expenses. To present the gain or loss on the derivative in each category, an entity would need to present in each category a larger gain or loss than occurred on the derivative. Applying the requirements in paragraphs B70–B73, an entity shall not gross up the gains or losses in this manner and instead shall classify any gain or loss on the derivative in the operating category.
- B76 The requirements in paragraphs B70–B75 specify only how to classify income and expenses into categories of the statement of profit or loss. They do not prescribe the line item (or line items) in which to include such income and expenses, nor do they override the requirements in other NZ IFRSs.

Items to be presented in the statement of profit or loss or disclosed in the notes

- B77 An entity may be required to present a line item listed in paragraph 75, or specified in another NZ IFRS, in more than one of the categories listed in paragraph 47. For example, an entity that does not invest in assets or provide financing to customers as a main business activity may be required to present the line item specified in paragraph 75(b)(ii) of impairment losses determined in accordance with Section 5.5 of NZ IFRS 9 in:
- (a) the operating category—if it relates to receivables for goods and services as described in paragraph B48(b); and
 - (b) the investing category—if it relates to financial assets that generate a return individually and largely independently of the entity’s other resources as described in paragraph B46.

- B78 Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of profit or loss if doing so is necessary to provide a useful structured summary of the entity's income and expenses. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 75). Paragraphs 20 and 41(d) require an entity to disaggregate items to disclose material information in the notes. An entity also uses its judgement to make this determination. Paragraph 41 requires the entity to base its judgements on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). Such characteristics include:
- (a) nature (see paragraph 80);
 - (b) function (role) within the entity's business activities (see paragraph 81);
 - (c) persistence (including the frequency of the item of income or expense or whether it is recurring or non-recurring);
 - (d) measurement basis;
 - (e) measurement uncertainty or outcome uncertainty (or other risks associated with an item);
 - (f) size;
 - (g) geographical location or regulatory environment;
 - (h) tax effects (for example, if different tax rates apply to items of income or expense); and
 - (i) whether the income or expenses arise on initial recognition of a transaction or event or from a subsequent change in estimate relating to the transaction or event.
- B79 Income and expenses that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:
- (a) write-downs of inventories, as well as reversals of such write-downs;
 - (b) impairment losses for property, plant and equipment, as well as reversals of such impairment losses;
 - (c) income and expenses from restructurings of an entity's activities and reversals of any provisions for restructuring;
 - (d) income and expenses from disposals of property, plant and equipment;
 - (e) income and expenses from disposals of investments;
 - (f) income and expenses from litigation settlements;
 - (g) reversals of provisions; and
 - (h) non-recurring income and expenses not included in (a)–(g).

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

- B80 In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:
- (a) what line items provide the most useful information about the main components or drivers of the entity's profitability. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.
 - (b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as providing financing to customers, might determine that line items comprising expenses classified by nature provide the most useful information for internal reporting purposes.

- (c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry.
 - (d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.
- B81 In some cases, an entity considering the factors set out in paragraph B80 could determine that classifying and presenting some expenses by nature and other expenses by function provides the most useful structured summary. For example:
- (a) the factors in paragraphs B80(a)–(b) might indicate that classifying and presenting expenses by function provides the most useful structured summary, except for particular expenses for which the allocation to functions would be arbitrary (see paragraph B80(d)); and
 - (b) an entity having two different types of main business activities might classify and present some expenses by function and other expenses by nature to provide information about the main drivers of its profitability.
- B82 If an entity classifies and presents some expenses by nature and other expenses by function in the statement of profit or loss, it shall label the resulting line items in a way that clearly identifies what expenses are included in each line item. For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (for example, ‘employee benefits other than those included in cost of sales’).
- B83 Applying paragraph 30, an entity shall classify and present expenses consistently from one reporting period to the next unless paragraphs 30(a) or 30(b) apply. For example, if an entity presents impairment of goodwill as a nature line item in one reporting period, it shall also present any similar impairment of goodwill as a nature line item in subsequent reporting periods unless paragraphs 30(a) or 30(b) apply. If there is no similar impairment of goodwill in a subsequent period, the fact that there is an expense of nil in that subsequent period does not constitute a change in classification and presentation.
- B84 An entity will either present expenses by nature, or applying paragraph 83, disclose some expenses by nature. The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset. If an entity:
- (a) presents amounts that are not the amounts recognised as an expense in the period, it will also present an additional line item for the change in the carrying amount of the affected assets. For example, applying paragraph 39 of NZ IAS 2, an entity might present a line item for changes in inventories of finished goods and work in progress.
 - (b) discloses, applying paragraph 83(b), amounts that are not the amounts recognised as an expense in the period, the entity shall give a qualitative explanation of that fact, identifying the assets involved.

Aggregation of operating expenses

- B85 To apply paragraph 78, an entity shall consider what level of aggregation for operating expenses provides the most useful structured summary. For example, an entity might have various administrative activities (such as human resources, information technology, legal and accounting). To provide a useful structured summary, the entity might aggregate operating expenses relating to those activities based on their shared characteristic—all are expenses for resources consumed in administrative activities. Accordingly the entity might present them in a line item labelled as ‘administrative expenses’. The entity might also have expenses for resources consumed in selling activities. These expenses have a dissimilar characteristic from the administrative expenses—selling expenses arise from resources consumed in selling activities and administrative expenses arise from resources consumed in administrative activities. These characteristics are sufficiently dissimilar that disaggregation—presentation in separate line items for selling expenses and administrative expenses—might be necessary to provide a useful structured summary of the entity’s expenses.

Statement presenting comprehensive income

Other comprehensive income

- B86 Some NZ IFRSs specify circumstances when an entity includes particular items outside the statement of profit or loss in the current reporting period. NZ IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other NZ IFRSs require or permit an entity to exclude from

profit or loss components of other comprehensive income that meet the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*'s definition of income or expenses (see paragraph B87).

- B87 Appendix A defines 'other comprehensive income'. The components of other comprehensive income include:
- (a) changes in revaluation surplus (see NZ IAS 16 and NZ IAS 38);
 - (b) remeasurements of defined benefit plans (see NZ IAS 19);
 - (c) gains and losses arising from translating the financial statements of a foreign operation (see NZ IAS 21);
 - (d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9;
 - (e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of NZ IFRS 9;
 - (f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NZ IFRS 9 (see Chapter 6 of NZ IFRS 9);
 - (g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of NZ IFRS 9);
 - (h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of NZ IFRS 9);
 - (i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of NZ IFRS 9);
 - (j) insurance finance income and expenses from contracts issued within the scope of NZ IFRS 17 excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of NZ IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of NZ IFRS 17; and
 - (k) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of NZ IFRS 17.
- B88 Reclassification adjustments arise, for example, on disposal of a foreign operation (see NZ IAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of NZ IFRS 9 in relation to cash flow hedges).
- B89 Paragraph 90 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with NZ IAS 16 or NZ IAS 38 or on remeasurements of defined benefit plans recognised in accordance with NZ IAS 19. An entity recognises these components in other comprehensive income and does not reclassify them to profit or loss in subsequent reporting periods. An entity may transfer changes in revaluation surplus to retained earnings in subsequent periods as the asset is used or when it is derecognised (see NZ IAS 16 and NZ IAS 38). In accordance with NZ IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) results in amounts that an entity removes from the cash flow hedge reserve or a separate component of equity, respectively, and includes directly in the initial cost or other carrying amount of an asset or a liability. An entity transfers these amounts directly to assets or liabilities.

Statement of financial position

Classification of assets and liabilities as current or non-current

- B90 In applying paragraph 96, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. Such separate classification also highlights assets that an entity expects to realise within the current operating cycle and liabilities that are due for settlement within the same period.
- B91 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides a more useful structured summary than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- B92 In applying paragraph 96, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when doing so provides a more useful structured summary. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- *B93 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. NZ IFRS 7 requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories, and the expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that it expects to recover more than 12 months after the reporting period.

Current assets

- B94 Paragraph 100 requires an entity to classify as non-current all assets not classified as current. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- B95 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When an entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in NZ IFRS 9) and the current portion of non-current financial assets.

Current liabilities

Normal operating cycle (see paragraph 101(a))

- B96 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in an entity's normal operating cycle. An entity classifies such items as current liabilities even if they are due to be settled more than 12 months after the reporting period. The same normal operating cycle applies to the classification of the entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

Held primarily for the purpose of trading (see paragraph 101(b)) or due to be settled within 12 months (see paragraph 101(c))

- B97 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within 12 months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in NZ IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (that is, are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within 12 months after the reporting period are non-current liabilities, subject to paragraphs B99–B103.
- B98 An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the reporting period, even if:

- (a) the original term was for a period longer than 12 months; and
- (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

Right to defer settlement for at least 12 months (paragraph 101(d))

- B99 An entity's right to defer settlement of a liability for at least 12 months after the reporting period must have substance and, as illustrated in paragraphs B100–B103, must exist at the end of the reporting period.
- B100 An entity's right to defer settlement of a liability arising from a loan arrangement for at least 12 months after the reporting period may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 101(d), such covenants:
- (a) affect whether that right exists at the end of the reporting period—as illustrated in paragraphs B102–B103—if an entity is required to comply with the covenant on or before the end of the reporting period. Such a covenant affects whether the right exists at the end of the reporting period even if compliance with the covenant is assessed only after the reporting period (for example, a covenant based on the entity's financial position at the end of the reporting period but assessed for compliance only after the reporting period).
 - (b) do not affect whether that right exists at the end of the reporting period if an entity is required to comply with the covenant only after the reporting period (for example, a covenant based on the entity's financial position six months after the end of the reporting period).
- B101 If an entity has the right, at the end of the reporting period, to roll over an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- B102 When an entity breaches a covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.
- B103 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- B104 Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria in paragraphs 101–102 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 6C(c) of NZ IAS 8 and B105(d)).
- B105 If the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with NZ IAS 10 *Events after the Reporting Period*:
- (a) refinancing on a long-term basis of a liability classified as current (see paragraph B98);
 - (b) rectification of a breach of a long-term loan arrangement classified as current (see paragraph B102);
 - (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current (see paragraph B103); and
 - (d) settlement of a liability classified as non-current (see paragraph B104).
- B106 In applying paragraphs 101–102 and B96–B103 an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within 12 months after the reporting period (see paragraph B100(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within 12 months after the reporting period, including:

- (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.
- (b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity’s circumstances at the end of the reporting period.

Settlement (paragraphs 101(a), 101(c) and 101(d))

- B107 For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:
- (a) cash or other economic resources—for example, goods or services; or
 - (b) the entity’s own equity instruments, unless paragraph B108 applies.
- B108 Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments do not affect its classification as current or non-current if, applying NZ IAS 32, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

Items to be presented in the statement of financial position or disclosed in the notes

- B109 Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of financial position if doing so is necessary to provide a useful structured summary of the entity’s assets, liabilities and equity. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 103). Paragraph 41 requires the entity to base its judgements on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). For additional line items for assets and liabilities, an entity bases its judgements on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) might assist an entity in identifying the nature or function of assets and liabilities.
- B110 Paragraphs 20 and 41(d) require an entity to disaggregate items to disclose material information in the notes. An entity uses its judgement to do this based on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). Such characteristics include:
- (a) nature;
 - (b) function (role) in the entity’s business activities;
 - (c) duration and timing of recovery or settlement (including whether an asset or liability is classified as current or non-current or whether its recovery or settlement forms part of the entity’s operating cycle);
 - (d) liquidity;
 - (e) measurement basis;
 - (f) measurement uncertainty or outcome uncertainty (or other risks associated with an item);
 - (g) size;
 - (h) geographical location or regulatory environment;
 - (i) type, for example, the type of good, service or customer;
 - (j) tax effects—for example, if assets or liabilities have different tax bases; and
 - (k) restrictions on the use of an asset or on the transferability of a liability.
- B111 Assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:
- (a) property, plant and equipment disaggregated into classes in accordance with NZ IAS 16;
 - (b) receivables disaggregated into amounts receivable from trade customers, amounts receivable from related parties, prepayments and other amounts;

- (c) inventories disaggregated, applying NZ IAS 2, into items such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) trade payables disaggregated, applying NZ IAS 7, to provide separately the amounts of those payables that are part of supplier finance arrangements;
- (e) provisions disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and
- (f) equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium and reserves.

Notes

Structure

B112 Paragraph 114 requires an entity to present notes in a systematic manner, so far as is practicable. Examples of systematic ordering or grouping of the notes include:

- (a) giving prominence to the areas of its activities that an entity considers to be most important to an understanding of its financial performance and financial position, such as grouping together information about particular business activities;
- (b) grouping together information about items measured similarly such as assets measured at fair value; or
- (c) following the order of the line items in the statement(s) of financial performance and the statement of financial position, such as:
 - (i) statement of compliance with NZ IFRS (see paragraph 6B of NZ IAS 8);
 - (ii) material accounting policy information (see paragraph 27A of NZ IAS 8);
 - (iii) supporting information for items presented in the statement of financial position, the statement(s) of financial performance, the statement of changes in equity and the statement of cash flows, in the order in which each statement is provided and each line item is presented; and
 - (iv) other disclosures, including:
 - (1) contingent liabilities (see NZ IAS 37) and unrecognised contractual commitments; and
 - (2) non-financial disclosures—for example an entity’s financial risk management objectives and policies (see NZ IFRS 7).

Management-defined performance measures

Identification of management-defined performance measures

B113 Paragraph 117 defines management-defined performance measures. An entity might have no management-defined performance measures, one management-defined performance measure or more than one. For example, an entity that publicly communicates its financial performance to users of financial statements using only totals and subtotals required to be presented or disclosed by NZ IFRS does not have a management-defined performance measure.

B114 To meet the definition of a management-defined performance measure, the measure must communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole. For example, if a subtotal of income and expenses that relates to a reportable segment disclosed in accordance with NZ IFRS 8 does not provide information about an aspect of the financial performance of the entity as a whole, that subtotal cannot meet the definition of a management-defined performance measure.

B115 However, sometimes a subtotal of income and expenses that relates to a reportable segment could provide information about an aspect of the financial performance of the entity as a whole. For example, if a reportable segment contains a single main business activity of the entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss, that would indicate that the subtotal provides information about an aspect of the financial performance of the entity as a whole. In such cases, a subtotal of income and expenses related to that reportable segment would meet the definition of a management-defined

performance measure if it met the other parts of the definition of a management-defined performance measure.

Subtotals of income and expenses

- B116 A management-defined performance measure is a subtotal of income and expenses. Examples of measures that are not management-defined performance measures because they are not subtotals of income and expenses include:
- (a) subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses);
 - (b) assets, liabilities, equity or combinations of these elements;
 - (c) financial ratios (for example, return on assets) (see paragraph B117);
 - (d) measures of liquidity or cash flows (for example, free cash flow); or
 - (e) non-financial performance measures.
- B117 A financial ratio is not a management-defined performance measure because it is not a subtotal of income and expenses. However, a subtotal that is the numerator or denominator in a financial ratio is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure if it were not part of a ratio. Accordingly, an entity shall apply the disclosure requirements in paragraphs 121–125 to such a numerator or denominator.
- B118 A subtotal of income and expenses that meets the definition of a management-defined performance measure in paragraph 117 is a management-defined performance measure whether or not it is presented in the statement of profit or loss.

Public communications

- B119 A subtotal meets the definition of a management-defined performance measure only if an entity uses it in public communications outside its financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications and social media posts.
- B120 Management-defined performance measures relate to the same reporting period as the financial statements. Specifically, a subtotal:
- (a) relating to interim financial statements but not to the annual financial statements can only be a management-defined performance measure in the interim financial statements; and
 - (b) relating to annual financial statements but not to interim financial statements can only be a management-defined performance measure in the annual financial statements.
- B121 An entity shall consider only public communications related to the reporting period to identify management-defined performance measures for the reporting period, unless as part of its financial reporting process it routinely issues such public communications after the date of issue of its financial statements. If that is the case, an entity shall consider public communications related to the previous reporting period to identify management-defined performance measures for the current reporting period.
- B122 However, a measure used in the public communications related to the previous reporting period is not required to be identified as a management-defined performance measure for the current reporting period if there is evidence that indicates it will not be included in the public communications to be issued relating to the current reporting period. If such a measure had been disclosed as a management-defined performance measure in the previous reporting period and is not identified as such for the current reporting period, that would be a change to, or a cessation of, a management-defined performance measure to which the disclosure requirements in paragraph 124 apply.

Subtotals similar to gross profit

- B123 In accordance with paragraph 118(a), subtotals similar to gross profit are not management-defined performance measures. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:
- (a) net interest income;
 - (b) net fee and commission income;

- (c) insurance service result;
- (d) net financial result (investment income minus insurance finance income and expenses); and
- (e) net rental income.

Presumption about communicating management's view

- B124 Paragraph 119 states that a subtotal of income and expenses used in public communications outside its financial statements is presumed to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. Applying paragraph 120, an entity is permitted to rebut that presumption if it has reasonable and supportable information available that demonstrates that:
- (a) the subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole (see paragraphs B125–B128); and
 - (b) the entity has a reason for using the subtotal in its public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole (see paragraph B129).
- B125 Examples of reasonable and supportable information that demonstrate that a subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of an entity as a whole are:
- (a) an entity communicating the subtotal without prominence (see paragraph B126); and
 - (b) management not using the subtotal internally to assess or monitor the entity's financial performance (see paragraphs B127–B128).
- B126 Whether an entity communicates a subtotal without prominence is a matter of judgement based on a number of factors, for example:
- (a) the extent of references to the subtotal—few references indicate a lack of prominence, numerous references indicate prominence; and
 - (b) the content of commentary or analysis about or relying on the subtotal, for example:
 - (i) a description of the subtotal as information that does not communicate management's view and that is provided only in response to frequent requests from some users of financial statements indicates a lack of prominence;
 - (ii) use of the subtotal to support management analysis and commentary on the entity's financial performance and to provide explanations of the reasons for changes in the subtotal from period to period indicates prominence; and
 - (iii) a comparison of the subtotal to competitors' subtotals or industry benchmarks indicates prominence.
- B127 Management's use of a subtotal to assess or monitor an aspect of the financial performance of the entity as a whole demonstrates that the subtotal communicates management's view of an aspect of the financial performance of the entity as a whole. However, if management uses a subtotal internally but not in an entity's public communications, the subtotal does not meet the definition of a management-defined performance measure.
- B128 An entity might adjust a subtotal communicated in its public communications for use internally by management to assess or monitor the entity's financial performance. In such cases, the entity shall use its judgement to assess whether the subtotal it uses internally is sufficiently similar to the subtotal it uses in its public communications so that paragraph B127 applies. The more similar the subtotals are, the more likely it is that the subtotal used in the entity's public communications communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole.
- B129 Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole are that the subtotal:
- (a) is required in a public communication by law or regulation;
 - (b) communicates performance related to financial statements which are not prepared in accordance with NZ IFRS or NZ IFRS RDR;
 - (c) is used in a public communication to satisfy a request from an external party; or
 - (d) is used in a public communication for the purpose of communicating information other than financial performance.

- B130 Paragraph 120 applies to a subtotal and not to individual items of income and expense that comprise the subtotal. Accordingly, an entity cannot assert that a subtotal does not communicate management’s view of an aspect of the financial performance of the entity as a whole based on information that demonstrates that an individual item (or items) of income or expense within the subtotal does not represent such a view.
- B131 An entity might change its use of a subtotal to communicate to users of its financial statements management’s view of an aspect of the financial performance of the entity as a whole. As a result a subtotal might become, or cease to be, a management-defined performance measure. Judgement is required to identify whether a measure not originally identified as a management-defined performance measure has become one, or whether a measure previously identified as a management-defined performance measure has ceased to be one. For example, an entity might be required by a regulator to report a particular subtotal that, when first used, does not communicate management’s view of an aspect of the financial performance of the entity as a whole. Over time the process of producing the subtotal might lead to management using the measure internally to assess and monitor the entity’s financial performance or expanding the commentary and explanations in public communications beyond the regulatory requirements, with the result that the measure meets the definition of a management-defined performance measure.

Disclosure of management-defined performance measures

Single note for information about management-defined performance measures

- B132 Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121–125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121–125 from the other information.
- B133 For example, if an entity applies NZ IFRS 8 and the reportable segment information includes a management-defined performance measure, the entity may disclose the required information about the management-defined performance measure in the same note as other reportable segment information, provided the entity either:
- (a) includes in that note the information required by paragraphs 121–125 for all its management-defined performance measures and, to fulfil the requirements in paragraph B132, labels the information in the note in a way that clearly distinguishes the information required by paragraphs 121–125 from the information required by NZ IFRS 8; or
 - (b) provides a separate note that includes the information required for all its management-defined performance measures, including those for which the entity includes information in the reportable segment information.

A clear and understandable manner

- B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal. Therefore, an entity shall:
- (a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and
 - (b) provide information specific to management-defined performance measures—that is:
 - (i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance, the entity shall state that fact and the calculations it has used for the measure; and
 - (ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by NZ IFRS, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph B135(b)).
- B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:
- (a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label ‘operating profit before non-recurring expenses’ only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and

- (b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines ‘non-recurring expenses’).

Reconciliation to the most directly comparable total or subtotal

- B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.
- B137 For each reconciling item, an entity shall disclose:
- (a) the amount(s) related to each line item in the statement(s) of financial performance; and
- (b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).
- B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management’s control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.
- B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense in calculating a management-defined performance measure based on an entity-specific application of ‘non-recurring’. In such a case, a single explanation that includes the entity’s definition of ‘non-recurring’ that applies to all reconciling items might satisfy the requirement in paragraph B137(b).
- B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:
- (a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and
- (b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Income tax effect for each item disclosed in the reconciliation

- B141 An entity is required by paragraph 123(d) to disclose the income tax effect for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by NZ IFRS. An entity shall determine the income tax effect required by paragraph 123(d) by calculating the income tax effects of the underlying transaction(s):
- (a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;
- (b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or
- (c) by using another method that achieves a more appropriate allocation in the circumstances.
- B142 If, applying paragraph B141, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item.

Appendix C

Commencement, application and transition

This appendix is an integral part of NZ IFRS 18.

Commencement and application

C1 An entity shall apply this Standard in accordance with the commencement and application date provisions in paragraphs NZ C1.1 - NZ C1.3. An entity that applies this Standard to an ‘early adoption accounting period’ shall disclose that fact in the notes.

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

NZ C1.1 This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard was published on xx May 2024 and takes effect on xx June 2024.

Accounting period in relation to which the Standard commences to apply (section 28 Financial Reporting Act)

NZ C1.2 The accounting periods in relation to which this Standard commences to apply are:

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

NZ C1.3 In paragraph NZ C1.2:

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

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

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

mandatory date means 1 January 2027.

Transition

C2 An entity shall apply this Standard as if it had always been applied, in accordance with NZ IAS 8. However, an entity is not required to present the quantitative information specified in paragraph 28(f) of NZ IAS 8.

C3 In its annual financial statements an entity shall disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:

- (a) the restated amounts presented applying this Standard; and
- (b) the amounts previously presented applying NZ IAS 1 *Presentation of Financial Statements*.

C4 If an entity applies NZ IAS 34 in preparing condensed interim financial statements in the first year of applying this Standard, the entity shall present in the condensed interim financial statements each heading it expects to use in applying the Standard and the subtotals required by paragraphs 69–74 of this Standard, despite the requirements in paragraph 10 of NZ IAS 34. An entity shall not apply the requirements in paragraph 10 of NZ IAS 34 for headings and subtotals in condensed interim financial statements until it has issued its first set of annual financial statements prepared in accordance with this Standard.

- C5 If an entity applies NZ IAS 34 in preparing interim financial statements in the first year of applying this Standard, the entity shall, as part of the information required by paragraph 16A(a) of NZ IAS 34, disclose reconciliations for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods. The reconciliations are required between:
- (a) the restated amounts presented applying the accounting policies for the comparative period and the cumulative comparative period when the entity applies this Standard; and
 - (b) the amounts previously presented applying the accounting policies for the comparative period and cumulative comparative period when the entity applied NZ IAS 1.
- C6 An entity is permitted, but not required, to disclose the reconciliations described in paragraphs C3 and C5 for the current period or earlier comparative periods.
- C7 At the date of initial application of this Standard, an entity eligible to apply paragraph 18 of NZ IAS 28 is permitted to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with NZ IFRS 9. If an entity makes such a change, the entity shall apply the change as if it had always been applied, in accordance with NZ IAS 8. An entity applying paragraph 11 of NZ IAS 27 shall make the same change in its separate financial statements.

Withdrawal of NZ IAS 1

- C8 This Standard supersedes NZ IAS 1.

Appendix D

Amendments to other NZ IFRSs

This appendix sets out the amendments to other NZ IFRSs.

NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 1, 3, NZ 4.1, 4A, 5, RDR 5.2, RDR 5.4, RDR 5.5, 22, 32, D30 and E2 and Appendix A are amended. Paragraphs 32(za) and 39A1 are added. New text is underlined and deleted text is struck through.

Objective

- 1 The objective of this Standard is to ensure that an entity's *first NZ IFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with *New Zealand equivalents to IFRS Accounting Standards*~~*International Financial Reporting Standards*~~ (NZ IFRS); and
 - (c) can be generated at a cost that does not exceed the benefits.

Scope

...

Tier 1 Entities

...

- 3 A Tier 1 entity's first NZ IFRS financial statements are the first annual financial statements in which the entity adopts NZ IFRS, by an explicit and unreserved statement in those financial statements of compliance with NZ IFRS. Financial statements in accordance with NZ IFRS are an entity's first NZ IFRS financial statements if, for example, the entity:

...

- (c) prepared a reporting package in accordance with NZ IFRS for consolidation purposes without preparing a complete set of financial statements as defined in *NZ IFRS 18 Presentation and Disclosure in Financial Statements*~~*NZ IAS 1 Presentation of Financial Statements (as revised in 2007)*~~; or

...

- NZ 4.1 This Standard does not apply when a Tier 1 entity presented financial statements in its most recent previous reporting period that contained an explicit and unreserved statement of compliance with *IFRS Accounting Standards*~~*IFRSs*~~.

- 4A Notwithstanding the requirements in paragraphs 2 and 3, a Tier 1 entity that has applied NZ IFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with NZ IFRS, must either apply this Standard or else apply NZ IFRS retrospectively in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ as if the entity had never stopped applying NZ IFRS.

...

5 This Standard does not apply to changes in accounting policies made by an entity that already applies NZ IFRS. Such changes are the subject of:

- (a) requirements on changes in accounting policies in NZ IAS 8 ~~Accounting Policies, Changes in Accounting Estimates and Errors~~; and

...

Tier 2 Entities

...

RDR 5.2 A Tier 2 entity's first NZ IFRS RDR financial statements are the first annual financial statements in which the entity adopts NZ IFRS RDR, by an explicit and unreserved statement in those financial statements of compliance with NZ IFRS RDR. Financial statements in accordance with NZ IFRS RDR are an entity's first NZ IFRS RDR financial statements if, for example, the entity:

...

- (c) prepared a reporting package in accordance with NZ IFRS RDR for consolidation purposes without preparing a complete set of financial statements as defined in NZ IFRS 18 Presentation and Disclosure in Financial Statements ~~NZ IAS 1 Presentation of Financial Statements (as revised in 2007)~~; or

...

RDR 5.4 This Standard does not apply when a Tier 2 entity presented financial statements in its most recent previous reporting period that contained an explicit and unreserved statement of compliance with IFRS Accounting Standards ~~IFRS~~ or NZ IFRS.

RDR 5.5 Notwithstanding the requirements in paragraphs RDR 5.1 and RDR 5.2, a Tier 2 entity that has applied NZ IFRS RDR in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with NZ IFRS RDR, must either apply this Standard or else apply NZ IFRS RDR retrospectively in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements* ~~Accounting Policies, Changes in Accounting Estimates and Errors~~ as if the entity had never stopped applying NZ IFRS RDR.

...

Presentation and disclosure

...

Comparative information

...

Non-NZ IFRS comparative information and historical summaries

*22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with NZ IFRS. This Standard does not require such summaries to comply with the recognition and measurement requirements of NZ IFRS. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by NZ IFRS 18 ~~NZ IAS 1~~. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

...

Explanation of transition to NZ IFRS

...

Interim financial reports

*32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with NZ IAS 34 for part of the period covered by its first NZ IFRS financial statements, the entity shall satisfy the requirements of NZ IAS 34, unless stated otherwise, as well as the following requirements in addition to the requirements of NZ IAS 34:

(za) An entity shall present each heading it expects to use in applying NZ IFRS 18 and the subtotals required by paragraphs 69–74 of that Standard, notwithstanding the requirements in paragraph 10 of NZ IAS 34. An entity shall apply the requirements in paragraph 10 of NZ IAS 34 for headings and subtotals in condensed financial statements after it has issued its first NZ IFRS financial statements prepared in accordance with NZ IFRS 18.

...

Effective date

...

39AI NZ IFRS 18 issued in May 2024 amended paragraphs 1, 3, NZ 4.1, 4A, 5, RDR 5.2, RDR 5.4, RDR 5.5, 22, 32, D30 and E2, amended Appendix A and added paragraph 32(za). An entity shall apply those amendments when it applies NZ IFRS 18.

...

Appendix A Defined terms

...

first NZ IFRS financial statements The first annual financial statements in which an entity adopts **New Zealand Equivalents to IFRS Accounting Standards**~~International Financial Reporting Standards~~ (NZ IFRS), by an explicit and unreserved statement of compliance with New Zealand equivalents to ~~IFRS Accounting Standards~~~~International Financial Reporting Standards~~.

...

IFRS Accounting Standards~~International Financial Reporting Standards~~ (IFRSs) IFRS Accounting Standards are accounting standards~~Standards and Interpretations~~ issued by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards;
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.

IFRS Accounting Standards were previously known as International Financial Reporting Standards, IFRS, IFRSs and IFRS Standards.

New Zealand equivalents to IFRS Accounting Standards~~International Financial Reporting Standards~~ (NZ IFRS) Standards and Interpretations issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:

- (a) New Zealand equivalents to:
 - (i) International Financial Reporting Standards;
 - (ii) International Accounting Standards
 - (iii) IFRIC Interpretations; and
 - (iv) SIC Interpretations; and
- (b) domestic Financial Reporting Standards.

New Zealand equivalents to IFRS Accounting Standards~~International~~ NZ IFRS with disclosure concessions for Tier 2 for-profit entities.

**Financial Reporting
Standards-Reduced
Disclosure Regime
(NZ IFRS RDR)**

...

**Appendix D
Exemptions from other NZ IFRSs**

...

Severe hyperinflation

...

D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of NZ IFRS 18~~NZ IAS 1~~) is provided for that shorter period.

...

**Appendix E
Short-term exemptions from NZ IFRS**

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

...

E2 An entity that chooses to present comparative information that does not comply with NZ IFRS 7 and the completed version of NZ IFRS 9 (issued in 2014) in its first year of transition shall:

...

(d) apply paragraph 6C(c) of NZ IAS 8 ~~17(e) of NZ IAS 1~~ to provide additional disclosures when compliance with the specific requirements in NZ IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

A footnote is added to the end of paragraph 39K. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 39P. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraphs 39Q and 39R. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

The footnote to the definition of *IFRS Accounting Standards* in Appendix A is deleted. Deleted text is struck through.

- * ~~Definition of IFRSs amended after the name changes introduced by the revised Constitution of the IFRS Foundation in 2010.~~

NZ IFRS 2 *Share-based Payment*

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 59B. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 63E. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

NZ IFRS 3 *Business Combinations*

Paragraphs 50 and B64 are amended. Paragraph 64R is added. New text is underlined and deleted text is struck through.

The acquisition method

...

Measurement period

...

50 After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date and transition

Effective date

...

64R NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 50 and B64. An entity shall apply those amendments when it applies NZ IFRS 18.

...

Appendix B Application guidance

...

Disclosures (application of paragraphs 59 and 61)

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

...

*(q) the following information:

...

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This NZ IFRS uses the term ‘impracticable’ with the same meaning as in NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

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

Paragraphs 2, 3, 5A, 5B, 13, 17, 26A, 28, 33–36A, 38, 39 and 41, and the headings before paragraphs 31 and 38, are amended. Paragraph 31 is not amended but included for ease of reference. Paragraph 44N is added. New text is underlined and deleted text is struck through.

Scope

- 2 The classification, ~~and presentation~~ and disclosure requirements of this Standard apply to all recognised *non-current assets* and to all *disposal groups* of an entity. The measurement requirements of this Standard apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.
- 3 Assets classified as non-current in accordance with NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~NZ IAS 1 *Presentation of Financial Statements*~~ shall not be reclassified as *current assets* until they meet the criteria to be classified as held for sale in accordance with this Standard. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Standard.
- ...
- 5A The classification, presentation, ~~and measurement~~ and disclosure requirements in this Standard applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).
- 5B This Standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other Standards do not apply to such assets (or disposal groups) unless those Standards require:
- (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
 - (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of NZ IFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the disclosure ~~general~~ requirements of NZ IFRS 18 and the requirements of NZ IAS 8 *Basis of Preparation of Financial Statements* ~~NZ IAS 1~~, in particular paragraphs 6A and 31A of NZ IAS 8 ~~15 and 125 of that Standard~~.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

...

Non-current assets that are to be abandoned

- 13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present or disclose the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

...

Measurement of non-current assets (or disposal groups) classified as held for sale

Measurement of a non-current asset (or disposal group)

- ...
- 17 When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be classified presented in profit or loss applying the requirements in NZ IFRS 18 relating to income and expenses arising from the remeasurement of a non-current asset (or disposal group) classified as held for sale as a financing cost.
- ...

Changes to a plan of sale or to a plan of distribution to owners

- ...
- 26A If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, then the change in classification is considered a continuation of the original plan of disposal. The entity:
- (a) shall not follow the guidance in paragraphs 27–29 to account for this change. The entity shall apply the classification, presentation, ~~and~~ measurement and disclosure requirements in this NZ IFRS that are applicable to the new method of disposal.
- ...
- 28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held for distribution to owners in profit or loss from continuing operations in the period in which the criteria in paragraphs 7–9 or 12A, respectively, are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution to owners shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution to owners is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same line item caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.
- ...

Presentation and disclosure

...

Discontinued ~~Presenting discontinued operations~~

- 31 *A component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.
- ...
- 33 An entity shall present or disclose:
- ...
- *(b) an analysis of the single amount in (a) into:
- (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;
- (ii) the related income tax expense as required by paragraph 81(h) of NZ IAS 12.
- (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
- (iv) the related income tax expense as required by paragraph 81(h) of NZ IAS 12.

The analysis may be presented in the statement of comprehensive income or disclosed in the notes ~~or in the statement of comprehensive income~~. If it is presented in the statement of comprehensive income it shall be classified presented in the discontinued operations category ~~a section identified as relating to discontinued operations~~, ie separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

- (c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. This information ~~These disclosures may either be presented in the statement of cash flows or disclosed either in the notes or in the financial statements~~. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).
- *(d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. This information ~~These disclosures may either be presented in the statement of comprehensive income or disclosed be presented either in the notes or in the statement of comprehensive income~~.

33A If an entity presents the items of profit or loss in a ~~separate~~ statement of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18~~10A~~ of NZ IAS 1 (as amended in 2011), a category section ~~section~~ identified as relating to discontinued operations is presented in the ~~that~~ statement of profit or loss.

34 An entity shall re-present the presentations and disclosures in paragraph 33 for prior periods presented in the financial statements so that the presentations and disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

35 Adjustments in the current period to amounts previously classified presented in the discontinued operations category ~~discontinued operations~~ that are directly related to the disposal of a discontinued operation in a prior period shall also be classified separately in the discontinued operations category ~~discontinued operations~~. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

...

36 If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously classified presented in the discontinued operations category ~~discontinued operations~~ in accordance with paragraphs 33–35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

36A An entity that is committed to a sale plan involving loss of control of a subsidiary shall present or disclose the information required in paragraphs 33–36 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32.

...

Non-current Presentation of a non-current asset or disposal group classified as held for sale

38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall either be presented separately ~~disclosed either~~ in the statement of financial position or disclosed in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

39 If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (see paragraph 11), presentation or disclosure of the major classes of assets and liabilities is not required.

...

Additional disclosures

41 An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

...

- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the line item caption in the statement of comprehensive income that includes that gain or loss;

...

Effective date

...

- 44N NZ IFRS 18 issued in May 2024 amended paragraphs 2, 3, 5A, 5B, 13, 17, 26A, 28, 33–36A, 38, 39 and 41, and the headings before paragraphs 31 and 38. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 44A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 44I. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 44L. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Paragraph 6 is amended. Paragraph 26B is added. New text is underlined and deleted text is struck through.

Recognition of exploration and evaluation assets

Temporary exemption from NZ IAS 8 paragraphs 11 and 12

6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date

...

26B NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 6. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 26A. New text is underlined.

* When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 3, 8, RDR 8.1, 20, RDR 20.1, 21, 24C, 24E, 24F, 24G, B5, B7 and B46 are amended. Paragraphs 19A–19B and their related subheading, and paragraph 44KK are added. New text is underlined and deleted text is struck through.

Scope

- 3 This Standard shall be applied by all entities to all types of financial instruments, except:
- ...
- (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of NZ IAS 32. However, the disclosures required by paragraphs 19A–19B are required for such instruments.
- ...

Significance of financial instruments for financial position and performance

...

Statement of financial position

Categories of financial assets and financial liabilities

- 8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, shall either be presented ~~disclosed either~~ in the statement of financial position or disclosed in the notes:

...

- RDR 8.1 A Tier 2 entity shall either present ~~disclose, either~~ in the statement of financial position or disclose in the notes, the carrying amounts of (i) financial assets measured at fair value through profit or loss and (ii) financial liabilities measured at fair value through profit or loss.

Financial instruments classified as equity in accordance with paragraphs 16A–16B or paragraphs 16C–16D of NZ IAS 32

- *19A For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of NZ IAS 32, an entity shall disclose (to the extent not disclosed elsewhere):

- (a) summary quantitative data about the amount classified as equity;
- (b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- (c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- (d) information about how the expected cash outflow on redemption or repurchase was determined.

- *19B If an entity has reclassified any of the following financial instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:

- (a) a puttable financial instrument classified as an equity instrument applying paragraphs 16A–16B of NZ IAS 32; or
- (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument applying paragraphs 16C–16D of NZ IAS 32.

Statement of comprehensive income

Items of income, expense, gains or losses

20 An entity shall ~~either present, subject to the presentation requirements in NZ IFRS 18 *Presentation and Disclosure in Financial Statements*, disclose~~ the following items of income, expense, gains or losses ~~either~~ in the statement of comprehensive income or disclose them in the notes:

...

RDR 20.1 A Tier 2 entity shall ~~either present~~~~disclose, either~~ in the statement of comprehensive income or disclose in the notes, net gains or losses on financial assets or financial liabilities measured at fair value through profit or loss. For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

Other disclosures

Accounting policies

21 In accordance with paragraph ~~27A of NZ IAS 8 *Basis of Preparation of Financial Statements*~~~~117 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~, an entity discloses material accounting policy information. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

Hedge accounting

...

The effects of hedge accounting on financial position and performance

...

24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

...

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

...

(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see ~~NZ IFRS 18~~~~NZ IAS 1~~) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

*(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see ~~NZ IFRS 18~~~~NZ IAS 1~~); and

...

*24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with ~~NZ IFRS 18~~~~NZ IAS 1~~ that, taken together:

...

*24F An entity shall provide ~~disclose~~ the information required in paragraph 24E separately by risk category. This disaggregation by risk may be disclosed ~~provided~~ in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

- ...
- (c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4 of NZ IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with NZ IFRS 18~~NZ IAS 1~~, an entity does not need to continue this disclosure in subsequent periods).
- ...

Effective date and transition

- ...
- 44KK NZ IFRS 18 issued in May 2024 amended paragraphs 3, 8, RDR 8.1, 20, RDR 20.1, 21, 24C, 24E, 24F, 24G, B5, B7 and B46, and added paragraphs 19A–19B and a related subheading. An entity shall apply those amendments when it applies NZ IFRS 18.
- ...

Appendix B Application guidance

Classes of financial instruments and level of disclosure (paragraph 6)

...

Other disclosure – accounting policies (paragraph 21)

- B5 Paragraph 21 requires disclosure of material accounting policy information, which is expected to include information about the measurement basis (or bases) for financial instruments used in preparing the financial statements. For financial instruments, such disclosure may include:

...

Paragraph 27G of NZ IAS 8 *Basis of Preparation of Financial Statements* 122 of NZ IAS 1 (as revised in 2007) also requires entities to disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

...

Quantitative disclosures (paragraph 34)

- *B7 Paragraph 34(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. NZ IAS 8 ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ discusses relevance and reliability.
- ...

Derecognition (paragraphs 42C–42H)

...

Offsetting financial assets and financial liabilities (paragraphs 13A–13F)

...

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

...

- *B46 The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity applying the requirements of NZ IFRS 18 aggregates or disaggregates amounts presented in ~~determines that the aggregation or disaggregation of individual financial statement line items~~ amounts when the entity provides the amounts required by paragraph 13C(c) provides more relevant information, it must reconcile ~~those~~ the aggregated or disaggregated amounts ~~disclosed in paragraph 13C(c)~~ back to the individual line item amounts presented in the statement of financial position.

A footnote is added to the end of paragraph 44A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 44C. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 7 *Financial Instruments: Disclosures*.

A footnote is added to the end of paragraph 44Q. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 44AA. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 44FF. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

A footnote is added to the end of paragraph 44II. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over the requirements to disclose material accounting policy information in NZ IAS 1 to NZ IAS 8.

NZ IFRS 8 *Operating Segments*

Paragraph 23 is amended and paragraph 36D is added. New text is underlined and deleted text is struck through.

Disclosure

...

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

...

- (f) material items of income and expense disclosed in accordance with paragraph 42 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~paragraph 97 of NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~;

...

Transition and effective date

...

36D NZ IFRS 18 issued in May 2024 amended paragraph 23. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 36A. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IFRS 9 *Financial Instruments*

Paragraphs 5.6.5, 5.6.7, 5.7.10, 6.5.11, 6.5.12, 6.5.14, 6.5.15, 6.7.2 and B4.1.2A are amended and paragraph 7.1.11 is added. New text is underlined and deleted text is struck through.

Chapter 5 Measurement

...

5.6 Reclassification of financial assets

...

- 5.6.5 If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment (see NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~). The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. (See paragraph B5.6.1.)

...

- 5.6.7 If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 1~~) at the reclassification date.

5.7 Gains and losses

...

Assets measured at fair value through other comprehensive income

- 5.7.10 A gain or loss on a financial asset measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A shall be recognised in other comprehensive income, except for impairment gains or losses (see Section 5.5) and foreign exchange gains and losses (see paragraphs B5.7.2–B5.7.2A), until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 1~~). If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income in accordance with paragraphs 5.6.5 and 5.6.7. Interest calculated using the effective interest method is recognised in profit or loss.

...

Chapter 6 Hedge accounting

...

6.5 Accounting for qualifying hedging relationships

...

Cash flow hedges

6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

...

- (d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:
- (i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~) and hence it does not affect other comprehensive income.
 - (ii) for cash flow hedges other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).
 - (iii) however, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~).

6.5.12 When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

...

- (b) if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a net investment in a foreign operation

...

6.5.14 The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~) in accordance with paragraphs 48–49 of NZ IAS 21 on the disposal or partial disposal of the foreign operation.

Accounting for the time value of options

6.5.15 When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 6.2.4(a)), it shall account for the time value of the option as follows (see paragraphs B6.5.29–B6.5.33):

...

- (b) the change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of equity (the ‘amount’) shall be accounted for as follows:

- (i) if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~) and hence does not affect other comprehensive income.
 - (ii) for hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, when a forecast sale occurs).
 - (iii) however, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~).
- (c) the change in fair value of the time value of an option that hedges a time-period related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). Hence, in each reporting period, the amortisation amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (ie including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~).

...

6.7 Option to designate a credit exposure as measured at fair value through profit or loss

...

Accounting for credit exposures designated at fair value through profit or loss

- 6.7.2 If a financial instrument is designated in accordance with paragraph 6.7.1 as measured at fair value through profit or loss after its initial recognition, or was previously not recognised, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognised in profit or loss. For financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the cumulative gain or loss previously recognised in other comprehensive income shall immediately be reclassified from equity to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 4~~).

...

Chapter 7 Effective date and transition

7.1 Effective date

...

- 7.1.11 NZ IFRS 18 issued in May 2024 amended paragraphs 5.6.5, 5.6.7, 5.7.10, 6.5.11, 6.5.12, 6.5.14, 6.5.15, 6.7.2 and B4.1.2A. An entity shall apply those amendments when it applies NZ IFRS 18.

...

Appendix B Application guidance

...

Classification (Chapter 4)

Classification of financial assets (Section 4.1)

The entity's business model for managing financial assets

...

- B4.1.2A An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the business model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements (see NZ IAS 8 *Basis of Preparation of Financial Statements, Accounting Policies, Changes in Accounting Estimates and Errors*) nor does it change the classification of the remaining financial assets held in that business model (ie those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the business model assessment. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph 7.2.1. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 10 Consolidated Financial Statements

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C2. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 11 *Joint Arrangements*

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C1B. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 12 *Disclosure of Interests in Other Entities*

Paragraph B14 is amended and paragraph C1E is added. New text is underlined and deleted text is struck through.

Appendix B Application guidance

...

Summarised financial information for subsidiaries, joint ventures and associates (paragraphs 12 and 21)

...

*B14 The summarised financial information ~~disclosed~~ presented in accordance with paragraphs B12 and B13 shall be the amounts included in the NZ IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

- (a) the amounts included in the NZ IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.
- (b) the entity shall provide a reconciliation of the summarised financial information ~~disclosed~~ presented to the carrying amount of its interest in the joint venture or associate.

...

Appendix C Effective date and transition

Effective date and transition

...

C1E NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph B14. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph C1D. New text is underlined.

* When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 13 *Fair Value Measurement*

Paragraph 51 is amended and paragraph C7 is added. New text is underlined and deleted text is struck through.

Measurement

...

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

...

- 51 An entity shall make an accounting policy decision in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ to use the exception in paragraph 48. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 53–55) and credit adjustments (see paragraph 56), if applicable, consistently from period to period for a particular portfolio.

...

Appendix C Effective date and transition

...

- C7 NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 51. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IFRS 14 *Regulatory Deferral Accounts*

Paragraphs 19, B13 and B14 are amended and paragraph C2 is added. The subheading before paragraph 9 is also amended. Paragraph 9 is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Recognition, measurement, impairment and derecognition

Temporary exemption from paragraph 11 of NZ IAS 8 Basis of Preparation of Financial Statements~~Accounting Policies, Changes in Accounting Estimates and Errors~~

- 9 An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of NZ IAS 8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

...

Presentation

Changes in presentation

...

- 19 Notwithstanding the requirements in NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~In addition to the items that are required to be presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income in accordance with NZ IAS 1 *Presentation of Financial Statements*,~~ an entity applying this Standard shall present all regulatory deferral account balances and the movements in those balances in accordance with paragraphs 20–26.

...

Appendix B Application Guidance

...

Applicability of other Standards

...

Application of NZ IAS 33 *Earnings per Share*

- B13 Paragraph 66 of NZ IAS 33 requires some entities to present, in the statement of profit or loss and other comprehensive income, basic and diluted earnings per share both for profit or loss from continuing operations and profit or loss that is attributable to the ordinary equity holders of the parent entity. In addition, paragraph 68 of NZ IAS 33 requires an entity that reports a discontinued operation to either present in the statement of profit or loss and other comprehensive income or disclose in the notes ~~disclose~~ the basic and diluted amounts per share for the discontinued operation, ~~either in the statement of profit or loss and other comprehensive income or in the notes.~~
- B14 For each earnings per share amount presented in accordance with NZ IAS 33, an entity applying this Standard shall present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts shall exclude the net movement in the regulatory deferral account balances.

~~Consistent with the requirement in paragraph 73 of NZ IAS 33, Notwithstanding the requirements in paragraph 73C(c) of NZ IAS 33, an entity shall present the earnings per share required by paragraph 26 of this Standard with equal prominence to the earnings per share required by NZ IAS 33 for all periods presented.~~

...

Appendix C

Effective date and transition

Effective date and transition

Effective date

...

C2 NZ IFRS 18 issued in May 2024 amended paragraphs 19, B13 and B14 and the subheading before paragraph 9. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IFRS 15 *Revenue from Contracts with Customers*

Paragraph 43 is amended and paragraph C1D is added. New text is underlined and deleted text is struck through.

Recognition

...

Satisfaction of performance obligations

...

Measuring progress towards complete satisfaction of a performance obligation

...

Methods for measuring progress

...

43 As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Appendix C Effective date and transition

Effective date

...

C1D NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 43. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph C3(a). New text is underlined.

* When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 16 Leases

Paragraph 49 is amended and paragraph C1E is added. New text is underlined and deleted text is struck through.

Lessee

...

Presentation

...

- 49 In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Paragraph 61 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements* requires an entity to classify in the financing category of the statement of profit or loss interest ~~Interest~~ expense on the lease liability, identified by the entity applying paragraph 36(a) is a component of finance costs, which paragraph 82(b) of NZ IAS 1 *Presentation of Financial Statements* requires to be presented separately in the statement of profit or loss and other comprehensive income.

...

Appendix C Effective date and transition

Effective date

...

- C1E NZ IFRS 18 issued in May 2024 amended paragraph 49. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph C5(a). New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRS 17 *Insurance Contracts*

Paragraphs 91, 96, 103 and B129 are amended and paragraph C2B is added. New text is underlined and deleted text is struck through.

Recognition and presentation in the statement(s) of financial performance (paragraphs B120–B136)

...

Insurance finance income or expenses (see paragraphs B128–B136)

...

91 If an entity transfers a group of insurance contracts or derecognises an insurance contract applying paragraph 77:

- (a) it shall reclassify to profit or loss as a reclassification adjustment (see NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).
- (b) it shall not reclassify to profit or loss as a reclassification adjustment (see NZ IFRS 18~~NZ IAS 1~~) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).

...

Disclosure

...

96 ~~Paragraphs 41–43 of NZ IFRS 18~~ Paragraphs 29–31 of NZ IAS 1 set out requirements relating to materiality and aggregation and disaggregation of information. Examples of characteristics aggregation bases that might be appropriate as a basis to disaggregate for information disclosed about insurance contracts are:

- (a) type of contract (for example, major product lines);
- (b) geographical area (for example, country or region); or
- (c) reportable segment, as defined in NZ IFRS 8 *Operating Segments*.

Explanation of recognised amounts

...

103 An entity shall separately disclose in the reconciliations required in paragraph 100 each of the following amounts related to services, if applicable:

...

- (c) investment components excluded from insurance revenue and insurance service expenses (combined with refunds of premiums unless refunds of premiums are disclosed~~presented~~ as part of the cash flows in the period described in paragraph 105(a)(i)).

...

Appendix B Application guidance

...

Insurance finance income or expenses (paragraphs 87–92)

...

B129 Paragraphs 88–89 require an entity to make an accounting policy choice as to whether to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. An entity shall apply its choice of accounting policy to portfolios of insurance contracts. In assessing the appropriate accounting policy for a portfolio of insurance contracts, applying paragraph 13 of NZ IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~, the entity shall consider for each portfolio the assets that the entity holds and how it accounts for those assets.

...

Appendix C Effective date and transition

Effective date

...

C2B NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 91, 96, 103 and B129. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph C3(a). New text is underlined.

* When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IAS 2 *Inventories*

Paragraph 39 is amended and paragraph 40H is added. New text is underlined and deleted text is struck through.

Disclosure

...

- 39 Some entities classify expenses by nature in the operating category of the statement of profit or loss in a way that results in amounts being presented ~~disclosed~~ other than the cost of inventories recognised as an expense during the period. ~~Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses.~~ In this case, the entity presents ~~discloses~~ the costs recognised as an expense for raw materials and consumables, employee benefits ~~labour costs~~ and other costs together with the amount of the net change in inventories for the period.

Effective date

...

- 40H NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 39. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IAS 7 *Statement of Cash Flows*

Paragraphs 6, 10, 12, 14, 16–18, 20, 31, 32, 35, 46 and 47 are amended. Paragraphs 33A, 34A–34D, and 64 are added. Paragraphs 33 and 34 are deleted. New text is underlined and deleted text is struck through.

Definitions

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

...

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D.

...

Presentation of a statement of cash flows

10 The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities. In preparing the statement of cash flows, an entity shall apply this Standard and also apply the general requirements for financial statements in paragraphs 9–43 and 113–114 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements.*

...

12 A single transaction may include cash flows that are classified differently. ~~For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.~~

Operating activities

...

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) [deleted]
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; ~~and~~
- (g) cash receipts and payments from contracts held for dealing or trading purposes; ~~and~~
- (h) cash receipts of dividends and cash receipts and payments of interest as described in paragraphs 34B–34D.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of NZ IAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

...

Investing activities

16 The separate ~~presentation disclosure~~ of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;~~;~~
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;~~;~~
- (c) cash payments to acquire equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);~~;~~
- (d) cash receipts from sales of equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);~~;~~
- (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);~~;~~
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);~~;~~
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities;~~;~~ ~~and~~
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.
- (i) cash receipts of interest and dividends as described in paragraphs 34A–34D.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 The separate ~~presentation disclosure~~ of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to owners to acquire or redeem the entity's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- (d) cash repayments of amounts borrowed; ~~and~~
- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a lease;~~;~~
- (f) cash payments of dividends as described in paragraph 33A; and
- (g) cash payments of interest as described in paragraphs 34A–34D.

Reporting cash flows from operating activities

18 An entity shall report cash flows from operating activities using either:

- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- (b) the indirect method, whereby operating profit or loss is adjusted for:
 - (i) the effects of transactions of a non-cash nature;~~;~~

- (ii) **any deferrals or accruals of past or future operating cash receipts or payments;**
- (iii) **income or expenses classified in the operating category in the statement of profit or loss for which the associated cash flows are classified as cash flows from either investing or financing activities; and**
- (iv) **cash flows from operating activities for which the associated income or expenses are not classified in the operating category of the statement of profit or loss and items of income or expense associated with investing or financing cash flows.**

...

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting operating profit or loss for the effects of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions and, ~~deferred taxes~~, unrealised foreign currency gains and losses classified in the operating category, ~~and undistributed profits of associates; and~~
- (c) income or expenses classified in the operating category in the statement of profit or loss ~~all other items~~ for which the cash effects are investing or financing cash flows; ~~and~~
- (d) operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not classified in the operating category in the statement of profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses classified in the operating category in the statement of profit or loss, ~~disclosed in the statement of comprehensive income~~ and the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not classified in the operating category.

...

Interest and dividends

31 **Cash flows from interest and dividends received and paid shall each be presented ~~disclosed~~ separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D ~~as either operating, investing or financing activities.~~**

32 The total amount of interest paid during a period is included ~~disclosed~~ in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with NZ IAS 23 *Borrowing Costs*.

33 ~~[Deleted by IASB] Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.~~

33A An entity shall classify dividends paid as cash flows from financing activities.

34 ~~[Deleted by IASB] Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.~~

34A An entity, other than those entities described in paragraph 34B, shall classify:

- (a) interest paid (as described in paragraph 32) as cash flows from financing activities.
- (b) interest and dividends received as cash flows from investing activities.

34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of NZ IFRS 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how—applying NZ IFRS 18—it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).

34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.

34D In applying NZ IFRS 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

Taxes on income

35 Cash flows arising from taxes on income shall be separately **presented** ~~disclosed~~ and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

...

Components of cash and cash equivalents

...

*46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with NZ IAS 8 Basis of Preparation of Financial Statements~~NZ IAS 1 Presentation of Financial Statements~~, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

...

Effective date

...

64 NZ IFRS 18 issued in May 2024 amended paragraphs 6, 10, 12, 14, 16–18, 20, 31, 32, 35, 46 and 47, added paragraphs 33A and 34A–34D, and deleted paragraphs 33 and 34. An entity shall apply those amendments when it applies NZ IFRS 18.

The footnote to the title of NZ IAS 7 is amended. New text is underlined.

* In September 2007 the IASB amended the title of IAS 7 from *Cash Flow Statements* to *Statement of Cash Flows* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007. In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 to NZ IFRS 18.

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

The title of NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~

Paragraphs 1, 3, 5, 11 and 32 are amended and paragraph 2 is deleted. Paragraph 3A, paragraphs 6A–6J, 6K–6L, 6M–6N, RDR 6A.1, RDR 6B.1, 27A–27I and 31A–31I, each with a related heading or subheading, and paragraph 54J are added. A subheading is also added before paragraph 28. Paragraph 28 has not been amended but included for ease of reference. New text is underlined and deleted text is struck through.

Objective

- 1 The objective of this Standard is to ~~prescribe~~ enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with financial statements of other entities, by prescribing the basis of preparation of financial statements which includes:
- (a) general matters;
 - (b) the criteria for selecting, and changing and disclosing accounting policies; and,
 - (c) ~~together with~~ the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.
- ~~The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.~~
- 2 ~~[Deleted by IASB] Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in NZ IAS 1 *Presentation of Financial Statements*.~~

Scope

- 3 This Standard shall be applied in determining the basis of preparation of financial statements, including selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.
- 3A NZ IAS 34 *Interim Financial Reporting* sets out the requirements for the presentation and disclosure of condensed interim financial statements. Paragraphs 6A–6N of this Standard also apply to such interim financial statements.
- ...

Definitions

- 5 The following terms are used in this Standard with the meanings specified:
- ...

IFRS Accounting Standards ~~International Financial Reporting Standards (IFRSs)~~ are accounting standards ~~Standards and Interpretations~~ issued by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards;
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.

IFRS Accounting Standards were previously known as International Financial Reporting Standards, IFRS, IFRSs and IFRS Standards.

Material information is defined in Appendix A of NZ IFRS 18 Presentation and Disclosure in Financial Statements ~~paragraph 7 of NZ IAS 1 and~~. Material is used in this Standard with the same meaning.

...

Basis of preparation—general matters

Fair presentation and compliance with IFRS Accounting Standards

***6A** Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 NZ *Conceptual Framework*). The application of NZ IFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

RDR 6A.1 Financial statements shall present fairly the financial position, financial performance and cash flows of a Tier 2 entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 2018 NZ *Conceptual Framework*. The application of the New Zealand equivalents to IFRS Accounting Standards Reduced Disclosure Regime (NZ IFRS RDR), with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation.

***6B** An entity whose financial statements comply with IFRS Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRS Accounting Standards unless they comply with all the requirements of IFRS Accounting Standards.

RDR 6B.1 A Tier 2 entity would not be able to state compliance with IFRS Accounting Standards.

6C In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable NZ IFRSs. A fair presentation also requires an entity:

- (a) to select and apply accounting policies in accordance with this Standard. This Standard sets out a hierarchy of authoritative guidance that management considers in the absence of an NZ IFRS that specifically applies to an item.
- (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- (c) to provide additional disclosures when compliance with the specific requirements in NZ IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

6D An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

6E In the extremely rare circumstances in which management concludes that compliance with a requirement in an NZ IFRS would be so misleading that it would conflict with the objective of financial statements set out in the 2018 NZ *Conceptual Framework*, the entity shall depart from that requirement in the manner set

out in paragraph 6F if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

6F **When an entity departs from a requirement of an NZ IFRS in accordance with paragraph 6E, it shall disclose:**

- (a)** **that management has concluded that the financial statements present fairly the entity’s financial position, financial performance and cash flows;**
- (b)** **that it has complied with applicable NZ IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;**
- (c)** **the title of the NZ IFRS from which the entity has departed, the nature of the departure, including the treatment that the NZ IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the 2018 NZ Conceptual Framework, and the treatment adopted; and**
- (d)** **for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

6G **When an entity has departed from a requirement of an NZ IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraphs 6F(c)–6F(d).**

6H Paragraph 6G applies, for example, when an entity departed in a prior period from a requirement in an NZ IFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period’s financial statements.

6I **In the extremely rare circumstances in which management concludes that compliance with a requirement in an NZ IFRS would be so misleading that it would conflict with the objective of financial statements set out in the 2018 NZ Conceptual Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

- (a)** **the title of the NZ IFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the 2018 NZ Conceptual Framework; and**
- (b)** **for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

6J **For the purpose of paragraphs 6E–6I, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an NZ IFRS would be so misleading that it would conflict with the objective of financial statements set out in the 2018 NZ Conceptual Framework, management considers:**

- (a)** **why the objective of financial statements is not achieved in the particular circumstances; and**
- (b)** **how the entity’s circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity’s compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the 2018 NZ Conceptual Framework.**

Going concern

6K **When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern**

basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

6L In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

6M **An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**

6N When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the 2018 NZ Conceptual Framework.

Accounting policies

Selection and application of accounting policies

...

11 **In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:**

...

(b) **the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting* (2018 NZ Conceptual Framework).**

...

Disclosure

Disclosure of selection and application of accounting policies

27A **An entity shall disclose material accounting policy information (see paragraph 5). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.**

27B Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

27C Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

- (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
- (b) the entity chose the accounting policy from one or more options permitted by NZ IFRS—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;

- (c) the accounting policy was developed in accordance with this Standard in the absence of an NZ IFRS that specifically applies;
- (d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 27G and 31A; or
- (e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one NZ IFRS to a class of material transactions.

27D Accounting policy information that focuses on how an entity has applied the requirements in the NZ IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the NZ IFRSs.

27E If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

27F An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other NZ IFRSs.

27G An entity shall disclose, along with its material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 31A), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

27H In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

- (a) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, assets subject to leases are transferred to other entities;
- (b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
- (c) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

27I Some of the disclosures made in accordance with paragraph 27G are required by other NZ IFRSs. For example, NZ IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. NZ IAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Disclosure of changes in accounting policies

28 When initial application of an NZ IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

...

Disclosure of sources of estimation uncertainty

31A An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) **their nature; and**
- (b) **their carrying amount as at the end of the reporting period.**

31B Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of

recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

31C The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 31A relate to the estimates that require management’s most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

31D The disclosures in paragraph 31A are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

31E An entity provides the disclosures in paragraph 31A in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

- (a) the nature of the assumption or other estimation uncertainty;
- (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

31F This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 31A.

*31G Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

31H The disclosures in paragraph 27G of particular judgements that management made in the process of applying the entity’s accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 31A.

31I Other NZ IFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 31A. For example, NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. NZ IFRS 13 *Fair Value Measurement* requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

Accounting estimates

32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

...

(c) the fair value of an asset or liability, applying NZ IFRS 13 ~~*Fair Value Measurement*~~;

...

(e) a provision for warranty obligations, applying NZ IAS 37 ~~*Provisions, Contingent Liabilities and Contingent Assets*~~.

...

Effective date and transition

...

54J NZ IFRS 18 issued in May 2024 amended paragraphs 1, 3, 5, 11 and 32, added paragraphs 3A, 6A–6N, RDR 6A.1, RDR 6B.1, 27A–27I and 31A–31I and related headings and subheadings, added a subheading above paragraph 28 and deleted paragraph 2. An entity shall apply those amendments when it applies NZ IFRS 18.

The footnote to the definition of *IFRS Accounting Standards* in paragraph 5 is deleted. Deleted text is struck through.

* ~~Definition of IFRSs amended after the name changes introduced by the revised *Constitution of the IFRS Foundation* in 2010.~~

A footnote is added to the end of paragraph 54H. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of ‘material’ in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IAS 10 Events after the Reporting Period

Paragraphs 13 and 16 are amended and paragraph 23D is added. New text is underlined and deleted text is struck through.

Recognition and measurement

...

Dividends

...

- *13 If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~.

Going concern

...

- 16 NZ IAS 8 *Basis of Preparation of Financial Statements* ~~NZ IAS 1~~ specifies required disclosures if:
- (a) the financial statements are not prepared on a going concern basis; or
 - (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

...

Effective date

...

- 23D NZ IFRS 18 issued in May 2024 amended paragraphs 13 and 16. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'definition of material in paragraph 7 of NZ IAS 1' in paragraph 23C. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IAS 12 *Income Taxes*

Paragraphs 62A, 77 (and its related subheading) and 78 (and its related subheading) and paragraph 81 are amended. Paragraph 98N is added. New text is underlined and deleted text is struck through.

Recognition of current and deferred tax

...

Items recognised outside profit or loss

...

62A NZ IFRS require or permit particular items to be credited or charged directly to equity. Examples of such items are:

- (a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see NZ IAS 8 *Basis of Preparation of Financial Statements*; ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~); and
- (b) amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).

...

Presentation

...

Tax expense

Tax expense (income) related to items recognised in profit or loss from ordinary activities

77 The tax expense (income) related to items recognised in profit or loss from continuing operations ~~ordinary activities~~ shall be presented in the income tax category in as part of profit or loss in the statement ~~statement(s) of profit or loss and other comprehensive income.~~

...

Exchange differences on foreign currency denominated assets and liabilities arising from income taxes ~~deferred foreign tax liabilities or assets~~

78 NZ IAS 21 requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the statement of comprehensive income. Accordingly, where if exchange differences on foreign currency denominated assets and liabilities arising from income taxes ~~deferred foreign tax liabilities or assets~~ are recognised in profit or loss in accordance with NZ IAS 21 ~~the statement of comprehensive income~~, such differences shall may be classified applying the requirements in paragraph 67 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.~~

Disclosure

...

81 The following shall also be disclosed separately:

- ...
- *(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and paragraph 93 of NZ IFRS 18~~NZ IAS 1 (as revised in 2007)~~);**
- ...
- (h) in respect of discontinued operations, the tax expense relating to:**
- (i) the gain or loss on discontinuance; and**
 - (ii) the profit or loss ~~of from the ordinary activities of the discontinued operation~~ for the period, together with the corresponding amounts for each prior period presented;**
- ...

Effective date

...

98N NZ IFRS 18 issued in May 2024 amended paragraphs 62A, 77 (and its related subheading) and 78 (and its related subheading) and paragraph 81. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 92. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 98B. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 98H. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IAS 16 *Property, Plant and Equipment*

Paragraph 51 is amended. Paragraph 81O is added. New text is underlined and deleted text is struck through.

Measurement after recognition

...

Depreciation

...

Depreciable amount and depreciation period

...

- 51 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~.

...

Effective date

...

- 81O NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 51. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 81B. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 81G. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IAS 19 *Employee Benefits*

Paragraphs 25, 134, 158 and 171 are amended. Paragraph 180 is added. New text is underlined and deleted text is struck through.

Short-term employee benefits

...

Disclosure

- 25 Although this Standard does not require specific disclosures about short-term employee benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~NZ IAS 1 *Presentation of Financial Statements*~~ requires disclosure of employee benefits expense.

...

Post-employment benefits: defined benefit plans

...

Presentation

...

Components of defined benefit cost

- 134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with NZ IFRS 18 ~~NZ IAS 1~~.

...

Other long-term employee benefits

...

Disclosure

- 158 Although this Standard does not require specific disclosures about other long-term employee benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IFRS 18 ~~NZ IAS 1~~ requires disclosure of employee benefits expense.

Termination benefits

...

Disclosure

- 171 Although this Standard does not require specific disclosures about termination benefits, other NZ IFRSs may require disclosures. For example, NZ IAS 24 requires disclosures about employee benefits for key management personnel. NZ IFRS 18 ~~NZ IAS 1~~ requires disclosure of employee benefits expense.

Transition and effective date

...

- 180 NZ IFRS 18 issued in May 2024 amended paragraphs 25, 134, 158 and 171. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph 173. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,' in paragraph 175. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

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

Paragraphs 16, 29 and 32 are amended and paragraph 49 is added. New text is underlined and deleted text is struck through.

Government grants

...

- 16 It is fundamental to the income approach that government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see NZ IAS 8 Basis of Preparation of Financial Statements~~NZ IAS 1 Presentation of Financial Statements~~) and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.

...

Presentation of grants related to income

- 29 Grants related to income are classified and presented in the statement of profit or loss in accordance with the requirements in NZ IFRS 18 Presentation and Disclosure in Financial Statements. ~~Presented as part of profit or loss. They are included in profit or loss, either as income or as a deduction separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.~~

...

Repayment of government grants

- 32 A government grant that becomes repayable shall be accounted for as a change in accounting estimate (see NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). **Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.**

...

Effective date

...

- 49 NZ IFRS 18 issued in May 2024 amended paragraphs 16, 29 and 32. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 42. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 46. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

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

Paragraph 48 is amended and paragraph 60N is added. New text is underlined and deleted text is struck through.

Use of a presentation currency other than the functional currency

...

Disposal or partial disposal of a foreign operation

- 48 On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~).

...

Effective date and transition

...

- 60N NZ IFRS 18 issued in May 2024 amended paragraph 48. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 60. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to the end of paragraph 60A. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 60H. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

NZ IAS 24 *Related Party Disclosures*

Paragraph 20 is amended and paragraph 28D is added. New text is underlined and deleted text is struck through.

Disclosures

All entities

...

- 20 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~NZ IAS 1 *Presentation of Financial Statements*~~ for information to be either presented ~~either~~ in the statement of financial position or disclosed in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

...

Effective date and transition

...

- 28D NZ IFRS 18 issued in May 2024 amended paragraph 20. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

A footnote is added to the end of paragraph 38. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the requirements to disclose material accounting policy information in NZ IAS 1 *Presentation of Financial Statements* to NZ IAS 8 *Basis of Preparation of Financial Statements*.

NZ IAS 27 *Separate Financial Statements*

A footnote is added to '(as defined in NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*),' in paragraph 18G. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in paragraph 18J. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

NZ IAS 28 *Investments in Associates and Joint Ventures*

Paragraph 10 is amended and paragraph 45L is added. New text is underlined and deleted text is struck through.

Equity method

10 Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~).

...

Effective date and transition

...

45L NZ IFRS 18 issued in May 2024 amended paragraph 10. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*' in paragraph 45B. New text is underlined.

* When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IAS 29 *Financial Reporting in Hyperinflationary Economies*

Paragraphs 8 and 25 are amended and paragraph 42 is added. New text is underlined and deleted text is struck through.

The restatement of financial statements

- ...
- 8 The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period required by NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~ and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* apply.
- ...

Historical cost financial statements

Statement of financial position

- ...
- 25 At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in owners' equity are disclosed in accordance with NZ IFRS 18 ~~NZ IAS 1~~.
- ...

Effective date

- ...
- 42 NZ IFRS 18 issued in May 2024 amended paragraphs 8 and 25. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IAS 32 *Financial Instruments: Presentation*

Paragraphs 34, 39–41 and AG29 are amended and paragraph 97U is added. New text is underlined and deleted text is struck through.

Presentation

...

Treasury shares (see also paragraph AG36)

...

- 34 The amount of treasury shares held is either presented or disclosed separately ~~either~~ in the statement of financial position or the statement of changes in equity or disclosed in the notes, in accordance with NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~. An entity provides disclosure in accordance with NZ IAS 24 *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties.

Interest, dividends, losses and gains (see also paragraph AG37)

...

- 39 The amount of transaction costs accounted for as a deduction from equity in the period is presented in the statement of changes in equity or disclosed in the notes ~~separately~~ in accordance with NZ IFRS 18~~NZ IAS 1~~.
- 40 Dividends classified as an expense may be presented in the statement(s) of profit or loss and other comprehensive income or disclosed in the notes either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, presentation and disclosure of interest and dividends is subject to the requirements of NZ IFRS 18~~NZ IAS 1~~ and NZ IFRS 7. In some circumstances, because of the differences between interest and dividends with respect to matters such as tax deductibility, an entity may determine that it will present interest expenses separately from dividend expenses in the statement(s) of profit or loss and other comprehensive income~~it is desirable to disclose them separately in the statement(s) of profit or loss and other comprehensive income~~. Disclosures of the tax effects are made in accordance with NZ IAS 12.
- 41 Gains and losses related to changes in the carrying amount of a financial liability are recognised as income or expense in profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 18(b)). Under NZ IFRS 18~~NZ IAS 1~~ the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of comprehensive income if such presentation is necessary to provide a useful structured summary of the entity's income and expenses~~when it is relevant in explaining the entity's performance~~.

...

Effective date and transition

...

- 97U NZ IFRS 18 issued in May 2024 amended paragraphs 34, 39–41 and AG29. An entity shall apply those amendments when it applies NZ IFRS 18.

...

Appendix

Application Guidance

NZ IAS 32 *Financial Instruments: Presentation*

...

Presentation

Liabilities and equity (paragraphs 15–27)

...

Treatment in consolidated financial statements

AG29 In consolidated financial statements, an entity presents non-controlling interests—ie the interests of other parties in the equity and income of its subsidiaries—in accordance with NZ IFRS 18 ~~NZ IAS 1~~ and NZ IFRS 10. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the group and the holders of the instrument in determining whether the group as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a subsidiary in a group issues a financial instrument and a parent or other group entity agrees additional terms directly with the holders of the instrument (eg a guarantee), the group may not have discretion over distributions or redemption. Although the subsidiary may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the group and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the group as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

A footnote is added to the end of paragraph 96A. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 7 *Financial Instruments: Disclosures*.

A footnote is added to the end of paragraph 96C. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 7.

A footnote is added to the end of paragraphs 97A and 97K. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 97N. New text is underlined.

* When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IAS 33 *Earnings per Share*

Paragraphs 4A, 13 and 67A–68A are amended, paragraphs 73–73A are deleted and paragraphs 73B–73C and 74F are added. New text is underlined and deleted text is struck through.

Scope

- ...
- 4A If an entity presents items of profit or loss in a ~~separate statement~~ of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18 ~~10A of NZ IAS 1~~ *Presentation and Disclosure in Financial Statements* ~~(as amended in 2011)~~, it presents earnings per share only in the that separate statement of profit or loss.
- ...

Measurement

Basic earnings per share

- ...
- #### Earnings
- ...
- 13 All items of income and expense attributable to ordinary equity holders of the parent entity that are recognised in a period, including tax expense and dividends on preference shares classified as liabilities are included in the determination of profit or loss for the period attributable to ordinary equity holders of the parent entity (see NZ IFRS 18 ~~NZ IAS 1~~).
- ...

Presentation

- ...
- 67A If an entity presents items of profit or loss in a ~~separate statement~~ of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18 ~~10A of NZ IAS 1~~ ~~(as amended in 2011)~~, it presents basic and diluted earnings per share, as required in paragraphs 66 and 67, in the that separate statement of profit or loss.
- 68 **An entity that reports a discontinued operation shall either present ~~disclose~~ the basic and diluted amounts per share for the discontinued operation ~~either in the statement of comprehensive income or disclose that information in the notes.~~**
- 68A If an entity presents items of profit or loss in a ~~separate statement~~ of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18 ~~10A of NZ IAS 1~~ ~~(as amended in 2011)~~, it presents basic and diluted earnings per share for the discontinued operation, as required in paragraph 68, in the that separate statement of profit or loss or discloses that information in the notes.
- ...

Disclosure

...

- 73 ~~Deleted by IASB~~If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.
- 73A ~~Deleted by IASB~~Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported item of profit or loss, other than one required by this Standard.
- 73B In addition to presenting basic and diluted earnings per share required by this Standard, an entity is permitted to disclose in the notes additional amounts per share using a measure of performance as a numerator different from that required by paragraphs 12–18 and 33–35. However, such numerator(s) shall be the amount(s) attributable to ordinary equity holders of the parent entity of:
- (a) a total or subtotal in paragraphs 69, 86 and 118 of NZ IFRS 18; or
- (b) a management-defined performance measure as defined in paragraph 117 of NZ IFRS 18.
- 73C If, applying paragraph 73B, an entity discloses an additional amount per share, the entity shall:
- (a) disclose the additional basic and diluted amounts per share with equal prominence.
- (b) calculate the additional amount per share using the weighted average number of ordinary shares determined in accordance with this Standard.
- (c) disclose the additional amount per share in the notes. That information cannot be presented in the primary financial statements.
- (d) disclose the information required by paragraphs 121–125 of NZ IFRS 18 for the numerators that are management-defined performance measures.

Effective date

- ...
- 74F NZ IFRS 18 issued in May 2024 amended paragraphs 4A, 13 and 67A–68A, added paragraphs 73B–73C and deleted paragraphs 73–73A. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 74A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraph 74D. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

NZ IAS 34 *Interim Financial Reporting*

Paragraphs 3–5, 7–10, 11A–12, 19, NZ 19.1, RDR 19.2 (and its related heading), 20 and 24 are amended and paragraphs 16A(m) and 61 are added. New text is underlined and deleted text is struck through.

Scope

- ...
- 3 If an entity's interim financial report is described as complying with IFRS Accounting Standards~~IFRSs~~, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.

Definitions

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

...

Interim financial report means a financial report containing either a complete set of financial statements (as described in NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~) or a set of condensed financial statements (as described in this Standard) for an interim period.

Content of an interim financial report

- 5 NZ IFRS 18~~NZ IAS 1~~ defines a complete set of financial statements as including the following components:
- (a) a statement (or statements) of financial performance for the reporting period~~a statement of financial position as at the end of the period;~~
 - (b) a statement of financial position as at the end of the reporting period~~a statement of profit or loss and other comprehensive income for the period;~~
 - (c) a statement of changes in equity for the reporting period;
 - (d) a statement of cash flows for the reporting period;
 - (e) notes for the reporting period~~, material accounting policy information and other explanatory information;~~
 - (ea) comparative information in respect of the preceding period as specified in paragraphs 31–32 of NZ IFRS 18~~38 and 38A of NZ IAS 1~~; and
 - *(f) a statement of financial position as at the beginning of the preceding period if required by paragraph 37 of NZ IFRS 18~~when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of NZ IAS 1.~~

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'.~~For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.~~

...

- 7 Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in NZ IFRS 18~~NZ IAS 1~~) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would

include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16A) as well as those required by other Standards.

Minimum components of an interim financial report

- 8 An interim financial report shall include, at a minimum, the following components:
- (a) a condensed statement (or condensed statements) of financial performance~~financial position;~~
 - (b) a condensed statement of financial position~~or condensed statements of profit or loss and other comprehensive income;~~
 - (c) a condensed statement of changes in equity;
 - (d) a condensed statement of cash flows; and
 - (e) selected explanatory notes.
- 8A If an entity presents items of profit or loss in a ~~separate statement~~ of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18~~10A of NZ IAS 1 (as amended in 2011)~~, it presents interim condensed information from the that statement of profit or loss.

Form and content of interim financial statements

- 9 If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of NZ IFRS 18~~NZ IAS 1~~ for a complete set of financial statements.
- 10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. In preparing condensed financial statements, an entity shall apply this Standard and also the requirements in paragraphs 41–45 of NZ IFRS 18 and in paragraphs 6A–6N of NZ IAS 8 Basis of Preparation of Financial Statements. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.
- ...
- 11A If an entity presents items of profit or loss in a ~~separate statement~~ of profit or loss separate from a statement presenting comprehensive income as described in paragraph 12(b) of NZ IFRS 18~~10A of NZ IAS 1 (as amended in 2011)~~, it presents basic and diluted earnings per share in the that statement of profit or loss.
- 12 ~~NZ IFRS 18 NZ IAS 1 (as revised in 2007)~~ provides guidance on the structure of financial statements. The Illustrative Examples that accompany NZ IFRS 18 illustrate ~~Implementation Guidance for NZ IAS 1 illustrates~~ ways in which the statement of financial position, statement(s) of financial performance~~comprehensive income~~ and statement of changes in equity may be presented.
- ...

Other disclosures

- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.
- ...
- (m) the disclosures about management-defined performance measures required by paragraphs 121–125 of NZ IFRS 18.
- ...

Disclosure of compliance with IFRS Accounting Standards~~IFRSs~~

- *19 If an entity's interim financial report is in compliance with IAS 34, that fact shall be disclosed. An interim financial report shall not be described as complying with IFRS Accounting Standards ~~IFRSs~~ unless it complies with all the requirements of IFRS Accounting Standards~~IFRSs~~. [Paragraph 19 of IAS 34 amended by the FRBSB to clarify that the paragraph refers to IAS 34].
- *NZ 19.1 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An entity's interim financial report shall not be described as complying with New Zealand equivalents to IFRS Accounting Standards~~International Financial Reporting Standards~~ (NZ IFRS) unless it complies with all the requirements of NZ IFRS.
- RDR 19.2 If an entity's interim financial report is in compliance with this Standard as it applies to Tier 2 entities, that fact shall be disclosed. An interim financial report shall not be described as complying with New Zealand equivalents to IFRS Accounting Standards~~International Financial Reporting Standards~~ Reduced Disclosure Regime (NZ IFRS RDR) unless it complies with all the requirements of NZ IFRS RDR.

Periods for which interim financial statements are required to be presented

- 20 Interim reports shall include interim financial statements (condensed or complete) for periods as follows:
- ...
- (b) statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the current interim period and cumulatively for the current financial year to date, with comparative statement(s) of financial performance ~~statements of profit or loss and other comprehensive income~~ for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by NZ IFRS 18~~NZ IAS 1 (as amended in 2011)~~, an interim report may present for each period a statement (or statements) ~~or statements of financial performance~~ profit or loss and other comprehensive income.
- ...

Materiality

- ...
- 24 NZ IFRS 18 ~~NZ IAS 1~~ defines material information and requires separate disclosure of material items, including (for example) discontinued operations, and NZ IAS 8 ~~Accounting Policies, Changes in Accounting Estimates and Errors~~ requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.
- ...

Effective date

- ...
- 61 NZ IFRS 18 issued in May 2024 amended paragraphs 3–5, 7–10, 11A–12, 19, NZ 19.1, RDR 19.2 (and its related heading), 20 and 24 and added paragraph 16A(m). An entity shall apply those amendments when it applies NZ IFRS 18. In interim financial statements in the first year of applying NZ IFRS 18, an entity shall apply paragraphs C4–C6 of Appendix C of NZ IFRS 18.

A footnote is added to the end of paragraph 47. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

A footnote is added to the end of paragraphs 51 and 52. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over these requirements in NZ IAS 1 to NZ IFRS 18.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 52. New text is underlined.

- * When it issued NZ IFRS 18 the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraphs 53, 56 and 58. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8.

A footnote is added to the end of paragraph 59. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over the definition of 'material' in NZ IAS 1 to NZ IFRS 18.

A footnote is added to the end of paragraph 60. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board carried over the requirements to disclose material accounting policy information in NZ IAS 1 to NZ IAS 8.

NZ IAS 36 *Impairment of Assets*

A footnote is added to the end of paragraph 140A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

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

A footnote is added to the end of paragraph 104. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IAS 38 *Intangible Assets*

Paragraph 102 is amended and paragraph 130N is added. New text is underlined and deleted text is struck through.

Intangible assets with finite useful lives

...

Residual value

...

102 An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each financial year-end. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements* ~~Accounting Policies, Changes in Accounting Estimates and Errors~~.

...

Transitional provisions and effective date

...

130N NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 102. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 130B. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IAS 40 *Investment Property*

Paragraph 31 is amended and paragraph 85I is added. New text is underlined and deleted text is struck through.

Measurement after recognition

Accounting policy

- ...
- 31 NZ IAS 8 *Basis of Preparation of Financial Statements* ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.
- ...

Effective date

- ...
- 85I NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 31. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 85A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IAS 41 *Agriculture*

Paragraphs 50 and 53 are amended and paragraph 66 is added. New text is underlined and deleted text is struck through.

Disclosure

General

- ...
- 50** An entity shall disclose ~~present~~ a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
- ...
- *53 Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of income or expense, the nature and amount of that item are disclosed in accordance with NZ IFRS 18 *Presentation and Disclosure in Financial Statements* ~~NZ IAS 1 *Presentation of Financial Statements*~~. Examples of such an event include an outbreak of a virulent disease, a flood, a severe drought or frost, and a plague of insects.
- ...

Effective date and transition

- ...
- 66 NZ IFRS 18 issued in May 2024 amended paragraphs 50 and 53. An entity shall apply those amendments when it applies NZ IFRS 18.

FRS-42 *Prospective Financial Statements*

Paragraphs 10 and 60 are amended. New text is underlined and deleted text is struck through.

Scope

- ...
- 10 An entity whose prospective financial statements comply with FRS-42 shall make an explicit and unreserved statement of such compliance in the notes. Prospective financial statements shall not be described as complying with FRS-42 unless they comply with all the requirements of FRS-42. An entity shall not describe prospective financial statements as complying with IFRS Accounting Standards~~IFRSs~~. An entity wishing to assert that prospective financial statements comply with GAAP may assert compliance with FRS-42 and GAAP as it relates to prospective financial statements.
- ...

Disclosure

- ...
- Disclosure of accounting policies**
- 60 Material accounting policy information used in preparing prospective financial statements shall be disclosed in accordance with NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1~~.
- ...

Effective date

- ...
- 72I NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 10 and 60. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraphs 72A, 72C and 72H. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

FRS-43 Summary Financial Statements

Paragraphs 11B, 38 and 40 are amended. New text is underlined and deleted text is struck through.

Overall considerations

Application of materiality

- ...
- 11B The disclosures required by this Standard are subject to the definition of materiality in NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~. They shall be disclosed separately if they are of such incidence and size, or of such nature, that their disclosure is necessary to explain the performance or financial position of the entity. A summary description of each material item, as included in the most recent full financial statements, shall be given to enable its nature to be understood. A summary description of items relating to other periods covered by the summary shall be given where this is required for an understanding of the summary financial statements, taken as a whole.
- ...

Other disclosures

Relationship to full financial statements

- 38 The summary financial statements shall prominently display the following information:
- ...
- (d) whether the entity has made an explicit and unreserved statement of compliance with IFRS Accounting Standards~~IFRSs~~ in its full financial statements for each period presented in the summary.
- ...

Accounting policies

- 40 When a change in accounting policies during any period covered by the summary financial statements has a material effect in any period covered by the summary financial statements or is expected to have a material effect in a future financial period, the summary financial statements shall disclose a summary of the information required about such a change in accordance with the relevant standard (for example, NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ or NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*).

Effective date

- ...
- 72I NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 11B, 38 and 40. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraphs 43A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

FRS-44 New Zealand Additional Disclosures

Paragraphs 2, 5, RDR 5.1, 6.1, 8.9, 12A.1 and 12A.2 are amended. New text is underlined and deleted text is struck through.

Scope

- ...
- 2 An entity shall apply this Standard in preparing general purpose financial statements in accordance with New Zealand equivalents to IFRS Accounting Standards~~International Financial Reporting Standards~~ (NZ IFRS).

Disclosures

Compliance with NZ IFRS

- *5 An entity whose financial statements comply with ~~New Zealand equivalents to International Financial Reporting Standards~~ (NZ IFRS) shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with NZ IFRS unless they comply with all the requirements of NZ IFRS.
- RDR 5.1 A Tier 2 entity whose financial statements comply with New Zealand equivalents to IFRS Accounting Standards~~International Financial Reporting Standards~~ Reduced Disclosure Regime (NZ IFRS RDR) shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with NZ IFRS RDR unless they comply with all the requirements of NZ IFRS RDR.

IFRS Accounting Standards~~IFRS~~ issued but not yet effective

- *6.1 When an IFRS Accounting Standard has been issued by the International Accounting Standards Board but the equivalent NZ IFRS has yet to be issued by the New Zealand Accounting Standards Board of the External Reporting Board XRB, an entity must disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 Basis of Preparation of Financial Statements~~Accounting Policies, Changes in Accounting Estimates and Errors~~ in relation to that IFRS Accounting Standard.

Fees for audit firms' services

Audit or review of the financial statements

- 8.9 Fees for the audit or review of the financial statements refer to the audit or review of the entity's general purpose financial statements, as presented in accordance with NZ IFRS 18 Presentation and Disclosure in Financial Statements~~NZ IAS 1 Presentation of Financial Statements~~ or NZ IAS 34 *Interim Financial Reporting*.

Going concern disclosures

- 12A.1 When preparing financial statements, paragraph ~~6K25~~ of NZ IAS 8~~NZ IAS 1 Presentation of Financial Statements~~ requires management to make an assessment of an entity's ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Furthermore, when

management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, paragraph ~~6K25~~ of NZ IAS 8~~NZ IAS 1~~ requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph ~~6K25~~ of NZ IAS 8~~NZ IAS 1~~, an entity that prepares its financial statements on a going concern basis shall disclose:

...

- 12A.2 Paragraph ~~27G422~~ of NZ IAS 8~~NZ IAS 1~~ requires an entity to disclose the judgements, apart from those involving estimations (see paragraph ~~31A425~~ of NZ IAS 8~~NZ IAS 1~~), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph ~~31A425~~ of NZ IAS 8~~NZ IAS 1~~ requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs ~~27G422~~ and ~~31A425~~ of NZ IAS 8~~NZ IAS 1~~, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

Commencement and application

...

- 27 NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 2, 5, RDR 5.1, 6.1, 8.9, 12A.1 and 12A.2. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. Paragraphs 6 and 8 are amended and paragraph 9C is added. New text is underlined and deleted text is struck through.

References

- NZ IFRS 16 *Leases*
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 16 *Property, Plant and Equipment* (as revised in 2003)
- NZ IAS 23 *Borrowing Costs*
- NZ IAS 36 *Impairment of Assets* (as revised in 2004)
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- ...

Consensus

- ...
- 6 If the related asset is measured using the revaluation model:
- ...
- (d) NZ IFRS 18~~NZ IAS 1~~ requires items of other comprehensive income to be presented as line items in the statement presenting comprehensive income~~disclosure in the statement of comprehensive income of each component of other comprehensive income or expense~~. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and presented~~disclosed~~ as such.
- ...
- 8 The periodic unwinding of the discount shall be recognised in profit or loss as interest expense from liabilities other than those that arise from transactions that involve only the raising of finance~~a finance cost~~ as it occurs and classified—applying paragraph 61 of NZ IFRS 18—in the financing category of the statement of profit or loss. Capitalisation under NZ IAS 23 is not permitted.

Effective date

...

9C NZ IFRS 18 issued in May 2024 amended paragraphs 6 and 8. An entity shall apply those amendments when it applies NZ IFRS 18.

...

A footnote is added to the end of paragraph 9A. New text is underlined.

* In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

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

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*' in paragraph 17. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

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

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 9 *Financial Instruments*
- NZ IFRS 10 *Consolidated Financial Statements*
- NZ IFRS 11 *Joint Arrangements*
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 28 *Investments in Associates and Joint Ventures*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

NZ IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

NZ IFRIC 12 *Service Concession Arrangements*

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- *Framework for the Preparation and Presentation of Financial Statements*
- NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- NZ IFRS 7 *Financial Instruments: Disclosures*
- NZ IFRS 9 *Financial Instruments*
- NZ IFRS 15 *Revenue from Contracts with Customers*
- NZ IFRS 16 *Leases*
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IAS 23 *Borrowing Costs*
- NZ IAS 32 *Financial Instruments: Presentation*
- NZ IAS 36 *Impairment of Assets*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS 38 *Intangible Assets*
- NZ SIC-29 *Service Concession Arrangements: Disclosures*

NZ IFRIC 14 NZ IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. Paragraph 10 is amended and paragraph 27D is added. New text is underlined and deleted text is struck through.

References

- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 19 *Employee Benefits* (as amended in 2011)
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- ...

Consensus

Availability of a refund or reduction in future contributions

- ...
- 10 In accordance with NZ IAS 8~~NZ IAS 4~~, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.
- ...

Effective date

- ...
- 27D NZ IFRS 18 issued in May 2024 amended paragraph 10. An entity shall apply those amendments when it applies NZ IFRS 18.

A footnote is added to the end of paragraph 27A. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 9 *Financial Instruments*
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*

NZ IFRIC 17 *Distributions of Non-cash Assets to Owners*

Below the heading 'References', the reference to NZ IAS 1 is amended. Paragraph 2 is amended and paragraph 21 is added. New text is underlined and deleted text is struck through.

References

- NZ IFRS 3 *Business Combinations* (as revised in 2008)
- NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- NZ IFRS 7 *Financial Instruments: Disclosures*
- NZ IFRS 10 *Consolidated Financial Statements*
- NZ IFRS 13 *Fair Value Measurement*
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 10 *Events after the Reporting Period*
- ...

Background

- ...
- 2 NZ IFRS does not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). NZ IFRS 18~~NZ IAS 1~~ requires an entity to present details of dividends recognised as distributions to owners ~~either in the statement of changes in equity or to disclose them in the notes to the financial statements.~~ to disclose them in the notes to the financial statements.
- ...

Effective date

- ...
- 21 NZ IFRS 18 issued in May 2024 amended paragraph 2. An entity shall apply those amendments when it applies NZ IFRS 18.

The footnote to 'owners' in paragraph 1 is deleted. Deleted text is struck through.

- * ~~Paragraph 7 of NZ IAS 1 defines owners as holders of instruments classified as equity.~~

NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. Paragraph 11 is amended and paragraph 18 is added. New text is underlined and deleted text is struck through.

References

- *Framework for the Preparation and Presentation of Financial Statements*
- NZ IFRS 2 *Share-based Payment*
- NZ IFRS 3 *Business Combinations*
- NZ IFRS 9 *Financial Instruments*
- NZ IFRS 13 *Fair Value Measurement*
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 32 *Financial Instruments: Presentation*
- ...

Consensus

- ...
- 11 An entity shall present ~~disclose~~ a gain or loss recognised in accordance with paragraphs 9 and 10 as a separate line item in the statement of profit or loss or disclose it in the notes.

Effective date and transition

- ...
- 18 NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 11. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Below the heading 'References', the reference to NZ IAS 1 is amended. New text is underlined and deleted text is struck through.

References

- New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting (NZ Framework)*¹
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~
- NZ IAS 2 *Inventories*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 38 *Intangible Assets*

¹ The conceptual framework that was in effect when the IASB developed IFRIC 20 was the IASB's *Conceptual Framework for Financial Reporting*, issued in 2010. IFRIC 20 refers to that framework. The equivalent New Zealand pronouncement was the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*.

NZ IFRIC 21 *Levies*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements*~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 12 *Income Taxes*
- NZ IAS 20 *Accounting for Governments Grants and Disclosures of Government Assistance*
- NZ IAS 24 *Related Party Disclosures*
- NZ IAS 34 *Interim Financial Reporting*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*' in paragraph A2. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements.*

NZ IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- New Zealand Equivalent to the IASB *The Conceptual Framework for Financial Reporting*¹
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*

¹ The conceptual framework that was in effect when the IASB developed IFRIC 22 was the IASB's *Conceptual Framework for Financial Reporting*, issued in 2010. IFRIC 20 refers to that framework. The equivalent New Zealand pronouncement was the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010*.

A footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;' in paragraph A2. New text is underlined.

- * When it issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in May 2024, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

NZ IFRIC 23 *Uncertainty over Income Tax Treatments*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. Paragraphs 14 and A4 are amended and paragraph B1A is added. New text is underlined and deleted text is struck through.

References

- ~~NZ IAS 1 *Presentation of Financial Statements*~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 10 *Events after the Reporting Period*
- NZ IAS 12 *Income Taxes*
- ...

Consensus

...

Changes in facts and circumstances

...

- 14 An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~. An entity shall apply NZ IAS 10 *Events after the Reporting Period* to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

...

Appendix A Application Guidance

Disclosure

- A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:
- (a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 27G of NZ IAS 8~~122~~ of NZ IAS 1 ~~*Presentation of Financial Statements*~~; and
 - (b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 31A–31E of NZ IAS 8~~125–129~~ of NZ IAS 1.
- ...

Appendix B Effective date and transition

Effective date

...

B1A NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraphs 14 and A4. An entity shall apply those amendments when it applies NZ IFRS 18.

NZ SIC-7 *Introduction of the Euro*

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 10 *Events after the Reporting Period*
- NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in 2003)
- NZ IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)

Under the heading 'Effective date', a footnote is added to the end of the second paragraph. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ SIC-10 Government Assistance—No Specific Relation to Operating Activities

Below the heading 'References', the reference to NZ IAS 8 is amended. New text is underlined and deleted text is struck through.

References

- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

NZ SIC-25 Income Taxes—Changes in the Tax Status of an Entity or its Shareholders

Below the heading 'References', the references to NZ IAS 1 and NZ IAS 8 are amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 8 *Basis of Preparation of Financial Statements*~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~
- NZ IAS 12 *Income Taxes*

Under the heading 'Effective date', a footnote is added to the end of the second paragraph. New text is underlined.

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

NZ SIC-29 Service Concession Arrangements: Disclosures

Below the heading 'References', the reference to NZ IAS 1 is amended. New text is underlined and deleted text is struck through.

References

- NZ IFRS 16 *Leases*
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 16 *Property, Plant and Equipment* (as revised in 2003)
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS 38 *Intangible Assets* (as revised in 2004)
- NZ IFRIC 12 *Service Concession Arrangements*

NZ SIC-32 *Intangible Assets—Web Site Costs*

Below the heading 'References', the reference to NZ IAS 1 is amended. Paragraph 5 is amended. An unnumbered paragraph is added after the last paragraph under the heading 'Effective date'. New text is underlined and deleted text is struck through.

References

- NZ IFRS 3 *Business Combinations*
- NZ IFRS 15 *Revenue from Contracts with Customers*
- NZ IFRS 16 *Leases*
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*~~NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~
- NZ IAS 2 *Inventories* (as revised in 2003)
- NZ IAS 16 *Property, Plant and Equipment* (as revised in 2003)
- NZ IAS 36 *Impairment of Assets* (as revised in 2004)
- NZ IAS 38 *Intangible Assets* (as revised in 2004)
- ...

Issue

- ...
- 5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under NZ IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under paragraph 46 of NZ IFRS 18~~NZ IAS 1.88~~ and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018 (2018 NZ *Conceptual Framework*) when the services are received.
- ...

Effective date

...

Amendments to References to the Conceptual Framework in NZ IFRS, issued in 2018, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by *Amendments to References to the Conceptual Framework in NZ IFRS*. An entity shall apply the amendment to SIC-32 retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendment to SIC-32 by reference to paragraphs 23–28, 50–53 and 54F of NZ IAS 8.

NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended paragraph 5. An entity shall apply those amendments when it applies NZ IFRS 18.

Under the heading 'Effective date', a footnote is added to the end of the second paragraph. New text is underlined.

NZ IFRS 18

- * In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over these requirements in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

Under the heading 'Effective date', a footnote is added to 'NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.' in the fifth paragraph. New text is underlined.

- * When it issued NZ IFRS 18, the New Zealand Accounting Standards Board of the External Reporting Board changed the title of NZ IAS 8 to *Basis of Preparation of Financial Statements*.

Appendix E

Amendments to XRB A1 *Application of the Accounting Standards Framework*

This appendix sets out the amendments to XRB A1.

Appendix B is amended and paragraph 78 is added. New text is underlined and deleted text is struck through.

D: Effective Date

...

78 NZ IFRS 18 *Presentation and Disclosure in Financial Statements* issued in May 2024 amended Appendix B.
An entity shall apply those amendments when it applies NZ IFRS 18.

Appendix B

Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements to be applied by for-profit entities

...

Accounting Standards

...

NZ IFRS 17 *Insurance Contracts*

NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

~~NZ IAS 1 *Presentation of Financial Statements*~~

...

~~NZ IAS 8 *Basis of Preparation of Financial Statements*~~~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~

...

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

This table lists the pronouncements establishing and substantially amending NZ IFRS 18.

Pronouncements	Date approved	Early operative date	Mandatory date (annual reporting periods... on or after ...)
NZ IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	May 2024	Application to an earlier accounting period is permitted for accounting periods that end after this Standard takes effect.	1 Jan 2027

Date: 26 April 2024

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: **NZ IFRS 18 *Presentation and Disclosure in Financial Statements***

Introduction¹

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.
2. NZ IFRS 18 sets out requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses. NZ IFRS 18 replaces an existing NZ IFRS – NZ IAS 1 *Presentation of Financial Statements* – and introduces the following key new requirements.
 - (a) The presentation of new defined subtotals in the statement of profit or loss – “operating profit” and “profit before financing and income taxes”.
 - (b) Disclosure of management-defined performance measures.
 - (c) Enhanced requirements for grouping (aggregation and disaggregation) of information.
3. NZ IFRS 18 is expected to apply to all for-profit reporting entities in New Zealand.

Due process

4. The International Accounting Standards Board (IASB) issued Exposure Draft ED/2019/7 *General Presentation and Disclosures (ED/2019/7)* in December 2019.
5. The NZASB issued the ED for comment in New Zealand around the same time. Comments were due to the NZASB on 7 August 2020 and to the IASB on 30 September 2020.
6. The NZASB commented on ED/2019/7 and received no comment letters from New Zealand constituents.
7. The IASB received 216 comment letters from its world-wide constituents, including the NZASB's comment letter and a comment letter from one New Zealand constituent.
8. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2019/7 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB meeting in July 2023.²

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® Accounting Standards, IFRIC® Interpretations and IASB® papers).

² An update on the IASB meeting in July 2023 is available at: [IFRS - IASB Update July 2023](#).

9. The IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024. This standard is effective for annual periods beginning on or after 1 January 2027, with early application permitted.
10. The NZASB has approved NZ IFRS 18. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
11. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Major issues raised by New Zealand constituents

12. One issue on which both the NZASB comment letter and the comment letter from the New Zealand constituent disagreed was with the IASB's proposal in ED/2019/7 to classify associates and joint ventures accounted for using the equity method as integral or non-integral³. The concerns raised include:
 - (a) increased cost and complexity for entities (including the need for entities to apply significant judgement) with limited interest or demand from users for this information.
 - (b) lack of comparability across entities.
 - (c) audit difficulties.
13. Other constituents across the world also raised concerns about these proposals. Ultimately, the IASB decided not to proceed with the proposals requiring entities to classify their associates and joint ventures accounted for using the equity method as integral or non-integral.

Consistency with XRB Financial Reporting Strategy

14. NZ IFRS 18 is identical to IFRS 18 *Presentation and Disclosure in Financial Statements* issued by the IASB, except for:
 - (a) New Zealand-specific introduction and numbering;
 - (b) a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 for-profit entities;
 - (c) the inclusion of RDR paragraphs applicable to Tier 2 for-profit entities;
 - (d) minor (non-substantive) wording changes to account for the New Zealand context;
 - (e) New Zealand specific wording for commencement and application of the amending standard; and

³ The IASB proposed to define "integral associates and joint ventures" as those that "do not generate a return individually and largely independently of other company assets".

- (f) consequential amendments to FRS-42 *Prospective Financial Statements*, FRS-43 *Summary Financial Statements*, FRS-44 *New Zealand Additional Disclosures* and XRB A1 *Application of the Accounting Standards Framework*.
15. NZ IFRS 18 introduces new disclosure requirements and also either replaces or incorporates some of the existing NZ IAS 1 disclosure requirements. Those NZ IAS 1 disclosures that are not replaced by, or incorporated into, NZ IFRS 18 have been moved to NZ IAS 8 *Basis of Preparation of Financial Statements* or NZ IFRS 7 *Financial Instruments: Disclosures*.
 16. With respect to the new disclosure requirements in NZ IFRS 18 (i.e., those not originating from NZ IAS 1) – the NZASB does not propose any RDR concessions at this time. Instead, the NZASB will wait for the feedback from a planned consultation on Tier 2 for-profit reporting requirements,⁴ as well as from a soon-to-be-issued IASB exposure draft setting out proposals for reduced disclosures on recently issued standards and amendments (including IFRS 18), before making a decision on potential RDR concessions.
 17. With respect to NZ IAS 1 disclosure requirements where there are RDR concessions – the NZASB intends to retain these RDR concessions in the new locations for those requirements (i.e., either NZ IFRS 18, NZ IAS 8 or NZ IFRS 7). The NZASB’s approach to these RDR concessions only applies to those NZ IAS 1 disclosure requirements that have had only minor wording changes as a result of NZ IFRS 18. Those NZ IAS 1 disclosure requirements with more significant wording changes are treated as new disclosure requirements in NZ IFRS 18 for the purposes of the NZASB’s RDR approach.
 18. The Australian Accounting Standards Board (AASB) expects to approve AASB 18 *Presentation and Disclosure in Financial Statements*, which incorporates the requirements in IFRS 18, at its June 2024 meeting.
 19. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis – with respect to AASB 18, this will occur at a future meeting.
 20. The issue of NZ IFRS 18 is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Commencement and application date

21. The commencement and application date requirements for NZ IFRS 18 is included in Appendix A of this memo. An entity that is not an early adopter is required to apply NZ IFRS 18 for accounting periods beginning on or after 1 January 2027. Application is permitted for an

⁴ This consultation will seek feedback on the NZASB’s preferred approach to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in New Zealand – specifically, to replace existing Tier 2 for-profit disclosure requirements with a New Zealand-equivalent to IFRS 19. IFRS 19 sets out reduced disclosures that eligible subsidiaries may apply. A New Zealand-equivalent to IFRS 19 would widen the scope of IFRS 19 to include all Tier 2 for-profit entities.

“early adoption accounting period” when that period begins before the mandatory date but has not ended or does not end before this amending standard takes effect (as defined in Appendix A).

Other matters

22. The issuance of NZ IFRS 18 requires minor consequential amendments to XRB A1 *Application of the Accounting Standards Framework* to:

- (a) remove NZ IAS 1 from, and
- (b) add NZ IFRS 18 to

the list of standards in Appendix B: *Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements to be applied by for-profit entities*.

Recommendation

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

Attachments

NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Certificate of determination

Carolyn Cordery
Chair NZASB

Appendix A: Commencement and application

- A1. The commencement and application provisions below will apply to NZ IFRS 18 (the Standard) once it is published.

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

- A2. This Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The Standard is expected to be published on [x] May 2024 and take effect on [x] June 2024.

Accounting periods in relation to which the Standard commences to apply (section 28 Financial Reporting Act 2013)

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

- A4. In applying paragraph A3:

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

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

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

mandatory date means 1 January 2027.

April 2024

Project Summary

IFRS[®] Accounting Standards

IFRS 18 Presentation and Disclosure in Financial Statements

At a glance

The International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024.

IFRS 18 aims **to improve how companies communicate** in their financial statements, with a focus on **information about financial performance in the statement of profit or loss**. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 *Statement of Cash Flows*.

IFRS 18 is effective from 1 January 2027. Companies are permitted to apply IFRS 18 before that date.

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. Requirements in IAS 1 that are unchanged have been transferred to IFRS 18 and other Standards.

IFRS 18 will affect all companies in all industries. Although IFRS 18 will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance.

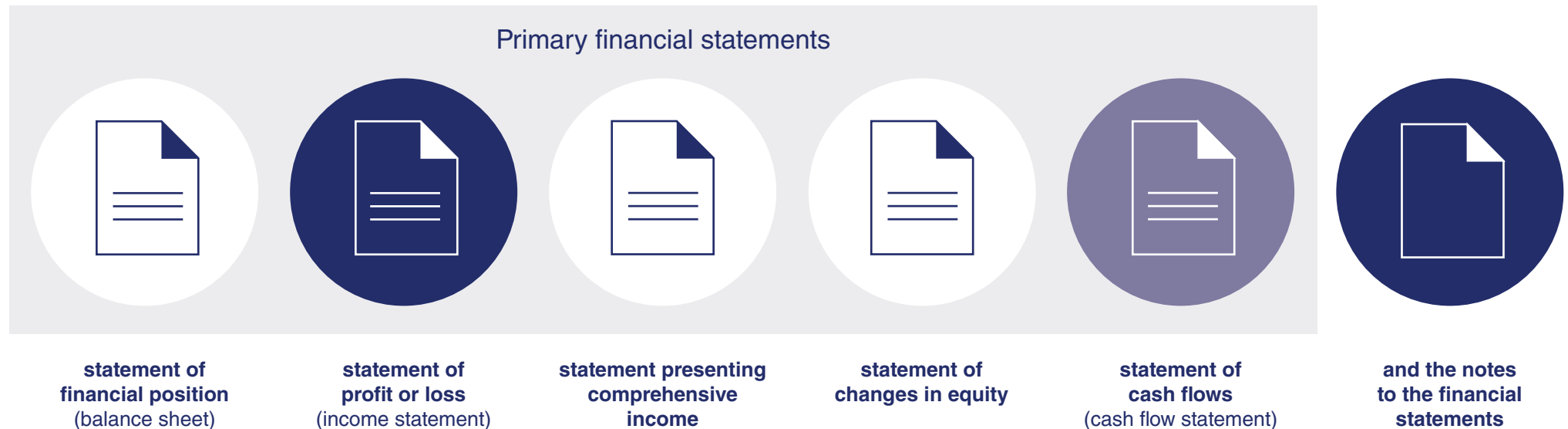
IFRS 18 aims to improve financial reporting by:

- requiring **additional defined subtotals** in the statement of profit or loss;
- requiring disclosures about **management-defined performance measures**; and
- adding new principles for **grouping (aggregation and disaggregation) of information**.

IFRS 18 responds to stakeholder feedback that:

- **statements of profit or loss vary in structure and content.**
Adding defined subtotals to the statement of profit or loss makes companies' financial performance easier to compare and provides a consistent starting point for investors' analysis.
- **measures defined by management are useful to investors, but companies might not explain how these measures are calculated and why they are used.**
Requiring companies to disclose information about management-defined performance measures increases discipline over their use and transparency about their calculation.
- **investors would like to see information more appropriately grouped (aggregated or disaggregated) in the financial statements.**
Setting out requirements on whether information should be in the primary financial statements or the notes and providing principles on the level of detail needed improves effective communication of information.

IFRS 18 affects the complete set of financial statements, including:



Legend:

- Major changes
- Some changes
- Minimal changes

Requirements on grouping of information will affect the complete set of financial statements.

Improving communication of financial performance

IFRS 18 helps companies improve how they communicate financial performance in the statement of profit or loss to investors. Better information will contribute to efficient and resilient capital markets by enabling investors to make better decisions.

IFRS 18 introduces three sets of requirements to achieve these goals. In combination, these requirements strike a balance by introducing defined subtotals that create a consistent structure in the statement of profit or loss to

provide a starting point for investors' analysis, while leaving room for companies to report their own performance measures. The disclosure requirements for management-defined performance measures anchor companies' own performance measures to the defined subtotals, increasing the transparency of these measures. Additionally, the principles for grouping of information will help companies provide more useful information.

Summary of key requirements in IFRS 18

1 Presentation of new defined subtotals in the statement of profit or loss (pages 5–8)

IFRS 18 requires companies to report:

- operating profit; and
- profit before financing and income taxes.

These subtotals provide a consistent structure for the statement of profit or loss, thereby improving comparability. IFRS 18 will not affect how companies measure their financial performance and the overall profit figure.

2 Disclosure of management-defined performance measures (pages 9–11)

Many companies report alternative performance measures or non-GAAP measures. When those measures meet the definition of management-defined performance measures (MPMs), IFRS 18 requires companies to disclose reconciliations between those measures and subtotals listed in IFRS 18 or totals or subtotals required by IFRS Accounting Standards. MPMs are subtotals of income and expenses used in public communications to communicate management's view of an aspect of the financial performance for the company as a whole.

3 Enhanced requirements for grouping (aggregation and disaggregation) of information (pages 12–13)

IFRS 18 sets out requirements to help companies determine whether information about items should be in the primary financial statements or in the notes and provides principles for determining the level of detail needed for the information. IFRS 18 also includes requirements for the presentation of operating expenses in the statement of profit or loss, disclosure of specified expenses by nature, and further information on items grouped together and labelled 'other'.

1

Subtotals in the statement of profit or loss

IFRS 18 requires a company:

- to classify income and expenses into **operating**, **investing** and **financing** (dark blue in Figure 1) categories in the statement of profit or loss—plus **income taxes** and **discontinued operations**; and
- to present two new defined subtotals—**operating profit** and **profit before financing and income taxes**.

These new requirements respond to investor feedback that variation in the structure and content of the statement of profit or loss has made it difficult to analyse and compare companies' financial performance.

Operating profit is used by investors as a comparable measure of financial performance and a starting point for forecasting future cash flows. Also, investors would like to understand how a company is performing before the effects of its financing.

Figure 1 shows the structure of, and subtotals in, a statement of profit or loss. IFRS 18 will be applied differently by companies with specific business activities, such as banks, insurers and investment property companies (see page 8).

Figure 1: Statement of profit or loss for most companies¹

Categories	Income Statement
Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit
Investing	Share of profit and gains on disposal of associates and joint ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before income taxes
Income taxes	Income tax expense
Discontinued operations	Profit from continuing operations
	Loss from discontinued operations
	Profit

¹ This figure assumes that the company presents some operating expenses by function and some by nature. Subtotals highlighted in blue are required. Subtotals highlighted in grey are examples of additional subtotals. A company presents additional subtotals if necessary to provide a useful structured summary of the company's income and expenses. Line items in Figure 1 are for illustrative purposes and do not denote line items that any particular company would present.

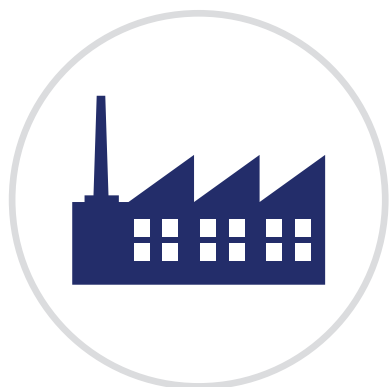
What is in the operating category?

The operating category provides a complete picture of a company's operations. Investors use the operating profit subtotal as a measure of how a company is performing in its business activities and as a starting point for forecasting future cash flows.

The operating category consists of all income and expenses that are not classified in the investing, financing, income taxes or discontinued operations categories— income and expenses classified in those categories are items that investors generally analyse separately.

The operating category is the default category and:

- includes **all income and expenses arising from a company's operations, regardless of whether they are volatile or unusual in some way**. Operating profit provides a complete picture of a company's operations for the period. It is not meant to measure only 'persistent' or 'recurring' operating performance.
- includes, but is not limited to, **income and expenses from a company's main business activities**. Income and expenses from other business activities, such as income and expenses from additional activities, are also classified in the operating category if those income and expenses do not meet the requirements to be classified in any of the other categories.



What is in the investing category?

The investing category enables investors to analyse returns from stand-alone investments separately from a company's operations.

The investing category includes:

- income and expenses from assets that generate returns separately from a company's business activities—for example, a company might collect rentals from an investment property or dividends from shares in other companies.
- income and expenses from cash and cash equivalents and investments in associates and joint ventures—for example, a company might earn its share of profits from an associate.



What is in the financing category?

The financing category and the subtotal for profit before financing and income taxes enable investors to analyse companies' performance before the effects of its financing.

The financing category includes:

- income and expenses on liabilities such as bank loans and bonds (liabilities arising from pure financing transactions); and
- interest expenses on any other liability, for example, lease and pension liabilities.

Therefore, the financing category includes interest expenses on all liabilities.



What is in the other categories?

The **income taxes category** consists of income tax expense (or tax income) that is included in profit or loss in accordance with IAS 12 *Income Taxes*, and any related foreign exchange differences.

The **discontinued operations category** consists of income and expenses from discontinued operations recognised in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

How are foreign exchange differences classified?

Foreign exchange differences are classified in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. For example, foreign exchange differences on bank loans are classified in the financing category.

If classifying foreign exchange differences this way would involve undue cost or effort, a company is permitted to classify foreign exchange differences in the operating category.

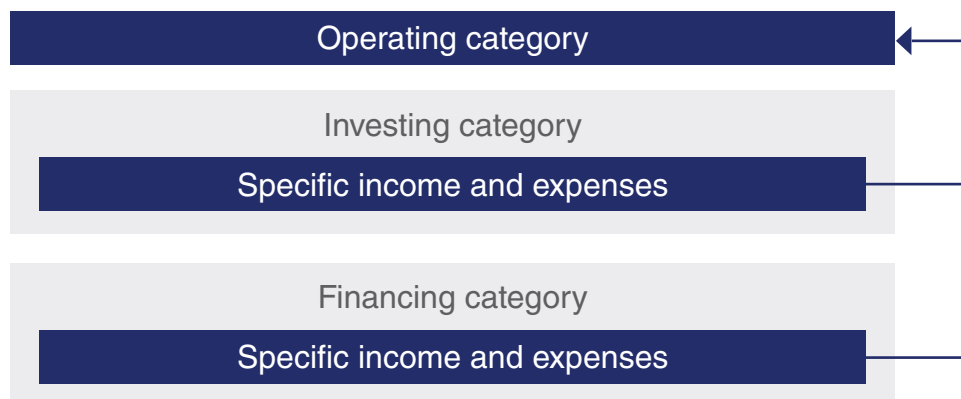
IFRS 18 also includes specific requirements for classifying fair value gains and losses on derivatives and hedging instruments and for classifying income and expenses from hybrid contracts.

How do companies like banks and insurers apply IFRS 18?

Some companies invest in assets or provide financing to customers as a main business activity—for example, banks and insurers. Income and expenses that would otherwise be classified in the investing or financing categories by most companies would form part of the operating result for such companies. IFRS 18 therefore requires these income and expenses to be classified in the operating category (Figure 2).

The illustrative examples provided for IFRS 18 include examples of what a statement of profit or loss looks like for a company that provides financing to customers or invests in assets as a main business activity.

Figure 2: Classification of income and expenses for companies like banks and insurers



Banks

The operating category for a bank would generally include income and expenses from, for example:

- the **net interest result**—including interest revenue and interest expenses; and
- the **fee and commission result**—including fee and commission revenue and fee and commission expenses.

The operating category would include some income and expenses that would otherwise be classified in the financing category. In most cases, banks would not present the 'profit before financing and income taxes' subtotal.

Insurers

The operating category for an insurer would generally include income and expenses that would otherwise be classified in the investing or financing categories, for example:

- the **insurance service result**—including insurance revenue and insurance service expenses; and
- the **net financial result**—including investment income and insurance finance income and expenses.

2 Management-defined performance measures

What are management-defined performance measures (MPMs)?

MPMs are alternative or non-GAAP performance measures (that is, measures that are not defined by IFRS Accounting Standards) that are related to the statement of profit or loss. Specifically, MPMs are:

subtotals of income and expenses other than those listed by IFRS 18 or specifically required by IFRS Accounting Standards, that a company uses	
in public communications outside financial statements	to communicate to investors management's view of an aspect of the financial performance of the company as a whole

IFRS 18 requires companies to disclose information about MPMs, which will increase transparency and investors' understanding of how the measures compare with the measures defined by IFRS Accounting Standards. Investors use MPMs to get insight into how management views the company's financial performance, how the company is managed and how its financial performance is developing.

Subtotals of income and expenses

A measure that is not a subtotal of income and expenses—for example, free cash flows—cannot be an MPM, as illustrated in Figure 3. IFRS 18 requires disclosures only for MPMs.

Figure 3: Scope of MPMs

Performance measures		
Subtotals of income and expenses		Other performance measures
MPMs	IFRS-specified	
<ul style="list-style-type: none"> Adjusted profit Adjusted operating profit Adjusted earnings before interest, tax, depreciation and amortisation 	<ul style="list-style-type: none"> Operating profit Operating profit before depreciation, amortisation and impairments within the scope of IAS 36 <i>Impairment of Assets</i> 	<ul style="list-style-type: none"> Free cash flow Return on equity Net debt Number of customers Customer satisfaction

Public communications outside the financial statements

An MPM is a subtotal of income and expenses that a company uses in public communications outside financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of identifying MPMs, public communications do not include oral communications, written transcripts of oral communications or social media posts.

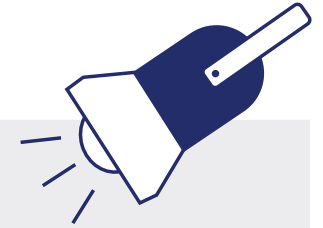
Management's view

IFRS 18 presumes a subtotal of income and expenses included in a company's public communications outside financial statements represents management's view of an aspect of the financial performance of the company as a whole.

A company can assert that a subtotal does not communicate management's view (and therefore it cannot be an MPM), but only if it has reasonable and supportable information for the assertion. For example, regulation might require a company to include an adjusted profit or loss measure in its public communications, but if the measure is not used internally by management to make decisions and does not represent management's view of performance, it cannot be an MPM.

What disclosures are required for MPMs?

A company is required to provide disclosures for MPMs in a single note, including:



a reconciliation between the measure and the most directly comparable subtotal listed in IFRS 18 or total or subtotal specifically required by IFRS Accounting Standards, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;



a description of how the measure communicates management's view and how the measure is calculated;



an explanation of any changes in the company's MPMs or in how it calculates its MPMs; and



a statement that the measure reflects management's view of an aspect of financial performance of the company as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other companies.

3 Grouping of information

What are the different roles of the primary financial statements and the notes?

The primary financial statements include:

- the statement of financial position (balance sheet);
- the statement of profit or loss (income statement);
- the statement presenting comprehensive income;
- the statement of changes in equity; and
- the statement of cash flows (cash flow statement).

The financial statements and the notes have complementary roles.

Primary financial statements	Notes
<p>Provide structured summaries of a company’s recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to investors for:</p> <ul style="list-style-type: none">• obtaining an understandable overview of the company’s recognised assets, liabilities, equity, income, expenses and cash flows;• making comparisons between companies, and between reporting periods for the same company; and• identifying items or areas about which investors may wish to seek additional information in the notes.	<p>Provide material information necessary:</p> <ul style="list-style-type: none">• to enable investors to understand the line items in the primary financial statements; and• to supplement the primary financial statements with additional information to achieve the objective of the financial statements.

What are the principles for grouping (aggregation and disaggregation) of information?

According to investors, the way companies group information in financial statements does not always provide the information they need for their analysis—for example, some information is not shown in enough detail while other information is obscured with too much detail.

IFRS 18 gives guidance for companies on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. These principles generally require companies to:

- aggregate items that share characteristics, and disaggregate items that have different characteristics;
- group items in a way that does not obscure material information or reduce the understandability of the information presented; and
- place items in the primary financial statements and the notes to fulfil their complementary roles.

How are expenses presented in the operating category?

IFRS 18 requires a company to present expenses in the operating category in a way that provides the most useful structured summary of its expenses. To do so, a company will present in the operating category expenses classified based on:

- their **nature**—that is, the economic resources consumed to accomplish the company's activities, for example, raw materials, salaries, advertising costs; or
- their **function**—that is, the activity to which the consumed resource relates, for example, cost of sales, distribution costs, administrative expenses.

IFRS 18 requires companies to classify expenses in a way that provides the most useful information to investors, considering, for example:

- what line items provide the most useful information about the important components or drivers of the company's profitability; and
- what line items most closely represent the way the company is managed and how management reports internally.

Some companies might decide that classifying some expenses by nature and other expenses by function provides the most useful structured summary of their expenses.

Which expenses classified by function need to be disaggregated by nature in the notes?

IFRS 18 requires companies that present expenses classified by function to disclose the amount of depreciation, amortisation, employee benefits, impairment losses and write-downs of inventories included in each line item in the operating category of the statement of profit or loss.

This information is disclosed in the notes and provides investors with additional information about operating expenses to help them forecast future cash flows in changing economic conditions.

Other changes introduced by IFRS 18

IFRS 18 replaces IAS 1. As a result, the requirements in IAS 1 have been:

- replaced by new requirements in IFRS 18;
- transferred to IFRS 18 with only limited wording changes; or
- moved to IAS 8 *Basis of Preparation of Financial Statements*² or IFRS 7 *Financial Instruments: Disclosures* with only limited wording changes.

IFRS 18 has also introduced changes to other IFRS Accounting Standards, the most important of which are listed here.

Statement of cash flows

The IASB has made limited changes to the statement of cash flows as defined in IAS 7 *Statement of Cash Flows*, notably:

- requiring companies to use the operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method; and
- removing the presentation alternatives for interest and dividend cash flows for most companies—dividends and interest paid are generally classified in cash flows from financing activities, and dividends and interest received are generally classified in cash flows from investing activities.

These changes will simplify practice and reduce diversity in presentation.

Stakeholders have expressed other concerns to the IASB regarding the statement of cash flows. As a result of the [Third Agenda Consultation](#), the IASB plans to start work on a separate project on the statement of cash flows.

Earnings per share

In addition to reporting basic and diluted earnings per share, companies were permitted under IAS 33 *Earnings per Share* to disclose earnings per share calculated based on any component of the statement of comprehensive income.

The amendments to IAS 33 permit a company to disclose these additional earnings per share only if the numerator is either a total or subtotal identified in IFRS 18 or an MPM.

Interim financial reporting

IAS 34 *Interim Financial Reporting* was amended to require companies to disclose information about MPMs in interim financial statements. Some of the other changes (including those about subtotals) also apply to condensed financial statements in interim reports.

² Previously IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective date and implementation support

When does IFRS 18 come into effect?

IFRS 18 is effective for annual periods beginning on or after 1 January 2027. A company can choose to apply IFRS 18 for annual periods before that date.

Companies are required to apply the new requirements in interim financial statements in the initial year of application, and to restate comparative information for the prior year ('apply IFRS 18 retrospectively') in accordance with IAS 8.

Where can I find more information including materials supporting implementation?

Together with IFRS 18, the IASB is publishing:

- examples illustrating aspects of IFRS 18;
- an effects analysis describing the likely costs and benefits (for example, better economic decision-making) of IFRS 18 for both preparers and users; and
- a feedback statement summarising the IASB's response to feedback received on the proposals that preceded IFRS 18.

The [IFRS 18 implementation page](#) on [IFRS.org](#) is updated regularly with webcasts and other supporting materials focused on implementing IFRS 18.

To stay up to date with the latest developments on IFRS 18 and to sign up for email alerts, please refer to the [IFRS 18 implementation page](#).

Important information

This Project Summary was prepared by the staff of the IFRS Foundation for the convenience of interested parties. The views and opinions in this document are those of the staff who prepared it, not the IASB, and should not be considered authoritative in any way. The content of this Project Summary does not constitute advice.

Official pronouncements of the IASB are available in electronic format to subscribers of IFRS.org. All IFRS publications can be ordered from the IFRS Foundation website at www.ifrs.org.

Other relevant documents

IFRS 18 *Presentation and Disclosure in Financial Statements*—specifies requirements for the presentation and disclosure of information in general purpose financial statements.

Basis for Conclusions on IFRS 18—summarises the IASB's considerations in developing the requirements in IFRS 18.

Illustrative Examples on IFRS 18—illustrates aspects of IFRS 18, without giving interpretative guidance.

Supporting Materials—includes flowcharts of key requirements in IFRS 18.

Effects Analysis on IFRS 18—describes the likely benefits and costs of IFRS 18.

Feedback Statement on IFRS 18—summarises feedback on the proposals that preceded IFRS 18 and the IASB's response to the feedback.

Reference Materials—includes a table of concordance and a comparison of the requirements in IAS 1 and IFRS 18.

IFRS 18 on one page.

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Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org

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Date: 26 April 2024

To: NZASB Members

From: Jamie Cattell

Subject: IPSASB ED 88

COVER SHEET

Project priority and complexity

<p>Project priority</p>	<p>Medium</p> <p>Concessionary leases, right-of-use assets in-kind (i.e., lease arrangements with no or nominal consideration), and other arrangements conveying rights over assets are common for PBEs in New Zealand across both the public and not for profit sectors. Previous proposals in relation to concessionary leases have been contentious with strong criticism against the concept of measuring the concessionary portion of leases based on market amounts.</p>
<p>Complexity of Board decision-making at this meeting</p>	<p>Low</p> <p>The Board is being asked to approve a comment letter on IPSASB ED 88 which restates previous issues already presented to the IPSASB and recommends expansion of the non-authoritative guidance.</p>

Overview of agenda item

<p>Project Status</p>	<p>IPSASB Exposure Draft Feedback</p>
<p>Project purpose</p>	<p>This project is part of the IPSASB Leases project which is intended to introduce the right-of-use (ROU) model (based on IFRS 16) into PBE Standards for ordinary leasing transactions at market rates. This part of the project is to develop guidance for concessionary leases, right-of-use assets in-kind and other arrangements conveying rights over assets.</p>
<p>Board action required at this meeting</p>	<p>APPROVE the comment letter on IPSASB ED 88.</p>

Recommendations¹

1. The Board is asked to APPROVE for issue the draft comment letter on IPSASB ED 88 *Arrangements Conveying Rights over Assets* (ED 88).

Background

2. This section includes only background information directly related to considering a response to ED 88. A full timeline of the leases project to date has been included in [Appendix B](#) for context.
3. In May 2023 the Board submitted comments on IPSASB ED 84 *Concessionary Leases and Right-of-Use Assets In-kind*. The full submission can be found [here](#).
4. At its August 2023 meeting, the Board considered the information gathered as part of the detailed effects analysis undertaken by staff, which focused on the expected costs and benefits of applying PBE IPSAS 43 in the public and not-for-profit (NFP) sectors.
5. Based on the results of the effects analysis and staff recommendations the Board agreed to commit to finalising PBE IPSAS 43 for application by the public sector but defer it until the IPSASB completes its leases project as there are challenges and uncertainties that need to be addressed before doing so. These included:
 - (a) clarifying the scope of the Standard with respect to concessionary leases, right-of-use (ROU) assets in-kind and other arrangements conveying rights over assets;
 - (b) developing specific requirements for concessionary leases in light of the IPSASB's future pronouncement on this topic;
 - (c) considering simplifications and practical expedients based on the experience of other jurisdictions; and
 - (d) monitoring the outcomes of the post-implementation review (PIR) of IFRS 16.
6. The Board also agreed to commit to maintaining the current lease accounting practice for NFP public benefit entities (PBEs), where only finance leases are recognised on the statement of financial position, until after the public sector has adopted PBE IPSAS 43 Leases at which point the Board will reconsider that decision. The Board agreed to follow this approach for the following reasons:
 - (a) There is limited user-demand for the ROU model in the NFP sector;
 - (b) There are significant concerns about the cost and complexity of applying PBE IPSAS 43 for NFP PBEs; and
 - (c) There are lingering questions about the usefulness of the information that would be reported under the ROU model for NFP PBEs.

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).

Structure of this memo

7. The remaining sections in this memo are:
 - (a) Function of IPSASB ED 88;
 - (b) Analysis of content and recommendations for submission;
 - (c) Draft comment letter; and
 - (d) Next Steps.

Function of IPSASB ED 88

8. ED 88 proposes amendments to two existing standards, IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*.² It has two primary functions:
 - (a) To transpose the amendments to IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, proposed in ED 84, to IPSAS 47. These amendments provide guidance for accounting for concessionary leases and right-of-use assets in-kind.
 - (b) To add non-authoritative guidance to IPSAS 47 and IPSAS 48 covering the other arrangements discussed in the Request for Information (RFI) on Concessionary Leases and Other Arrangements Similar to Leases, which was issued by the IPSASB in January 2021. These included access rights, arrangements allowing the right to use an asset, social housing rental arrangements, and shared properties. The non-authoritative guidance takes the form of illustrative examples, to show how the existing principles in these standards can be applied to account for these arrangements.
9. ED 88 is included as agenda item 4.2.

Analysis of content and recommendations for submission

Specific Matter for Comment 1 - Requirements transposed from IPSAS 23 to IPSAS 47

10. Included as [Appendix A](#) to this memo is a table comparing the wording of the authoritative text from ED 84 and ED 88. Based on the comparison, we consider that the requirements have been effectively transposed from IPSAS 23 to IPSAS 47. However, as they are consistent with the requirements in ED 84, none of the comments raised by the Board in its submission have been addressed.
11. We understand that at its meeting in December 2023 the IPSASB agreed to proceed with the ED 84 proposals in substance. Therefore, our recommendation in responding to SMC 1 is to simply restate the Board's disagreement with the principles and the reasons for disagreement, noting that we have no mechanical concerns with how they have been transposed to IPSAS 47.

² There is currently no equivalent PBE Standard to IPSAS 47 or IPSAS 48. There is an ongoing project to develop and issue New Zealand equivalents to both standards.

Specific Matter for Comment 2 - Illustrative examples in IPSAS 47

12. The illustrative examples proposed to be added to IPSAS 47 in ED 88 are mostly new, rather than transposed from ED 84. The exception is example 54A which has been carried over unchanged from ED 84. The illustrative examples ED 88 proposes to introduce to IPSAS 47 are summarised in the table below.

Table 1 – Proposed illustrative examples in IPSAS 47

Example	Description	Lease?	Accounting
OA – Access Rights	Entity receives the right to access land and cabins for a period of time.	No, there are no identified assets.	No explanation of the accounting has been provided except for a statement that IPSAS 47 applies and the arrangement should be accounted for in accordance with paragraphs 56-147 of IPSAS 47.
OB – Arrangements Allowing the Right to Use an Asset	Entity receives the right to use properties for educational services for a period of time.	No, the entity has substantive substitution rights.	
OC – Shared Properties	Entity receives the right to share the use of a floor in an office building for a period of time.	No, the entity does not transfer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.	
54A – Concessionary Lease	Entity X leases a building from Municipality Y to provide medical services at a rate 30% lower than market rates.	Yes, Entity X has a right-of-use asset.	Under IPSAS 43, the lease liability is recognized at the present value of the lease payments. The difference between the market rate and the concessionary rate, amounting to CU6,900,000, is recognized as revenue over the 5-year lease term. Each year, CU1,380,000 is credited to revenue and debited to the liability as the compliance obligation to provide medical services is met.
59 – Right-of-Use Assets In-kind	Right-of-use asset received without consideration.	N/A	Accounts for a right-of-use asset and recognises revenue from the present value of payments for the lease at market rates. The accounting differs depending on whether there is a binding arrangement or not.

13. We consider that adding illustrative examples 0A-0C is a helpful decision in principle. However the examples as they are currently drafted are of limited help for determining how the arrangements would be accounted for under IPSAS 47 beyond determining that IPSAS 47 applies. For the examples to be useful we consider that more detail is required and the examples should be expanded to illustrate the calculations and journals in a similar manner to examples 54A and 59.
14. The wording of examples 0A-0C also appear imply the existence of an asset in the form of enforceable rights on behalf of the receiving party without detailing the accounting treatment for such rights by the receiving party. We assume that this detail was omitted because the arrangements as described from the perspective of the receiving entity would be most likely to be within the scope of IPSAS 31 rather than IPSAS 47. While we do not consider it is necessary to amend IPSAS 31 to provide guidance on these arrangements, we recommend signposting within examples 0A-0C to indicate that entities on the receiving side of these arrangements may need to consider IPSAS 31 in accounting for them.
15. Finally, we consider that examples 0A-0C as they are currently worded result in lingering questions about how an entity should account for these arrangements in the event that the rights are conveyed at less than market rates. Based on the requirements of IPSAS 47, it appears that the accounting would be substantially the same as that in example 59 for a right-of-use asset in-kind. Therefore, we think it would be appropriate for the IPSASB to expand examples 0A-0C to cover that scenario, considering whether any of the content from example 59 can be repurposed.
16. The expansion outlined above will also require further consideration of the measurement basis, as other arrangements conveying rights over assets would be required to be measured at current value under IPSAS 47 rather than present value of payments for the lease at market rates based on the current use of the underlying asset (which only applies in the context of ROU assets in a concessionary lease and ROU assets in-kind).
17. Therefore, our recommendation in responding to SMC 2 is to explain the above concerns in relation to the illustrative examples and explain our view that they should be expanded, drawing from the content of example 59 as appropriate.

Specific Matter for Comment 3 – Illustrative examples in IPSAS 48

18. The illustrative examples proposed to be added to IPSAS 48 in ED 88 are new and both relate to ROU assets in-kind. The illustrative examples have been summarised in table 2 below.

Table 2 – Proposed illustrative examples in IPSAS 48

Example	Description	Lease?	Accounting
Case A - Sports Field for Youth Programs	A government agency allows Entity Z to use a sports field at no cost for youth activities.	No, it is an in-kind transaction with a reference point of CU300,000 annually for a similar sports field.	The entity would measure the transfer expense related to granting the right-of-use asset in-kind using the cost of resources to be transferred, which may include depreciation, maintenance, and other costs.
Case B - Social Housing for the Homeless	Municipality Z provides a public sector organisation rights to use its vacant social housing units for a decade to shelter the homeless temporarily, at no cost.	No, it is an in-kind transaction driven by social welfare objectives.	

19. The proposed illustrative examples, like those discussed in relation to SMC 2 above, are focused mainly on determining whether an arrangement falls within the scope of IPSAS 48 and are of limited help for determining anything beyond that. However, as there are no other examples from which the accounting treatment can be inferred, the lack of specific detail will likely have a much larger impact.
20. The examples both currently state that the arrangements are in-scope of IPSAS 48 and that “the entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs”.
21. While the wording implies a specific treatment under IPSAS 48, the examples are very unclear about what the IPSASB expect the accounting treatment to be. We are concerned that the lack of depth and practical detail in these examples could lead to varied interpretations and inconsistent application across entities.
22. Our recommendation in responding to SMC 3 is to state that we consider these examples require significant expansion for entities to fully understand how IPSAS 48 applies to right-of-use assets in-kind. Including:
- (a) Detailed explanation of the accounting treatment of each example under IPSAS 48 including any recognition, measurement, and disclosure requirements.
 - (b) Example journal entries to the extent applicable to provide a complete picture of the accounting treatment.
23. To the extent that these examples require an accounting treatment that is not intuitive or consistent with the commonly understood principles of IPSAS 48, consider whether authoritative guidance also needs to be added to IPSAS 48 for clarity.

Draft comment letter

- 24. Included as agenda item 4.3 is our draft comment letter based on the recommendations made above.
- 25. We requested comments from Board members ahead of this meeting and any comments received have been incorporated into the final draft of the comment letter also provided ahead of this meeting. Accordingly the question below relates to the final draft.

Questions for the Board

- Q1. Does the Board APPROVE for issue the final draft comment letter on IPSASB ED 88 *Arrangements Conveying Rights over Assets*?

Next steps

- 26. If the Board approves the comment letter for issue, we will make any final editorial changes and, subject to the approval of the Chair, submit the letter to the IPSASB ahead of the closing date of 31 May 2024.

Attachments

- Agenda item 4.2: IPSASB ED 88 *Arrangements Conveying Rights over Assets*
- Agenda item 4.3: Draft NZASB comment letter on ED 88

Appendix A – Comparison of authoritative requirements in IPSASB ED 84 and IPSASB ED 88

ED 84	ED 88
<p><u>Concessionary Leases</u></p> <p>105C. <u>Concessionary leases are leases granted to or received by a lessee at below-market terms. The portion of the lease that is payable, along with interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue that should be accounted for in accordance with this Standard.</u></p> <p>105D. <u>Where a lessee determines that the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the lessee result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the lessee satisfies the present obligation, the liability is reduced, and an equal amount of revenue is recognized.</u></p>	<p><u>Concessionary Leases for Lessees</u></p> <p>AG153A. <u>Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.</u></p> <p>AG153B. <u>Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.</u></p>
<p>Measurement of Transferred Assets</p> <p>83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of</p>	<p><i>Measurement of Transferred Assets</i></p> <p>AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity received consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;</p> <p>...</p> <p>(d) <u>Right-of-use assets held by a lessee acquired through concessionary leases are to be initially measured at the</u></p>

<p>IPSAS 12, IPSAS 16, and IPSAS 17. <u>Right-of-use assets held by a lessee and right-of-use assets in-kind acquired through non-exchange transactions are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.</u> Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.</p>	<p><u>present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.</u></p>
<p>Definitions</p> <p>...</p> <p><u>Right-of-use Assets In-kind</u></p> <p><u>28A. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, Leases for identifying a lease, with the necessary adaptations in the absence of lease payments.</u></p>	<p><u>Right-of-Use Assets In-kind</u></p> <p><u>Identification</u></p> <p><u>AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10– 12 and AG10–AG34 of IPSAS 43, Leases for identifying a lease, with the necessary adaptations in the absence of payments.</u></p> <p><u>AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another, either free from requirements or may be subject to certain obligations. The resource provider may be an entity or an individual. For right-of-use assets in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the right-of-use asset in-kind.</u></p>
	<p><u>Recognition</u></p> <p><u>AG202C. Right-of-use assets in-kind are recognized as assets in accordance with paragraphs 18–25 and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.</u></p>
<p>Measurement of Assets on Initial Recognition</p> <p>...</p>	<p><u>Measurement</u></p> <p><u>AG202D. On initial recognition, right-of-use assets in-kind are measured at</u></p>

<p>43A. <u>Right-of-use assets held by a lessee acquired through a concessionary lease and right-of-use assets in-kind acquired through a transaction that transfers the right to use an underlying asset for zero consideration are initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with the requirements of IPSAS 43.</u></p>	<p><u>the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use asset in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.</u></p> <p>AG202E. <u>After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.</u></p>
<p><u>Presentation of Right-of-Use Assets In-kind</u></p> <p>105E. <u>An entity shall present in the statement of financial position or disclose in the notes right-of-use assets in-kind separately from other assets. If an entity does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:</u></p> <p>(a) <u>Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and</u></p> <p>(b) <u>Disclose which line items in the statement of financial position include those right-of-use assets in-kind.</u></p> <p>105F. <u>An entity may present right-of-use assets in-kind together with other right-of-use assets.</u></p>	<p><u>Presentation</u> <u>Display</u></p> <p>AG202F. <u>An entity shall present in the statement of financial position or disclose in the notes right-of-use assets in-kind separately from other assets. If an entity does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:</u></p> <p>(a) <u>Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and</u></p> <p>(b) <u>Disclose which line items in the statement of financial position include those right-of-use assets in-kind.</u></p> <p>AG202G. <u>An entity may present right-of-use assets in-kind together with other right-of-use assets.</u></p>
<p>Disclosures</p> <p>...</p> <p>107. An entity shall disclose in the notes to the general purpose financial statements:</p>	<p><u>Disclosure</u></p> <p>AG202H. <u>An entity shall disclose in the notes to the general purpose financial statements the nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use</u></p>

<p>(a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;</p> <p>(b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;</p> <p>(c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and</p> <p>(d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind <u>and right-of-use assets in-kind</u> received.</p> <p><u>107A. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:</u></p> <p>(a) <u>Depreciation charge; and</u></p> <p>(b) <u>Carrying amount at the end of the reporting period by class of underlying asset.</u></p> <p><u>107B. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in 107A for those right-of-use assets in-kind.</u></p> <p><u>107C. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 17, an entity shall disclose the information required by paragraph 92 of IPSAS 17 for those right-of-use assets in-kind.</u></p>	<p><u>assets in-kind received.</u></p> <p><u>AG202I. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:</u></p> <p>(a) <u>Depreciation charge for right-of-use assets in-kind by class of underlying asset; and</u></p> <p>(b) <u>Carrying amount at the end of the reporting period by class of underlying asset.</u></p> <p><u>AG202J. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in AG202I for those right-of-use assets in-kind.</u></p> <p><u>AG202K. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.</u></p>
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Appendix B – Leases project timeline

Date	Project activity
Jan 2018	IPSASB issues IPSASB ED 64 <i>Leases</i> – which includes lessee accounting proposals aligned with IFRS 16 <i>Leases</i> , but also proposals to introduce the ROU model for lessors, and proposals for the fair value measurement of concessionary leases.
Feb-May 2018	XRB carried out broad outreach in New Zealand on IPSASB ED 64 (including roundtables, etc.) Feedback indicated broad support for the proposed ROU model for PBE <i>lessees</i> , except in relation to concessionary leases and other lease-type arrangements
Jun 2018	NZASB submitted comments on IPSASB ED 64 <i>Leases</i>
Jan 2021	IPSASB issued IPSASB ED 75 <i>Leases</i> – proposals aligned with IFRS 16 <i>Leases</i> (for lessees and lessors) Separate Request for Information (RFI) issued on <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
Feb 2021	XRB carried out broad outreach in New Zealand on IPSASB ED 75 <i>Leases</i> and received feedback on the RFI
May 2021	NZASB submitted comments on IPSASB ED 75 <i>Leases</i> and the RFI
Jan 2022	IPSASB issued IPSAS 43 <i>Leases</i> – aligned with ED 75 proposals and IFRS 16 No specific requirements for concessionary leases, and public sector arrangements that are similar to leases are scoped out – considered separately under the project <i>Other Lease-type Arrangements</i> .
Feb 2022	NZASB applied the PBE Policy Approach and agreed that it should propose incorporating the requirements in IPSAS 43 into PBE Standards – and not wait for the project on concessionary leases and public sector arrangements that are similar to leases to be completed. The NZASB agreed in principle to allow for a long effective date to enable PBEs the option to adopt the new lease accounting requirement early (this was considered important for mixed group entities).
Apr 2022	NZASB discussed whether to make certain modification to IPSAS 43 – to enhance the appropriateness and usefulness of this standard for New Zealand PBEs and the users of their financial statements
Jun 2022	NZASB discussed a working draft of the ED and Consultation Document
August 2022	NZASB APPROVED ED PBE IPSAS 43 <i>Leases</i> and Consultation Document for publication
Aug–Nov 2022	Staff undertook outreach activities – including publicising the consultation in our newsletter and on LinkedIn, recording and publishing a ‘walkthrough webcast’ on the consultation, reaching out to key PBE stakeholders.
25 Nov 2022	Consultation closed – 11 formal and informal submissions received
Dec 2022 – Jan 2023	Staff analysed feedback received on the EDs
Jan 2023	IPSASB issued ED 84: <i>Concessionary Leases and Right-of-Use Assets In-Kind</i>

Date	Project activity
Feb 2023	<ul style="list-style-type: none"> • NZASB discussed its approach to IPSASB ED 84: <i>Concessionary Leases and ROU Assets In-kind</i> • Staff presented analysis of feedback received on ED PBE IPSAS 43 <i>Leases</i> and sought NZASB’s strategic direction for this project. NZASB agreed: <ul style="list-style-type: none"> ○ not to defer the publication of PBE IPSAS 43 until NZ requirements for concessionary leases are developed; and ○ that staff should explore practical expedients in relation to the ROU model, focusing on not-for-profit PBEs in the first instance (narrow majority, with the Board having split views).
May 2023	<ul style="list-style-type: none"> • NZASB agreed to make certain modification to PBE IPSAS 43 based on ED feedback – namely, to clarify the sale and leaseback requirements and increase RDR concessions for Tier 2. • NZASB agreed that staff should carry out detailed effects analysis regarding PBE IPSAS 43, before determining next steps. • NZASB submitted comments on ED 84: <i>Concessionary Leases and Right-of-Use Assets In-Kind</i>
August 2023	<p>NZASB agreed to:</p> <ul style="list-style-type: none"> • Commit to the finalisation of PBE IPSAS 43 for application by the public sector, but defer finalisation until certain matters are addressed and additional information is available, and taking into account the timing of other major public sector-related projects on the NZASB work programme; • Commit to current lease accounting practice for NFP PBEs, with a view to reassess whether it remains appropriate after PBE IPSAS 43 has been adopted in the public sector.
March 2024	<p>IPSASB issued ED 88: <i>Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)</i></p>
FUTURE:	
2024-2026	<p>Staff to monitor the timing of the development of other major PBE Standards on the NZASB’s work plan, the IPSASB’s work on concessionary leases and the IASB’s PIR of IFRS 16 – and to determine when to recommence work on the finalisation of PBE IPSAS 43 for application by the public sector.</p> <p>When this work recommences, staff will consider how to address the remaining matters raised by public sector respondents to ED PBE IPSAS 43, as well as other matters that arose during the effects analysis with respect to the public sector.</p>

Exposure Draft 88
March 2024
Comments due: May 31, 2024

IPSAS®

Proposed International Public Sector Accounting Standard®

Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft (ED), *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 31, 2024.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB’s Leases Project

In January 2022, the IPSASB published [IPSAS 43, Leases](#), which is aligned with IFRS 16, *Leases*. The publication of IPSAS 43 completed phase one of the IPSASB’s Leases project.

The Basis for Conclusions to IPSAS 43 explains how the IPSASB addressed the comment letters in developing IPSAS 43 and the reasons to have a phased approach to the Leases project.

Phase Two of the Leases project led to the publication in January 2021 of [Request for Information \(RFI\), Concessionary Leases and Other Arrangements Similar to Leases](#). The objective of phase two of the Leases project is to develop additional guidance on concessionary leases and other arrangements similar to leases.

In January 2023, the IPSASB published [ED 84, Concessionary Leases and Right-of-Use Assets In-kind \(Amendments to IPSAS 43 and IPSAS 23\)](#) to propose guidance for some of the arrangements identified in the RFI.

When ED 84 was published, the IPSASB had not approved IPSAS 47, *Revenue* and IPSAS 48, *Transfer Expenses*. This ED complements and updates the ED 84 proposals by clarifying the proposed amendments to IPSAS 47 and IPSAS 48 that arise from phase two of the Leases project.

The Final Pronouncement is expected to include illustrative examples in IPSAS 43 on Access Rights, Arrangements Allowing Right to Use an Asset, and Shared Properties explaining why these arrangements are not leases.

Objective of the ED

The objective of this ED is to propose additional guidance for the concession in concessionary leases and for other arrangements that convey rights over assets.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments must be submitted in English.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB decided to carry over the proposals in ED 84 in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* related to the concession in concessionary leases to IPSAS 47 (see paragraphs IPSAS 47.BC141–BC145). Do you agree with the proposed amendments to IPSAS 47? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 2:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets in IPSAS 47 (see paragraphs IPSAS 47.BC146–BC150). Do you agree with the proposed non-authoritative amendments to IPSAS 47? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 3:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets without consideration in IPSAS 48 (see paragraphs IPSAS 48.BC41–BC44). Do you agree with the proposed non-authoritative amendments to IPSAS 48? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

**EXPOSURE DRAFT 88, ARRANGEMENTS CONVEYING RIGHTS OVER
ASSETS (AMENDMENTS TO IPSAS 47 AND IPSAS 48)**

CONTENTS

Amendments to IPSAS 47, <i>Revenue</i>	6
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AMENDMENTS TO IPSAS 47, *REVENUE*

Paragraphs 194A, 203A, AG153A–AG153B, AG202A–AG202K, BC141–BC151, IE1A–IE1J, IE296A, and IE308 are added. Paragraphs AG1 and AG154 are amended. The headings above paragraphs AG153A, AG202A, AG202C, AG202D, AG202F, AG202H, BC141, IE1A, IE1B, IE1E, IE1H, IE296A, and IE308 are added. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

...

194A. Paragraphs AG1 and AG154 were amended and paragraphs 194A, 203A, AG153A–AG153B, AG202A–AG202K were added by [draft] IPSAS [X] (ED 88), *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)* issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, IPSAS 47, and IPSAS 48 at the same time.

...

Transition

...

203A. The transition requirements for right-of-use assets in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized into the following categories:

...

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

...

(va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B);

...

(xiv) Bill-and-Hold Arrangements (paragraph AG199–AG202); ~~and~~

(xv) Right-of-use Assets In-kind (paragraphs AG202A–AG202K); and

...

Application of Principles to Specific Transactions

...

Concessionary Leases for Lessees

AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.

AG153B. Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity received consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

...

- (d) Right-of-use assets held by a lessee acquired through concessionary leases are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.

...

Right-of-Use Assets In-kind

Identification

AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, Leases for identifying a lease, with the necessary adaptations in the absence of payments.

AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another, either free from requirements or may be subject to certain obligations. The resource provider may be an entity or an individual. For right-of-use assets in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the right-of-use asset in-kind.

Recognition

AG202C. Right-of-use assets in-kind are recognized as assets in accordance with paragraphs 18–25 and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.

Measurement

AG202D. On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use asset in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.

AG202E. After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.

Presentation

Display

AG202F. An entity shall present in the statement of financial position or disclose in the notes right-of-use assets in-kind separately from other assets. If an entity does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:

- (a) Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
- (b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

AG202G. An entity may present right-of-use assets in-kind together with other right-of-use assets.

Disclosure

- AG202H. An entity shall disclose in the notes to the general purpose financial statements the nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use assets in-kind received.
- AG202I. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:
- (a) Depreciation charge for right-of-use assets in-kind by class of underlying asset; and
 - (b) Carrying amount at the end of the reporting period by class of underlying asset.
- AG202J. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in AG202I for those right-of-use assets in-kind.
- AG202K. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 47.

...

Revision of IPSAS 47 as a result of [draft] IPSAS [X] (ED 88), Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48) issued in [Month and Year]

BC141. In January 2021, the IPSASB issued the Request for Information (RFI), Concessionary Leases and Other Arrangements Similar to Leases. The RFI included a set of arrangements similar to leases that are common in the public sector¹.

BC142. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC143. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC144. In May 2023, the IPSASB published IPSAS 45, Property, Plant, and Equipment², IPSAS 46, Measurement, IPSAS 47, Revenue³, and IPSAS 48, Transfer Expenses. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable in 2026 onwards.

BC145. The IPSASB decided to publish ED 88 with proposed authoritative and non-authoritative guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the proposals in ED 84.

BC146. The IPSASB also decided to propose non-authoritative guidance in IPSAS 47 and IPSAS 48, Transfer Expenses for the remaining arrangements in the RFI that convey rights over assets, thus complementing, and updating the proposals in ED 84.

BC147. In developing the proposed guidance in ED 88, the IPSASB decided to provide only illustrative examples on the remaining arrangements in the RFI because these arrangements may take many forms.

¹ The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

² IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, Property, Plant, and Equipment.

³ IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, Revenue from Exchange Transactions, IPSAS 11, Construction Contracts, and IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).

BC148. The IPSASB noted that some respondents to the RFI had identified in their jurisdiction arrangements that conveyed the right to use an underlying asset for zero consideration. As this type of arrangement does not meet the definition of a lease because it lacks consideration, and with the approval of IPSAS 43, the IPSASB decided to create a new type of asset –the right-of-use asset in-kind– that did not exist at the time of approval of IPSAS 47, and to amend IPSAS 47 to provide guidance on accounting for this type of arrangement.

BC149. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both have types of non-cash consideration.

BC150. The IPSASB noted that the recognition of services in-kind is elected rather than a requirement. The IPSASB considered whether to allow an election for recognizing right-of-use assets in-kind. The IPSASB decided to require recognition of right-of-use assets in-kind to be aligned with the accounting of both right-of-use assets under concessionary leases and donated assets.

BC151. The IPSASB also considered adding illustrative examples accompanying IPSAS 31, *Intangible Assets*, as some of these arrangements may meet the definition of an intangible asset. The IPSASB decided not to add illustrative examples accompanying IPSAS 31 because the main objective of issuing ED 88 is to update IPSAS 47 and IPSAS 48, as these IPSAS had not yet been issued by the IPSASB at the time of approval of ED 84.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

...

Scope

IE1A. Examples 0A–0D illustrate the requirements in paragraph 3(d) of IPSAS 47 to assess whether the arrangement is in the scope of IPSAS 47, rather than in the scope of IPSAS 43, Leases.

Example 0A – Access Rights

IE1B. A Government Agency (the Entity) enters into an arrangement with a public sector entity (Customer) to convey the right to access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its activities. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.

IE1C. The Entity has determined that this arrangement is not a lease because there are no identified assets as the assets can be changed.

IE1D. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and cabins, in exchange for an enforceable right to receive payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0B – Arrangements Allowing the Right to Use an Asset

IE1E. Municipality A (the Entity) enters into an arrangement to provide Government Agency X (Customer) the right to use the Entity's properties, which are specifically designed to deliver education services as part of a national program for certifying the qualifications of the labor force for a period of seven years, in exchange for transaction consideration that is paid monthly. Throughout the seven-year period, the Entity can and will change the buildings where the certification occurs according to its needs, as long as it gives the Customer a 30-day notice for the Customer's planning purposes.

IE1F. The Entity has determined that this arrangement is not a lease because the Entity has substantive substitution rights.

IE1G. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide the right to use its properties for the Customer to deliver education services in exchange for an enforceable right to receive payments from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0C – Shared Properties

IE1H. Municipality A (the Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it to their own activities. The Customer pays transaction consideration upfront each month, based on the number of days it plans to use the office space.

IE1I. The Entity has determined that this arrangement is not a lease because the Entity has not transferred to the Customer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.

IE1J. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to share the use of the office space with the Customer, in exchange for an enforceable right to payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

...

Concessionary Leases

Example 54A – Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IE296A. Public sector entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of 5 years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

The lease stipulates that it should be paid over the 5-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by the lessee.

The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for 5 years. The compliance obligation is met on a straight-line basis.

It is a concessionary lease, as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual

payments. The lessee has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The revenue of CU6,900,000 is accounted for in accordance with IPSAS 47, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the lessee will recognize the following:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>	
<u>Cr</u>	<u>Lease liability</u>		<u>CU16,100,000</u>
<u>Cr</u>	<u>Liability</u>		<u>CU6,900,000</u>

2. Year 1: the lessee will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,380,000</u>

(1/5 of the compliance obligation met by the lessee CU6,900.000)

(Note: The journal entries for the repayment of interest and capital and interest accruals have not been reflected in this example, as it is intended to illustrate the recognition of revenue arising from concessionary leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the lessee will recognize the following (the lessee subsequently measures the concessionary lease at amortized cost):

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,380,000</u>

(1/5 of the compliance obligation met X CU6,900,000)

4. Year 3: the lessee will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,380,000</u>

(1/5 of the compliance obligation met X CU6,900,000)

5. Year 4: the lessee will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,380,000</u>

(1/5 of the compliance obligation met X CU6,900,000)

6. Year 5: the lessee will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,380,000</u>

(1/5 of the compliance obligation met X CU6,900,000)

If the concessionary lease was granted with no compliance obligation, the lessee would recognize the following on initial recognition:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>	
<u>Cr</u>	<u>Lease liability</u>		<u>CU16,100,000</u>
<u>Cr</u>	<u>Revenue</u>		<u>CU6,900,000</u>

...

Right-of-Use Assets In-kind

Example 59 – Right-of-Use Assets In-kind

IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for 5 years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types of sports services and their pricing that Entity Z provides.

A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for 5 years. This information is publicly available on the Agency’s website.

Entity Z’s incremental borrowing rate is 5 percent per annum.

Case A – With a Binding Arrangement

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, and that it has an enforceable obligation (because the Agency can terminate the arrangement if that field is not being used by youth at any time in the 5 years). Entity Z determines that the arrangement meets the definition of a binding arrangement, and it includes a compliance obligation to ensure that only youth use the sports field. The compliance obligation is satisfied over time, on a straight-line basis.

Entity Z confirmed that the substance of the right-of-use is not a contribution from owners.

Analysis

Entity Z acquired a right-of-use asset for zero consideration. The present value of payments at market rates is CU1,298,843 (refer to Table 1), which corresponds to the value of the right-of-use asset and total revenue.

The journal entries to account for the right-of-use asset and revenue are as follows:

1. On initial recognition, Entity Z will recognize the following:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU1,298,843</u>	
<u>Cr</u>	<u>Liability</u>		<u>CU1,298,843</u>

2. Year 1: Entity Z will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU259,769</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU259,769</u>

(1/5 of the compliance obligation met by Entity Z CU1,298,843)

3. Year 2: Entity Z will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU259,769</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU259,769</u>

(1/5 of the compliance obligation met CU1,298,843)

4. Year 3: Entity Z will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU259,769</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU259,769</u>

(1/5 of the compliance obligation met CU1,298,843)

5. Year 4: Entity Z will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU259,769</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU259,769</u>

(1/5 of the compliance obligation met CU1,298,843)

6. Year 5: Entity Z will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU259,769</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU259,769</u>

(1/5 of the compliance obligation met CU1,298,843)

Case B – Without a Binding Arrangement

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, but there is no enforceable obligation (because the Agency is not able to force Entity Z to restrict use of the field to youth only). Thus, Entity Z determines that the arrangement is not a binding arrangement.

Entity Z recognizes the following on initial recognition:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU1,298,843</u>	
<u>Cr</u>	<u>Revenue</u>		<u>CU1,298,843</u>

Table 1: Annual Payments (Using Incremental Borrowing Rate of Z at 5%)

<u>Undiscounted Annual Payments for the Lease at Market Rates</u>	<u>Present Value of Payments at Market Rates (Value of Right- of-use asset and total revenue)</u>
<u>(1)</u>	<u>(2)</u>

EXPOSURE DRAFT 88, ARRANGEMENTS CONVEYING RIGHTS OVER ASSETS (AMENDMENTS TO IPSAS 47 AND IPSAS 48)

<u>Year 1</u>	<u>300,000</u>	<u>285,714</u>
<u>Year 2</u>	<u>300,000</u>	<u>272,109</u>
<u>Year 3</u>	<u>300,000</u>	<u>259,151</u>
<u>Year 4</u>	<u>300,000</u>	<u>246,811</u>
<u>Year 5</u>	<u>300,000</u>	<u>235,058</u>
<u>Total</u>	<u>1,500,000</u>	<u>1,298,843</u>

AMENDMENTS TO IPSAS 48, *TRANSFER EXPENSES*

Paragraphs BC41–BC44 and IE12A–IE12F are added. Paragraph IE2 is amended. The headings above paragraphs BC41, IE12A and IE12E are added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 48.

...

Revision of IPSAS 48 as a result of [draft] IPSAS [X] (ED 88), *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)* issued in [Month and Year]

BC41. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector⁴.

BC42. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)*. ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC43. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangement that convey rights over assets.

BC44. To address this, the IPSASB decided to publish ED 88 with proposed non-authoritative guidance for other arrangements conveying rights over assets in IPSAS 48, *Transfer Expenses*. The proposals encompass all arrangements included in the RFI and taking into consideration the IPSASB's literature published after ED 84, thus complementing, and updating the proposals in ED 84.

⁴ The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Housing Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

...

Scope

IE2. Examples 1–2A illustrate the requirements in paragraphs 3–5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

...

Example 2A – Right-of-Use Assets In-kind

Case A – Usage of A Sports Field for Zero Consideration

IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for 5 years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types of sports services and their pricing that Entity Z provides.

IE12B. A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for 5 years. This information is publicly available on the Agency's website.

IE12C. The binding arrangement includes a compliance obligation, specifically the sports field should be used by youth. To the extent the compliance obligation is not met by Entity Z, the binding arrangement is cancelled, and the right to use the sports field returns to the Government agency. Entity Z's compliance obligation is met on a straight-line basis.

IE12D. The conveying of the right to use for free of a sports field is within the scope of IPSAS 48 because the Agency provides the right to use to Entity Z without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.

Case B – Social Housing without Consideration

IE12E. The national government publishes new legislation which requires municipal governments to take action to reduce the number of homeless in their community. To implement the legislation requirements, Municipality Z (the Entity) engages with a public sector organization (Organization) to operate social housing services for the homeless in the local community. Under the 10-year arrangement, the Organization is able to use the Entity's 100 vacant social housing units (to temporarily house the homeless until they find a more permanent place to live) for zero consideration.

IE12F. The provision of the right to use social housing units to the Organization for zero consideration is within the scope of IPSAS 48 because the Entity provides services to the Organization without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.

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**International Public
Sector Accounting
Standards Board®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

XX May 2024

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross

ED 88 Arrangements Conveying Rights over Assets

Thank you for the opportunity to comment on ED 88 *Arrangements Conveying Rights over Assets*. ED 88 has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

First, we want to reinforce that we maintain our disagreement with the proposed approach accounting for concessionary leases and right-of-use assets in-kind for the reasons outlined in our response to ED 84.

Therefore we partially agree with the proposals for the following reasons:

- Despite our disagreement with the principles for accounting for concessionary leases and right-of-use assets in-kind we are comfortable with how the proposed requirements in IPSAS 23 have been transposed to IPSAS 47.
- We recommend expansion of proposed illustrative examples 0A-0C in IPSAS 47 to cover the accounting treatments and related disclosures more comprehensively, add signposting to IPSAS 31 in relation to accounting for the arrangements from the perspective of the receiving entity, and to clarify how the arrangements should be accounted for by the receiving entity when they are entered into at less than market rates.
- We disagree with the proposed illustrative examples to be added to IPSAS 48. While we agree that they are necessary, we are concerned about their clarity and completeness. The current wording of the examples does not sufficiently illustrate the intended application of the standard. We recommend that the IPSASB illustrate the accounting treatment and disclosures

for each example in full, including recognition, measurement, and disclosure requirements.

Our recommendations and responses to the Specific Matters for Comment are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Jamie Cattell (Jamie.cattell@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

APPENDIX**Response to Specific Matters for Comment****Specific Matter for Comment 1:**

The IPSASB decided to carry over the proposals in ED 84 in IPSAS 23, *Revenue from Non-Exchange Transactions* (Taxes and Transfers) related to the concession in concessionary leases to IPSAS 47 (see paragraphs IPSAS 47.BC141–BC145). Do you agree with the proposed amendments to IPSAS 47? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We do not agree with the proposed amendments to IPSAS 47 related to the accounting for the concession component of a concessionary lease. As expressed in our comment letter on ED 84, we disagree with the proposed approach. As the proposed approach has not changed, we disagree with the proposals in ED 88 for the same reasons as those outlined in our response to ED 84.

Specifically, we raised the following concerns in response to ED 84:

1. It is not clear that there are significant unmet user needs or public financial management issues with respect to concessionary leases;
2. The proposals make an arbitrary distinction between concessionary leases and other lease-like arrangements, resulting in different accounting outcomes for arrangements of similar substance.
3. The number of concessionary leases that will be accounted for at market rates in practice under the proposals will be limited to a small subset of leases; the costs of application would outweigh the benefits.
4. Concessionary leases have commonalities with service concession arrangements and services in-kind. As such, it is inappropriate to ignore these analogies when developing accounting requirements for concessionary leases to fit within the IPSAS suite.

Rather than performing standard setting on concessionary leases, we recommended that the IPSASB develops guidance materials highlighting existing requirements, explores service performance reporting and allows entities to recognise concessionary leases at cost as currently required under IPSAS 43 Leases.

Setting aside these conceptual issues and considering the transposition of the proposed requirements from IPSAS 23 to IPSAS 47 from a purely mechanical perspective, we have no concerns with how the proposals have been transposed.

Specific Matter for Comment 2:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets in IPSAS 47 (see paragraphs IPSAS 47.BC146–BC150).

Do you agree with the proposed non-authoritative amendments to IPSAS 47?

If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We support the IPSASB's decision to provide non-authoritative guidance for arrangements conveying rights over assets within IPSAS 47. The new illustrative example 59 on right-of-use assets in-kind, is particularly helpful to clarify the accounting for such arrangements and promote consistency in application.

However, we recommend that the IPSASB expand illustrative examples 0A-0C. While the examples are helpful for determining whether IPSAS 47 applies to an arrangement, they are insufficient for anything beyond that, such as the intended accounting treatment or what to include in any related disclosures. Our view is that constituents would benefit if the accounting entries were illustrated in full, as has already been done for Examples 54A and 59, along with any disclosures required. This will be especially valuable for jurisdictions that are new to implementing IPSAS or have limited capacity for interpreting the standards.

Further, while the examples are intended to focus on the revenue from the perspective of the party granting the rights, the current wording implies that there is also an asset in the form of enforceable rights for the receiving party. However, no detail is provided on how the receiving party would account for the rights. We presume the IPSASB considered such arrangements would fall within the scope of IPSAS 31 and decided not to propose amendments to IPSAS 31 for these other arrangements. While we do not consider that amendments to IPSAS 31 are strictly necessary, we recommend adding some signposting to that standard for clarity.

We also consider there are further questions about how to account for these arrangements in the scenario where the arrangements conveying the rights are entered into at less than market rates, particularly from the perspective of the receiving party. Under the assumption that there is an identifiable asset that can be reliably measured, prima facie the accounting treatment in examples 0A-0C seems as though it would be substantially the same as the accounting for a right-of-use asset in-kind. That is, they would create a liability which is recognised as revenue over time as the terms of the related binding obligation are met. Therefore, we recommend the IPSASB consider whether some of the facts and structure from example 59 can be repurposed for expanding examples 0A-0C.

This will also require further consideration of the measurement basis, as other arrangements conveying rights over assets would be required to be measured at current value under IPSAS 47 rather than present value of payments for the lease at market rates based on the current use of the underlying asset (which only applies in the context of ROU assets in a concessionary lease and ROU assets in-kind).

We therefore recommend the IPSASB:

1. Provide more detail in examples 0A-0C to illustrate the accounting from the providing entity's perspective more explicitly including recognition, measurement, and disclosure requirements.
2. Add signposting to examples 0A-0C directing the recipient of the rights to consider accounting treatment under IPSAS 31.
3. Expand examples 0A-0C to explain how the arrangements would be accounted for from the recipient's perspective where the rights are provided as less than market rates.

Specific Matter for Comment 3:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets without consideration in IPSAS 48 (see paragraphs IPSAS 48.BC41–BC44).

Do you agree with the proposed non-authoritative amendments to IPSAS 48?

If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We have concerns about the clarity and completeness of the proposed non-authoritative guidance for arrangements conveying rights over assets without consideration in IPSAS 48. While we agree that providing guidance on such arrangements is important, the proposed examples in IPSAS 48 do not adequately illustrate the intended application of the standard.

The two examples proposed are focused on whether the arrangements are within the scope of IPSAS 48 or another standard but they do not illustrate the intended accounting treatment or explain how the principles and requirements of IPSAS 48 would be applied. Instead they both simply state “the Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.”

While this is by design, we consider it is insufficient for the examples to be helpful in understanding and applying IPSAS 48 beyond determining that the Standard applies. Further – the wording of the examples implies that there is a specific treatment in mind under IPSAS 48. However it is difficult to draw any conclusions about what this might be because there are no other examples from which an analogy can be made.

To make the examples useful - we recommend that the IPSASB:

1. Illustrates the intended accounting treatment and disclosures for each scenario under IPSAS 48 in full, including the recognition, measurement, and disclosure requirements. This will help constituents understand how the standard would be applied in practice.
2. If there is a particular accounting treatment envisaged, we encourage the IPSASB to include example journal entries to give a complete picture of the accounting treatment.
3. We also recommend based on the above 2 points, the IPSASB reconsiders whether any of the non-authoritative guidance should be elevated to authoritative Application Guidance within the standard, rather than being located in the non-authoritative illustrative examples.

Date: 26 April 2024
To: NZASB Members
From: Carly Berry and Leana van Heerden
Subject: Revenue and Transfer Expenses

COVER SHEET

Project priority and complexity

<p>Project priority</p>	<p>High</p> <ul style="list-style-type: none"> The IPSASB issued IPSAS 47 <i>Revenue</i> and IPSAS 48 <i>Transfer Expenses</i> in May 2023, which introduces new revenue and transfer expense recognition and accounting models focused on whether or not a binding arrangement exists. Revenue and Transfer Expenses transactions are prevalent and significant across both the public and not-for-profit (NFP) sectors.
<p>Complexity of Board decision-making at this meeting</p>	<p>High</p> <p>We are asking the Board to agree with recommendations we are making with respect to the concept of “enforceability” in the context of a binding arrangement.</p>

Overview of agenda item

<p>Project status</p>	<p><u>Preparing exposure drafts of PBE IPSAS 47 and PBE IPSAS 48</u></p> <p>Consideration of key issues to ensure the new PBE Standards are fit-for-purpose for public benefit entities (PBEs) and will meet PBE user-needs.</p>
<p>Project purpose</p>	<p>The purpose of the Revenue and Transfer Expenses projects is to develop new PBE Standards for revenue and transfer expenses using IPSAS 47 <i>Revenue</i> and IPSAS 48 <i>Transfer Expenses</i> as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand – with a focus on the robustness of key principles, understandability, and accessibility.</p>
<p>Board action required at this meeting</p>	<ul style="list-style-type: none"> CONSIDER the research and targeted outreach we have undertaken on the concept of “enforceability” in the context of a binding arrangement. AGREE with our consequent recommendations.

Introduction and purpose

1. The Revenue and Transfer Expenses projects were added to the work plan in June 2023, when the Board agreed to develop new PBE Standards for revenue and transfer expenses ('new PBE Standards'), using IPSAS 47 and IPSAS 48 as respective starting points. For detail on the project timelines, refer to paragraph 7 and [Appendix 2](#).
2. A key objective of both projects is to ensure that these new PBE Standards are fit-for-purpose in New Zealand. To meet this objective, our first task is to ensure that the fundamental principles in IPSAS 47 and IPSAS 48 are clear and robust enough to be applied in the New Zealand context.
3. In October 2023, the Board considered the concept of a "binding arrangement", which is fundamental to both IPSAS 47 and IPSAS 48. For a binding arrangement to exist, it must be enforceable through legal or equivalent means in the relevant jurisdiction. Entities will need to apply judgement when assessing the enforceability of their arrangements, taking into account the existence of any remedies for non-completion (i.e. consequences).
4. To assist entities with these assessments, the Board agreed with our recommendation to explore New Zealand-specific enforcement mechanisms for the purpose of creating application guidance. This memo sets out our research findings and proposed next steps on this matter.

Summary of recommendations

5. We recommend:
 - (a) not developing guidance (whether authoritative or non-authoritative) on New Zealand-specific enforcement mechanisms and consequences.
 - (b) as part of the drafting process, updating the non-authoritative appropriation guidance by:
 - (i) removing the reference to IPSAS 24 *Presentation of Budget Information in Financial Statements* from the IPSAS 47 and IPSAS 48 Implementation Guidance.
 - (ii) rewording the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strike through words and adding the underlined words.
 - (iii) considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusions, Implementation Guidance and Illustrative Examples to align with the New Zealand context.

Structure of this memo

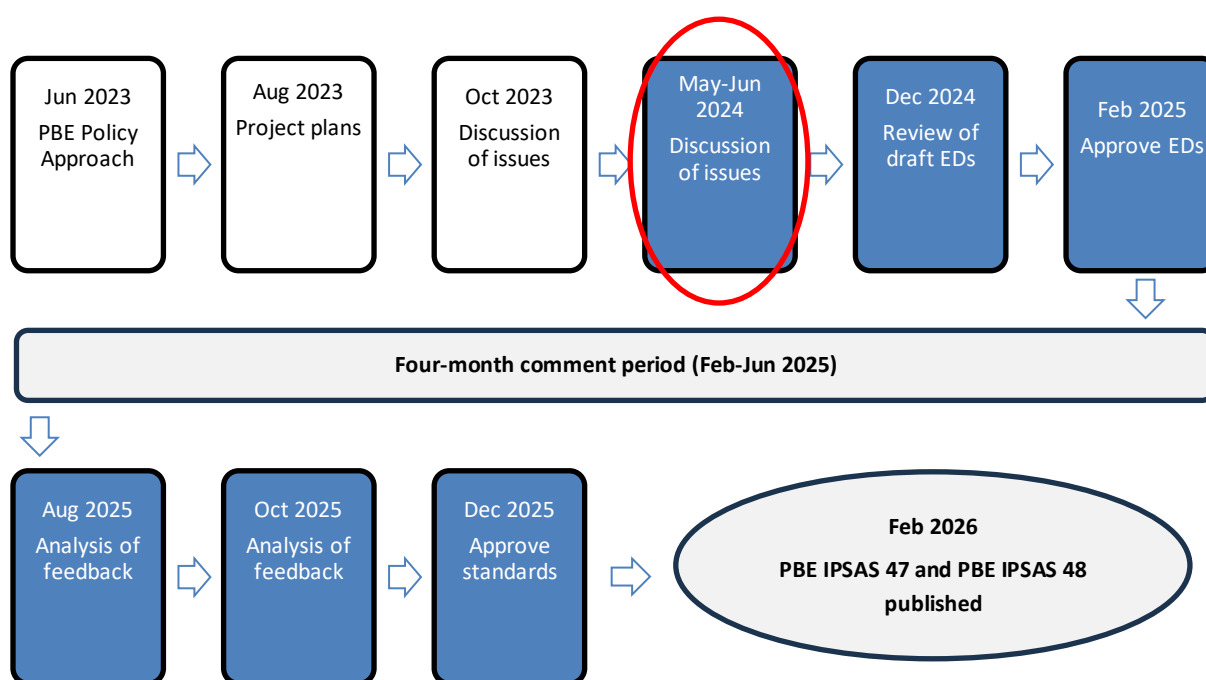
6. The remaining sections of this memo are:
 - [Status of the Revenue and Transfer Expenses projects](#)
 - [Work performed on the enforceability concept](#)

- [Next steps](#)
- [Appendix 1: Extract from PBE Working Group March 2024 papers](#)
- [Appendix 2: Detailed timeline for the Revenue and Transfer Expenses projects](#)
- [Appendix 3: Outcomes from previous Board meetings relating to the Revenue and Transfer Expenses projects](#)

Status of the Revenue and Transfer Expenses projects

Timeline of Board discussions

7. The diagram below sets out Board actions relating to the Revenue and Transfer Expenses projects at previous and future Board meetings, marked in white and blue respectively.



8. [Appendix 2](#) contains a more detailed timeline for these projects and a summary of the outcomes from the Board’s discussions in 2023 are set out in [Appendix 3](#).
9. As noted at the Board’s February 2024 meeting, the Revenue and Transfer Expenses projects were delayed for several months due to senior staff vacancies. However, we have been able to restart work on these projects recently due to the establishment of the PBE Working Group (more detail below).

Establishment of the PBE Working Group

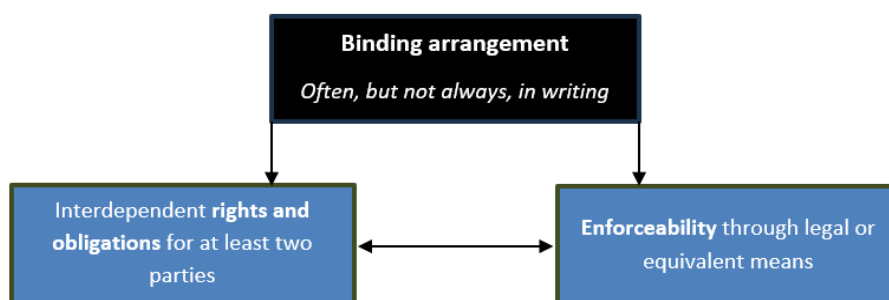
10. In February 2024 we invited 10 individuals with a practical accounting background in Tier 1 and Tier 2 public sector and not-for-profit (NFP) reporting, as well as three Board members¹, to form a PBE Working Group.

¹ Carolyn Cordery, Warwick White and Francis Caetano.

11. The objective of this group is for members to share their practical insights and expertise in the public and not-for-profit sectors to assist us with developing the PBE EDs. Meetings with the PBE Working Group will provide a forum for us to consult on practical application and implementation issues relevant to the new PBE Standards.

Work performed on the enforceability concept

12. As noted in the introduction to this memo, the Board considered the fundamental concept of a binding arrangement at its October 2023 meeting.
13. The existence (or absence) of a binding arrangement drives the accounting treatment for revenue and transfer expense transactions, to the extent that a transaction with a binding arrangement will be accounted for differently from one without a binding arrangement.
14. The diagram below summarises the key components of a binding arrangement which entities will need to consider in order to determine whether their revenue and transfer expense arrangements are binding arrangements as defined².



15. An entity must base its assessment of enforceability on whether it has the ability to enforce its rights and obligations, which can arise from various mechanisms. The assessment should also factor in, amongst other things, the specific jurisdiction in which the entity operates (which would include jurisdiction-specific enforcement mechanisms and remedies for non-completion).
16. In light of the importance of the enforceability assessment, we recommended to the Board (and the Board agreed) that we explore New Zealand-specific enforcement mechanisms for the purpose of creating application guidance, to assist entities with these assessments.
17. Since the October meeting our work has involved:
 - (a) researching New Zealand-specific enforcement mechanisms and consequences; and
 - (b) discussion with the PBE Working Group.

Researching New Zealand-specific enforcement mechanisms and consequences

18. Our research involved discussions with XRB staff members who are knowledgeable about the New Zealand jurisdictional framework and legal context. Additionally, we conducted internet-based research on enforcement mechanisms used in New Zealand, along with the typical

² A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement (IPSAS 47.4).

consequences for failing to adhere to arrangements. The insights gained from this research informed our development of the PBE Working Group papers.

19. Our research revealed that:
 - (a) certain arrangements may be governed by multiple enforcement mechanisms, such as a legal mandate followed by a ministerial directive and ultimately a memorandum of understanding between the parties in the arrangement.
 - (b) it is not uncommon for arrangements to exhibit characteristics of several types of enforcement mechanisms such as those listed in [Appendix 1](#) – for instance, a public declaration may go hand-in-hand with political necessity.
 - (c) most arrangements are unique, and their enforceability can vary, even when a similar mechanism is present.

20. After conducting this research, our preliminary views ahead of the discussion with the PBE Working Group meeting were that:
 - (a) given the extensive nature of New Zealand’s jurisdictional terrain and legal system, as well as the unique nature of each arrangement, creating guidance on New Zealand-specific legal (or equivalent) mechanisms and consequences would likely be overly complex and demand considerable time and legal acumen.
 - (b) there may be unintended consequences arising as a result of this guidance – for example, entities could misinterpret the guidance to reflect the XRB’s view on whether a certain arrangement is enforceable, due to the inclusion of a particular mechanism mentioned in the guidance.

PBE Working Group meeting – March 2024

21. Our first meeting with the group took place on 19 March. We asked members of the PBE Working Group to provide feedback on the guidance in IPSAS 47 and IPSAS 48 relating to the enforceability concept (including consideration of the guidance on consequences). The information that we shared with the PBE Working Group is summarised in [Appendix 1](#).

22. The objectives for the discussion with the PBE Working Group were to:
 - (a) determine whether this guidance is sufficient to help entities with their enforceability assessments – and, in particular, whether any New Zealand-specific enforcement mechanisms and consequences exist which would warrant additional guidance in the new PBE Standards.
 - (b) determine whether any additional guidance would be required for NFP entities.
 - (c) obtain any other feedback that the group has with respect to enforceability assessments.

23. We also considered the AASB Revenue Standard (AASB 15 *Revenue from Contracts with Customers*) which incorporates authoritative implementation guidance on enforceable agreements for not-for-profit entities. This guidance emphasises some points raised in IPSAS 47 and IPSAS 48 but also has a non-exhaustive list of enforceable consequences. The PBE Working Group was queried about the potential usefulness of this guidance for their

enforceability assessments. The Group's view was that even though the guidance may assist some smaller PBEs, it does not address areas requiring complex judgement. Given that the IPSASB Standards already follow a principles-based approach, the impact of this guidance is likely to be minimal. Following the group's input, it was decided that integrating this into the authoritative guidance would not be pursued. We may consider using portions of it for educational material in future.

24. Overall, members of the group were positive about the requirements in IPSAS 47 and IPSAS 48 – there was no appetite for amending any of the requirements. Members of the group did, however, note some areas where more educational guidance could be useful.

Table 1 sets out the issues raised by members of the group. We considered these issues and performed further work where required, which is also documented in Table 1.

Table 1

Issue	Summary of discussion	Work performed
<p>Appropriations</p>	<ul style="list-style-type: none"> This topic was noted as a key concern for this project. There was uncertainty around how appropriations fit within the enforceability framework. Questions were raised about what type of enforceability exists for departmental appropriations where funds are provided to do specific things. It was suggested that the standards seem to discuss appropriations from a more generic international perspective which may differ from the New Zealand context and application. Appropriations in New Zealand are an authority to incur expenses but not necessarily a compulsion. There was a question as to what extent appropriations are enforceable, especially for non-departmental appropriations where an organisation may just be monitoring and paying money to another entity. The nature of multi-year and permanent legislative authority appropriations adds further complexity to the enforceability assessment. <p>Appropriation concerns raised outside of the discussion:</p> <ul style="list-style-type: none"> The Treasury and the Office of the Auditor General (OAG) have a long-standing “agree to disagree” on departmental revenue recognition for activities covered by appropriations. Treasury is of the view that a department’s right to funding is conditional on them incurring expenses which means revenue is recognised when the expense relating to an activity is incurred whereas the OAG’s position is to recognise revenue when the government department gains control over the resources to be transferred. 	<p>To gain a better understanding of appropriations in the New Zealand context we reviewed the appropriations section in the November 2023 guide from Treasury New Zealand on the Public Finance Act (PFA Guide). While there are additional authoritative documents in New Zealand that cover appropriations, we opted not to delve further into them. Our focus was on understanding the New Zealand context of appropriations specifically for the requirements of IPSAS 47 and IPSAS 48, rather than considering all legal aspects.</p> <p>We also considered the appropriation non-authoritative guidance in IPSAS 47 and IPSAS 48 (appropriations are not covered in the authoritative text).</p> <p>We noted the following:</p> <ul style="list-style-type: none"> Appropriations by themselves typically do not trigger an accounting event or transaction. The PFA Guide indicates that an appropriation provides the authority to incur expenses or capital expenditure and acts more as a limitation rather than a commitment to fund expenditures. Per IPSAS 47 and IPSAS 48 the presence of an appropriation alone neither confirms nor denies the enforceability of an arrangement. Entities must consider appropriation clauses as one of the relevant factors in the enforceability assessment. Consideration needs to be applied on whether the appropriation has substance and this, together with the enforcement mechanism (and other relevant factors), should drive the enforceability assessment to conclude whether a binding arrangement exists or not. This is emphasised in IPSAS 47 Illustrative example 7 which has two scenarios – one where the appropriation has substance and the other where it doesn’t. The above approach is also relevant to multi-year appropriations, permanent legislative funding and non-departmental appropriations. <p>We believe that the appropriation non-authoritative guidance in IPSAS 47 and IPSAS 48 is adequate for New Zealand’s requirements.</p> <p>However, as part of the drafting process we will:</p>

Issue	Summary of discussion	Work performed
	<ul style="list-style-type: none"> • IPSAS 47 and IPSAS 48 Implementation Guidance refers to the definition of appropriations in IPSAS 24 as an authorisation granted by a legislative body (i.e. the enabling authority) to <u>allocate funds</u> for purposes specified by the legislature or similar authority. Points to note: <ul style="list-style-type: none"> ○ IPSAS 24 does not form part of the PBE Suite of Accounting Standards; and ○ New Zealand Public Finance Act refers to appropriations as an authority to “<u>incur expenses or capital expenditure</u>” rather than to “<u>allocate funds</u>”. 	<ol style="list-style-type: none"> a. Remove the reference to IPSAS 24 from the IPSAS 47 and IPSAS 48 Implementation Guidance. b. Repword the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to allocate funds <u>incur expenses or capital expenditure</u> for the purpose specified by the legislature or similar authority – i.e. removing the strikethrough words and adding the underlined words. c. Consider if there are other changes required to the appropriation details in the Basis for Conclusion, Implementation Guidance and Illustrative Examples to align with the New Zealand context.
<p>Statement of intent as an enforceable mechanism and the relationship to PBE IPSAS 19</p>	<ul style="list-style-type: none"> • More clarity is required on the interaction between PBE IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and the concept of a binding arrangement – i.e. “constructive” obligation vs enforceable obligation “through legal or equivalent means”). • One group member noted that an arrangement may start off as a public announcement (i.e. statement of intent) but, due to political necessity, can quickly become a binding arrangement once the necessary details are established with the relevant entities/individuals. 	<p>We reviewed IPSAS 47 and IPSAS 48 to determine the extent of guidance around the interaction with IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p><u>IPSAS 47</u></p> <ul style="list-style-type: none"> • Paragraph 3 states that the requirements of IPSAS 47 do not apply to rights or obligations arising from binding arrangements within the scope of IPSAS 19. <p><u>IPSAS 48</u></p> <ul style="list-style-type: none"> • Various references to IPSAS 19 requirements are made in IPSAS 48 – i.e. with regard to the accounting for transfer expenses from transactions <u>without</u> binding arrangements (paragraph 18) and variable consideration in a binding arrangement (paragraphs 36-37). • Paragraph AG25 states that an entity should consider whether a statement of intent or public announcement gives rise to a non-legally binding (i.e. constructive) obligation in accordance with IPSAS 19 – such a statement is not, in and of itself, an enforceable arrangement for the purposes of IPSAS 48.

Issue	Summary of discussion	Work performed
		<ul style="list-style-type: none"> IG B.3 provides guidance on appropriations, in combination with external announcements or other communications, and how IPSAS 19 may be applicable. <p><u>Onerous contracts</u></p> <p>Although not specifically discussed by the PBE Working Group, for completeness we also looked at the interaction of PBE IPSAS 19 with IPSAS 47 and IPSAS 48 with respect to onerous contracts.</p> <ul style="list-style-type: none"> IPSAS 47.79 notes that when a binding arrangement comes onerous, the entity must account for the expected deficit in accordance with IPSAS 19. IPSAS 47 does not make it clear that only certain types of binding arrangements can be onerous as defined in IPSAS 19. To be onerous, there must be an exchange of assets or services – therefore, binding arrangements with compliance obligations to use resources for goods or services internally would not meet the definition of an onerous contract. There is no reference to onerous contract accounting in IPSAS 48. This is because binding arrangements within the scope of IPSAS 48 cannot be onerous as there is no exchange of assets and services. <p>Both IPSAS 47 and IPSAS 48 clearly state their interaction with IPSAS 19. Therefore, we do not believe that additional guidance will need to be developed. However, we will consider making it clear to stakeholders in educational material that only certain types of binding arrangements can be onerous (i.e. those involving an “exchange”).</p>
Taxes	<ul style="list-style-type: none"> A question was raised about whether hypothecated taxes could be a binding arrangement and create an enforceable right for a party to state that the revenue must be used for that purpose. For a public sector perspective, it was noted that while there may be specific expectations or statements about what tax revenue is used for, the public cannot necessarily enforce how that money is spent. The government retains discretion over spending. 	<p>We reviewed the requirements on taxes, compulsory contributions or levies in IPSAS 47 (taxes are excluded from the scope of IPSAS 48) and we considered prior IPSASB meeting papers and minutes on hypothecated taxes.</p> <p>Per IPSAS 47 taxes, compulsory contributions and levies are transactions without binding arrangements as the resource provider has no control (or enforceable right) over which benefits they receive.</p> <p>BC paragraphs 49 – 50 include information on <i>unenforceable transactions</i> which are transactions that do not arise from a binding arrangement but have an</p>

Issue	Summary of discussion	Work performed
	<ul style="list-style-type: none"> A question was raised about whether the accounting treatment of rates payable in instalments would remain the same under the new PBE Standard on revenue – is the revenue recognised when the rate is ‘struck’ or when the invoice is sent. The accounting treatment for council service-related fees and levies versus general taxes is of significant interest. 	<p>implied requirement for how those resources are to be used. We expect hypothecated taxes and some council service-related fees and levies to fall under these requirements. These BC paragraphs provide a scenario to clarify why a binding arrangement does not exist using taxpayers as an example - they normally do not have enforceable rights, yet the implied requirements may give rise to enforceable obligations of the resource recipient.</p> <p>The IPSASB also noted that transactions which are not binding arrangements are not automatically unenforceable. For example, certain fines and taxes are not binding arrangements because they lack two-way enforceability, but these transactions are still enforceable by the authority imposing the fines or taxes.</p> <p>With regards to the question on the accounting treatment of rates payable in instalments:</p> <ul style="list-style-type: none"> IPSAS 47.42 specifies that an entity should recognize an asset for taxes, which includes other compulsory contributions and levies, at the time the taxable event³ occurs, provided the criteria for asset recognition are met. Entities would need to analyse the laws or regulations to determine what the triggering or taxable event is, e.g. income being earned, passage of time or the purchase of goods or services (a non-exhaustive list of taxable events are included in IPSAS 47 Implementation Guidance Section C1). Revenue will then be recognised based on the requirements for transactions without binding arrangements i.e. if there’s an associated liability, revenue is recognized as the entity fulfils the obligation. If there’s no enforceable obligation, revenue is recognized immediately. <p>We are of the opinion that IPSAS 47 adequately addresses the questions raised by the PBE Working Group on this topic. We will consider emphasising these requirements for stakeholders during educational outreach (e.g. webinars, FAQ material etc).</p>

³ The taxable event is defined in IPSAS 47 as the event that the government, legislature, or other authority has determined will be subject to taxation.

Issue	Summary of discussion	Work performed
NFP considerations	<ul style="list-style-type: none"> • There was discussion around bequests and whether they constitute a binding arrangement. <ul style="list-style-type: none"> ○ An example was given of an entity receiving a bequest but then the estate being challenged in court resulting in the entity receiving less or no money. This highlights the lack of enforceability from the recipient's perspective. Also, enforceable return obligations are rare. ○ A question was raised about whether a sufficiently specific bequest regarding use of funds could create an enforceable right for the recipient to demand the funds, even if not yet received. However, this was seen as unlikely as normally the money (or asset) is transferred before any obligations arise. It is uncommon to encounter a bequest receivable in practice. • There is complexity with multi-party community initiatives, which often involve both public and private sector entities. There were questions about how to account for funds from different parties, whose funding is used first, and how enforceability and revenue recognition work in these scenarios. • Regarding donations – the observation was made that there is rarely a return obligation, but donors want to protect their interest and want to understand what the donation will be used for. There may be cases where more donations are generated than can be spent – but there may not be a return obligation. 	<p>In light of the comments raised by members of the PBE Working Group, we reviewed IPSAS 47 and IPSAS 48 to determine the extent of guidance relating to bequests, multi-party community initiatives and donations and whether additional guidance is required.</p> <p><u>Bequests</u></p> <ul style="list-style-type: none"> • IPSAS 47.AG3 specifically notes that a bequest is a type of transfer⁴. • IPSAS 47.AG161-163 sets out the requirements for recognition and measurement of assets and revenue relating to bequest transactions. • Example 56 in IPSAS 47 concerns bequests. • IPSAS 48 does not contain any guidance relating to bequests. <p>We note that the AG paragraphs and example referred to above are reproduced from IPSAS 23 <i>Revenue from Non-exchange Transactions</i>.</p> <p>IPSAS 47 does not explicitly state whether a bequest could be the subject of a binding arrangement. However, the IPSAS 47 definition of a bequest (i.e. the transfer of resources made according to the provisions of a deceased person's will) implies that it is unlikely that there could be a binding arrangement for this type of transaction.</p> <p>It is also unlikely that the new PBE Standard on transfer expenses will require specific guidance on bequests, since a bequest, as defined, is made by a person (i.e. not an entity).</p> <p>Based on the above, we do not believe that any additional guidance relating to bequests is required.</p> <p><u>Multi-party community initiatives</u></p> <p>Neither IPSAS 47 nor IPSAS 48 contains specific guidance on arrangements where there are multiple funders; however,</p>

⁴ A transfer is defined in IPSAS 47 as a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.

Issue	Summary of discussion	Work performed
		<ul style="list-style-type: none"> • Binding arrangements within the scope of IPSAS 36 <i>Investments in Associates and Joint Ventures</i> and IPSAS 37 <i>Joint Arrangements</i> are excluded from the scope of IPSAS 47. • IPSAS 47.AG26 states that arrangements in the public sector often include two or more parties. • IPSAS 47.62 discusses the combination of binding arrangements. <p>In light of the above and our overall understanding of the fundamental principles in IPSAS 47 and IPSAS 48, our preliminary view is that these principles could be applied to this type of arrangement.</p> <p>Since this type of arrangement was specifically mentioned at the PBE Working Group meeting, we believe it would be beneficial for NFPs if we developed non-authoritative guidance on how to apply the principles of IPSAS 47 and IPSAS 48 to multi-party community initiatives.</p> <p><u>Donations</u></p> <ul style="list-style-type: none"> • IPSAS 47.AG164-AG167 discuss the accounting for gifts and donations, including goods in-kind. In particular: <ul style="list-style-type: none"> ○ IPSAS 47.AG164 states that the past event is normally the receipt of the gift or donation. ○ IPSAS 47.AG166 notes that the recognition of revenue depends on whether the gifts and donations (other than services in-kind and goods in-kind) arise from a transaction with a binding arrangement. • IPSAS 48 does not contain specific guidance on donations. <p>We note that members of the PBE Working Group raised no specific concerns around the accounting for donations under IPSAS 47 and IPSAS 48. In light of this observation and the existing guidance in IPSAS 47, we do not believe that further guidance on this topic is required.</p>
Views on including a non-exhaustive list of consequences in	<ul style="list-style-type: none"> • Some additional examples of consequences were noted – such as a loss of mandate to operate 	We note members’ lack of support for including examples of consequences in the authoritative text of the new PBE Standards, so we considered whether we could

Issue	Summary of discussion	Work performed
<p>IPSAS 47 and IPSAS 48</p> <p>[refer to Appendix 1 for more detail]</p>	<p>(including a loss of charitable status) and replacement of service provider.</p> <ul style="list-style-type: none"> • There were differing views on whether the new standards should include a non-exhaustive list of potential consequences for non-performance. <ul style="list-style-type: none"> ○ Some members saw value in including examples or a list to prompt thinking and consideration of different scenarios. ○ Other members felt a principles-based approach allowing for professional judgement was better than a prescriptive list. Such a list is unlikely to be complete and if the overarching principles and concepts of enforceability are robust, then a detailed list would not be necessary. • Overall, there was little support for including a list of consequences in the authoritative text (i.e. in the core text or AG section) of the new PBE Standards. 	<p>provide examples through educational outreach to stakeholders (e.g. in webinars, FAQ material etc).</p> <p>However, we believe the potential benefit to entities of providing these examples is outweighed by the risk of unintended consequences (as noted in paragraph 20). Therefore, we do not intend to provide specific examples of consequences – instead, we will emphasise, in our educational outreach, the principles of enforceability in IPSAS 47 and IPSAS 48 and how they may be applied to arrangements in the PBE sectors.</p>
<p>Consistency between funder and recipient</p>	<ul style="list-style-type: none"> • The funder and recipient may come to different conclusions on whether an arrangement is enforceable, resulting in an accounting mismatch – this is a potential challenge. • Under the standards, each party needs to assess enforceability from their own perspective, as the trigger events may differ. • The revenue and expense standards are not perfect mirror images – may be easier to consider them separately in some cases. • The standards do allow for different accounting if the parties’ assessments of enforceability reasonably depart based on their specific circumstances. 	<p>We acknowledge that IPSAS 47 and IPSAS 48 cannot be perfectly mirrored, due to the wider scope of IPSAS 47 (i.e. IPSAS 47 sets out requirements for both “exchange”-type and “non-exchange”-type arrangements).</p> <p>In its Revenue project, the IPSASB considered clarifying the scope and interaction between IPSAS 47 and IPSAS 48 by defining the term “transfer revenue” in order to mirror the definition in IPSAS 48 – ultimately, the IPSASB decided not to do so, in order to avoid confusion and an unnecessary level of complexity and duplication of guidance.</p> <p>We are also aware, from the history of the IPSASB’s Transfer Expenses project, that many respondents to the ED 72 <i>Transfer Expenses</i> did not agree with the ED’s proposals to require the transfer provider to consider the transaction from the transfer recipient’s perspective and that there was the assumption that the transfer provider has access to information regarding the transfer recipient’s performance obligations. This assumption was seen as unrealistic and difficult to</p>

Issue	Summary of discussion	Work performed
		<p>apply in practice. IPSAS 48 has been finalised using the transfer provider’s perspective.</p> <p>Based on the above, we do not believe specific guidance needs to be developed for this issue. However, as part of our educational outreach to stakeholders (e.g. webinars, FAQ material etc) we will consider discussing the relationship between the new PBE Standards. We will also aim to minimise the overlap in discussions between the two standards.</p>
<p>New terminology and way of thinking</p>	<ul style="list-style-type: none"> • Currently, the nature of a <u>program</u> will be assessed as exchange or non-exchange – but the new standards will require an assessment to be done at the <u>contract/arrangement</u> level. This could be a complicated exercise as there may be many contracts. • The new standards will add more judgement into how return clauses are accounted for in agreements. Customary practice is that the contract may have a return clause, but the reality is that this may not be enforced. • There will be a significant education effort required, especially for non-accountants and smaller NFPs, due to the new terminology and fundamentally different way of thinking compared to the current PBE Standards: <ul style="list-style-type: none"> ○ The shift from considering “conditions” to looking at binding arrangements and enforceability of rights and obligations is a major change. ○ Concepts like “compliance obligation” are very different from the typical terminology used in the NFP sector. 	<p>The feedback from the PBE Working Group will help to inform our recommendations to the Board at the August 2024 meeting, where we will discuss the introduction of new terminology in the new PBE Standards ahead of the drafting of the PBE EDs.</p>

Issue	Summary of discussion	Work performed
	<ul style="list-style-type: none"> ○ Examples and plain language guidance will be critical for a smooth transition and implementation. 	
<p>Incorporating New Zealand-specific practices</p>	<ul style="list-style-type: none"> • There were queries around whether the standards adequately captured New Zealand's unique structures, practices and legislation, i.e.: <ul style="list-style-type: none"> ○ the Treaty of Waitangi could have implications for the enforceability of arrangements. ○ how bespoke arrangements like land advisory structures may intersect with the new principles. 	<p>Our research as covered in paragraphs 17 – 19 above considered New Zealand specific information.</p> <p>We are of the opinion that the principles-based IPSASB Standards, which permit the exercise of professional judgement, should be adequate to cater for the unique structures, practices and legislation of New Zealand.</p>

Staff recommendations

25. Based on the outcomes of our research, the feedback received from the PBE Working Group, and the further work performed (as documented in Table 1), we recommend:
- (a) not developing guidance (whether authoritative or non-authoritative) on New Zealand-specific enforcement mechanisms and consequences.
 - (b) as part of the drafting process, updating the non-authoritative appropriation guidance by:
 - i. removing the reference to IPSAS 24 from the IPSAS 47 and IPSAS 48 Implementation Guidance.
 - ii. reword the definition of appropriations as – an authorisation granted by a legislative body (i.e. the enabling authority) to ~~allocate funds~~ incur expenses or capital expenditure for the purpose specified by the legislature or similar authority – i.e. removing the strikethrough and adding the underlined.
 - iii. considering if there are other changes required to the guidance on appropriations in the IPSAS 47 and IPSAS 48 Bases for Conclusion, Implementation Guidance and Illustrative Examples to align with the New Zealand context.

Question for the Board

Q1. Does the Board AGREE with our recommendations in paragraph 25?

Next steps

26. We will further consider the type and content of non-authoritative guidance and/or educational material for the following issues noted in Table 1.
- (a) The interaction between the new PBE Standards and PBE IPSAS 19.
 - (b) The accounting for multi-party community initiatives.
27. Our second meeting with the PBE Working Group takes place on 2 May. Topics for discussion will include:
- (a) liability recognition per IPSAS 47 in comparison to the proposed update to the liability definition in the PBE Conceptual Framework.
 - (b) the accounting for capital transfers and multi-year funding arrangements.
28. the results of our discussion with the PBE Working Group in May will inform the content of the papers we will present to the Board in June 2024.

Appendix 1: Extract from PBE Working Group March 2024 papers

1. The binding arrangement concept is fundamental to both IPSAS 47 and IPSAS 48. A binding arrangement must be enforceable through legal or equivalent means – i.e., there must be mechanisms in place that ensure compliance or, in the absence of compliance, impose consequences.
2. Since enforceability can arise from various mechanisms, an entity must objectively assess all relevant factors to determine whether an arrangement is enforceable. A mechanism is a valid enforcement mechanism within the context of IPSAS 47 and IPSAS 48 if it provides the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.
3. Table A includes several types of ‘equivalent means’ mechanisms which are discussed in IPSAS 47 and IPSAS 48. These mechanisms are outside the legal system but are similar to the force of law without being legal in nature. As is evident, all the mechanisms mentioned are either not valid enforcement mechanisms or it will depend on the circumstances or specific aspects of the arrangement as to whether they are valid enforcement mechanisms.

Table A

Mechanism	IPSAS 47 & IPSAS 48 guidance	Enforceable?
Executive authority	This is an authority given to a member or selected members of a government administration to create legislation without ratification by the full parliament. This may be considered a valid enforcement mechanism if such an order was issued directing an entity to satisfy the stated obligations in the arrangement.	Depends on the arrangement
Cabinet or ministerial directives	This may create an enforcement mechanism between different government departments or different levels of government of the same government structure. Each party must have the ability and authority to compel the other party or parties to fulfill the promises established within the arrangement or to seek redress should these promises not be satisfied.	Depends on the arrangement
Reduction in future funding	The ability to reduce or withhold future funding to which the recipient is not presently entitled would not be considered a valid enforcement mechanism because there is no obligation on the provider to provide such funding. Unless the terms within another binding arrangement specifically allow for a reduction in the future funding if other arrangements are breached. This could be considered a valid enforcement mechanism. Judgement should be applied based on facts and circumstances.	Depends on the arrangement

Statement of intent or public announcement	An enforceable arrangement does not exist if a statement of intent is released or public announcement made. These declarations are general in nature and do not create a binding arrangement between a provider and a recipient.	Not enforceable
Sovereign rights	Sovereign rights are the authority to make, amend and repeal legal provisions. These rights do not establish a valid enforcement mechanism. However, if details on how sovereign rights would be used to enforce an agreement were included in the binding arrangement, then this could create a valid enforcement mechanism.	Depends on the arrangement
Economic coercion or political necessity	The Conceptual Framework states that “economic coercion, political necessity or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation”.	Depends on the arrangement

4. We have performed research on common consequences in the New Zealand public sector and not-for-profit environment to consider if a more definitive list can be provided to assist with the enforceability assessment. Some of these consequences identified include the following:
- Legal action – imposing fines, penalties, injunctions and lawsuits
 - Parliamentary scrutiny
 - Reputational damage
 - Disciplinary action
 - Reduced funding or withholding of grants
 - Increased oversight and frequency of audits, reviews or inspections
 - Removal of board members/senior management

Appendix 2: Detailed timeline for the Revenue and Transfer Expenses projects

Date (estimated)	Project activity
Discussion of remaining issues (three NZASB meetings)	
May-Aug 2024	<p data-bbox="506 467 824 491"><u>13 June 2024 NZASB meeting</u></p> <ul data-bbox="506 515 2004 794" style="list-style-type: none"> • Liability recognition per IPSAS 47 in comparison to the definition of the PBE Conceptual Framework • Consideration of the consequences that may lead to recognition of a liability when applying the requirements of IPSAS 47 <i>Revenue</i>. • Capital transfers (revenue), multi-year and milestone-based funding arrangements. • The scope of the new PBE Standard on transfer expenses and how it interacts with other existing PBE standards (and IPSAS on non-exchange expense transactions not yet incorporated into the PBE Standards – Social Benefits, Collective Services, and Individual Services). Application of the PBE Policy Approach to IPSAS 42 <i>Social Benefits</i> and <i>Collective and Individual Services</i> will also take place at this meeting. <p data-bbox="506 815 837 839"><u>8 August 2024 NZASB meeting</u></p> <p data-bbox="506 858 1615 882">Discussion of other issues identified by staff or raised in the NZASB comment letter on the IPSASB EDs.</p> <ul data-bbox="506 906 1843 978" style="list-style-type: none"> • Introduction of new terminology. • Other issues raised by New Zealand constituents during the IPSASB ED stage and members of the PBE Working Group.
Development and approval of PBE EDs (two NZASB meetings)	
Sep-Nov 2024	<p data-bbox="506 1067 1039 1091"><u>Drafting of the EDs and Consultation Documents.</u></p> <p data-bbox="506 1110 1989 1174">The drafting process for the EDs will involve consideration of the readability and understandability of PBE IPSAS 47 and PBE IPSAS 48 and will factor in Board decisions on content (such as including the “binding arrangement” definition in PBE IPSAS 48).</p> <p data-bbox="506 1193 1962 1257">We expect that this process will be performed with support from a sub-board of the NZASB. Furthermore, during this phase, if the PBE Working Group agree, staff will also check in with members to ensure we have captured all key issues.</p>
Dec 2024	<p data-bbox="506 1286 875 1310"><u>4 December 2024 NZASB Meeting</u></p> <p data-bbox="506 1321 1346 1345">NZASB to consider the working draft of the EDs and Consultation Documents.</p>

Date (estimated)	Project activity
Feb 2025	<u>February 2025 NZASB Meeting</u> NZASB to approve ED PBE IPSAS 47 <i>Revenue</i> and ED PBE IPSAS 48 <i>Transfer Expenses</i> and the Consultation Documents for publication.
PBE EDs open for consultation (4 months)	
Feb-Jun 2025	Staff undertakes targeted and broad-scope outreach activities which will include: <ul style="list-style-type: none"> • Notification to constituents about the EDs via an NZASB Update. • Promote awareness of, and seek feedback on, the proposals at the Public Sector Advisory Group. • Roundtable discussions with representatives from the public sector and not-for-profit sector. • Liaise with Charities Services staff about promoting awareness via the Charities Services' newsletter and website. • Host webinars to explain the Standard and raise awareness of the changes. • Promote awareness of the proposals at relevant conferences and events occurring during this time. • In addition, we will contact New Zealand respondents who commented on the IPSASB consultation papers and EDs.
Analysis of feedback and development of PBE Standards (two meetings)	
Jul 2025	Staff analyse feedback received on the EDs.
Aug 2025	<u>August 2025 NZASB Meeting</u> NZASB to consider staff's analysis of feedback received on the EDs and recommended changes in response.
Oct 2025	<u>October 2025 NZASB Meeting</u> NZASB to consider staff's analysis of feedback received on the EDs and recommended changes in response.
Approval and issue of PBE IPSAS 47 and PBE IPSAS 48	
Dec 2025	<u>December 2025 NZASB Meeting</u> NZASB to approve the final drafts of PBE IPSAS 47 and PBE IPSAS 48.
Feb 2026	PBE IPSAS 47 and PBE IPSAS 48 are issued and become effective for periods beginning on or after 1 Jan 2028.

Appendix 3: Outcomes from previous Board meetings relating to the Revenue and Transfer Expenses projects

Meeting	Outcome
October 2023	<p>The Board AGREED that:</p> <ul style="list-style-type: none"> • the definition of a binding arrangement in IPSAS 47 <i>Revenue</i> should be included in the definition section of both new PBE Standards; and • staff should explore New Zealand-specific enforcement mechanisms and legal documents for the purpose of creating application guidance to assist entities with their enforceability assessments. <p>The Board CONSIDERED and provided FEEDBACK on:</p> <ul style="list-style-type: none"> • areas of binding arrangement, enforceability and compliance obligation principles where further analysis is required; • consequences and the form it should take to make an arrangement enforceable and recognise deferred revenue with further analysis required on this point; and • staff's assessment of whether a transfer right asset meets the definition of an asset in the Conceptual Framework.
August 2023	<p>The Board provided feedback on the draft project plans for developing PBE Standards based on IPSAS 47 <i>Revenue</i> and IPSAS 48 <i>Transfer Expenses</i> and on the approach to drafting the PBE EDs.</p>
June 2023	<p>The Board agreed to commence projects to develop new PBE Standards on revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.</p>

Date: 26 April 2024
To: NZASB Members
From: Tereza Bublikova and Gali Slyuzberg
Subject: Omnibus Amendments to PBE Standards

COVER SHEET

Project priority and complexity

Project priority	<p>Low</p> <p>This project aims to incorporate into PBE Standards certain recent IPSASB and IASB amendments that are relatively narrow in scope, via an ‘omnibus’ amending standard.</p>
Complexity of Board decision-making at this meeting	<p>Low</p> <ul style="list-style-type: none"> The proposed amendments in Exposure Draft (ED) <i>2024 Omnibus Amendments to PBE Standards</i> are closely based on amendments issued by the IPSASB and IASB, without significant New Zealand-specific changes. The proposed amendments are directly or indirectly based on IASB amendments that have already been issued in New Zealand for for-profit entities.

Overview of agenda item

Project status	Approval of the New Zealand ED <i>2024 Omnibus Amendments to PBE Standards</i>
Project purpose	To incorporate into PBE Standards recent narrow-scope amendments issued by the IPSASB and the IASB.
Board action required at this meeting	<p>APPROVE for issue the ED <i>2024 Omnibus Amendments to PBE Standards</i>.</p> <p>We will ask for Board feedback on the questions raised in this memo.</p> <p>We encourage any editorial comments to be sent directly to staff – gali.slyuzberg@xrb.govt.nz and tereza.bublikova@xrb.govt.nz</p>

Purpose and introduction¹

1. The NZASB regularly considers the improvements and narrow-scope amendments made by the IPSASB and IASB to their standards, and decides whether to incorporate these amendments into PBE Standards. For such amendments, it is more effective to issue an ‘omnibus’ exposure draft (ED), rather than issuing a separate ED for each amendment.
2. The purpose of this memo is to seek the Board’s approval to issue an ‘omnibus’ ED proposing to incorporate into PBE Standards:
 - (a) some of the amendments in *Improvements to IPSAS, 2023*, which was approved by the IPSASB in March 2024; and
 - (b) the amendments from the recent for-profit amending standard *International Tax Reform – Pillar Two Model Rules*, which amended NZ IAS 12 *Income Taxes*.

Recommendation

3. We recommend that the Board:
 - (a) AGREE with our recommended application of the PBE Policy Approach to *Improvements to IPSAS, 2023*; and
 - (b) APPROVE ED 2024 *Omnibus Amendments to PBE Standards* to be issued for public consultation with a 90-day consultation period.

Structure of this memo

4. This memo includes the following sections.
 - (a) [Background](#)
 - (b) [Improvements to IPSAS 2023](#)
 - (c) [International Tax Reform – Pillar Two Model Rules](#)
 - (d) [Draft ED and Consultation Document](#)
 - (e) [Next steps](#)

Background

5. The last round of ‘omnibus’ amendments to PBE Standards was completed in June 2022, when the NZASB issued *2022 Omnibus Amendments to PBE Standards*.
6. In March 2024, the IPSASB approved *Improvements to IPSAS, 2023*, which incorporates into IPSAS several narrow-scope amendments recently issued by the IASB. Some of these amendments are relevant to existing PBE Standards. While the IPSASB has not yet published *Improvements to IPSAS, 2023* at the time of writing (publication is expected on 30 April 2024), we expect the published pronouncement to be the same as draft pronouncement that was presented for approval at the IPSASB’s March 2024 meeting.

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).

7. In June 2023, the NZASB approved for issue the IASB-based for-profit amending standard *International Tax Reform – Pillar Two Model Rules*, which amended NZ IAS 12 *Income Taxes*. At the same meeting, having applied the PBE Policy Approach, staff recommended to incorporate the amendments in *International Tax Reform – Pillar Two Model Rules* into PBE Standards, via the next round of omnibus amendments to PBE Standards. There were no concerns from Board Members with respect to this recommendation.
8. We think that now is a sensible time to consult on incorporating the two sets of international amendments mentioned above into PBE Standards.

Improvements to IPSAS, 2023

Background information

9. The IPSASB issued ED 85 *Improvements to IPSAS, 2023* in October 2023. The proposed amendments, which were closely based on recent IASB amendments, comprised the following:
 - (a) Part 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants;
 - (b) Part 2: Interest Rate Benchmark Reforms – Phase 2 (relates to leases); and
 - (c) Part 3: Lease Liability in a Sale and Leaseback.
10. The NZASB did not comment to the IPSASB on ED 85. The IPSASB received comments from 16 respondents. The majority of respondents agreed with the proposals without further comments, and the rest agreed with some suggested changes. In finalising *Improvements to IPSAS, 2023*, the IPSASB did not make substantive changes to the ED 85 proposals. The IPSASB approved *Improvements to IPSAS, 2023* in March 2024, with publication expected on 30 April 2024. The draft pronouncement that the IPSASB approved is attached as Agenda Item 6.4.

Application of the PBE Policy Approach

11. The issuance of amendments to IPSAS is one of the ‘triggers’ for applying the PBE Policy Approach. The following paragraphs of the [PBE Policy Approach](#) are worth noting with respect to the recently-issued *Improvements to IPSAS, 2023*:
 - (a) Paragraph 22 of the PBE Policy Approach notes that there is a rebuttable presumption that the NZASB will adopt a new or amended IPSAS.
 - (b) Paragraph 23 explains that it is presumed that a new or amended IPSAS will lead to higher quality financial reporting by PBEs in New Zealand in accordance with the development principle set out in the PBE Policy Approach, in the absence of evidence to the contrary.
12. Consistently with the abovementioned paragraphs of PBE Policy Approach and the approach we have taken in the past to IPSASB improvement projects, our general approach was that the amendments in *Improvements to IPSAS, 2023* should be recommended for inclusion in ED 2024 *Omnibus Amendments to PBE Standards*, unless there was a reason not to do so.

13. We note that out of the three ‘parts’ of *Improvements to IPSAS, 2023*, Part 2 and Part 3 relate to IPSAS 43 *Leases*. Currently, there is no equivalent to IPSAS 43 *Leases* in PBE Standards. In August 2023, the NZASB decided to defer the finalisation of PBE IPSAS 43 *Leases* for the public sector, and to commit to the current lease accounting requirements remaining in place for the not-for-profit sector at this time. Therefore, we recommend excluding Parts 2 and 3 of *Improvements to IPSAS, 2023* from ED 2024 *Omnibus Amendments to PBE Standards*.
14. Table 1 summarises the amendments in *Improvements to IPSAS, 2023* and our recommendations.

Table 1 Application of the PBE Policy Approach to *Improvements to IPSAS, 2023*

IPSASB amendments	Description	Recommended action
Part 1: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	<p>Amendments to IPSAS 1 <i>Presentation of Financial Statements</i> – to clarify the principles related to:</p> <ul style="list-style-type: none"> • The right to defer settlement for at least twelve months (with or without covenants); and • The meaning of ‘settlement’ when a liability is rolled over under an existing loan facility. <p>The amendments are based on the IASB amendments <i>Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants</i>.</p>	<p>INCLUDE in ED 2024 <i>Omnibus Amendments to PBE Standards</i>.</p> <p>We do not foresee significant issues arising from these amendments.</p> <p>The proposed amendments are aligned with the related IASB amendments without significant modifications. The Board already issued an equivalent for-profit amending standard in New Zealand.</p> <p>We agree that the IASB’s clarifications as to whether a liability is classified as current or non-current would be useful for New Zealand PBEs (for the same reason that it was deemed useful for for-profit entities), and therefore it would be useful to incorporate these amendments into PBE Standards.</p>
Part 2: Interest Rate Benchmark Reforms – Phase 2 (relates to leases)	<p>Amendments to IPSAS 43 <i>Leases</i>, introducing a practical expedient to account for lease modifications that occur as a result of the international interest rate benchmark reforms (i.e. the phasing out of certain types of interest rates such as IBOR).</p> <p>The amendments are based on IASB amendments to IFRS 16 <i>Leases</i> that were included in <i>International Benchmark Reform – Phase 2</i>.</p>	<p>Not applicable at this stage. These amendments relate to IPSAS 43 <i>Leases</i>, and there is currently no equivalent of this standard in PBE Standards – see paragraph 13 above for more information.</p> <p>We also note that we had included similar IBOR-related amendments in the 2022 ED PBE IPSAS 43 <i>Leases</i> (but as noted above, the finalisation of PBE IPSAS 43 was deferred for the public sector, etc. – see paragraph 13 above).</p>

IPSASB amendments	Description	Recommended action
Part 3: Lease Liability in a Sale and Leaseback	<p>Amendments to IPSAS 43 <i>Leases</i> – to require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any gain or loss that relates to the right-of-use that the seller-lessee retains.</p> <p>The amendments are based on the IASB’s <i>Lease Liabilities in a Sale and Leaseback</i>.</p>	<p>Not applicable at this stage. These amendments relate to IPSAS 43 <i>Leases</i>, and there is currently no equivalent of this standard in PBE Standards. See paragraph 13 above for more information.</p> <p>There may be a potential concern regarding the interaction between these amendments and the requirements that the IPSASB is currently developing for concessionary leases. However, we expect that the topic of concessionary leases as a whole would need to be assessed as part of the next steps of the New Zealand PBE Leases projects.</p>

15. The amendments from Part 1 of *Improvements to IPSAS, 2023*, i.e. *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants*, are included in the draft ED in Agenda Item 6.2. We did not modify the IPSASB’s wording, except for minor modifications to reflect New Zealand spelling and terminology, and we have used our standard commencement and application wording as aligned with New Zealand legislation.

Question for the Board

- Q1. Does the Board AGREE with our recommendations in Table 1 above in relation to the application of the PBE Policy Approach to *Improvements to IPSAS, 2023*?

International Tax Reform – Pillar Two Model Rules

16. By way of background: The Pillar Two Model Rules, issued by the Organisation for Economic Co-operation and Development’s (OECD), aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate. This is achieved by applying a system of top-up taxes that results in the total amount of taxes payable on excess profit in each jurisdiction representing at least the minimum rate of 15%. Typically, the ultimate parent entity of a group is required to pay top-up tax, in the jurisdiction in which it is domiciled, on profits of its subsidiaries that are taxed below 15%. The Pillar Two Model Rules were included in [New Zealand legislation in March 2024](#).
17. In July 2023, the NZASB issued [International Tax Reform – Pillar Two Model Rules](#), which amended NZ IAS 12 *Income Taxes*. This for-profit amending standard is based on equivalent amendments to IAS 12 *Income Taxes* as issued by the IASB.
18. The for-profit amending standard *International Tax Reform – Pillar Two Model Rules*:
- (a) gives for-profit entities a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, i.e., taxes arising from the OECD international tax reform; and

- (b) introduces targeted disclosure requirements for for-profit entities affected by the Pillar Two income taxes.

Application of the PBE Policy Approach

19. As noted in the Background section of this memo, the NZASB's PBE Policy Approach was considered with respect to *International Tax Reform – Pillar Two Model Rules* at the Board's June 2023 meeting. The following was noted at this meeting:
 - (a) PBE Standards include PBE IAS 12 *Income Taxes*, which is aligned with NZ IAS 12.
 - (b) There is no equivalent to IAS 12 in IPSAS, therefore the IPSASB is not expected to consider *International Tax Reform – Pillar Two Model Rules* in the near future.
 - (c) While the Pillar Two Model Rules do not apply to government entities, international organisations (e.g. the UN, the IMF, etc.) and most non-profit and charitable entities, a non-profit organisation could be in scope of Pillar Two tax if it carries on a trade or business, its turnover is greater the 750m Euro, and it has operations in more than one country. Based on discussion with Inland Revenue and a review of the Charities Register, we are currently not aware of any such PBEs in New Zealand – but it is possible that such PBEs exist or will exist in future.
 - (d) If there are any PBEs that are affected by the Pillar Two reforms, the exception in *International Tax Reform – Pillar Two Model Rules* would be useful for such PBEs, and the disclosure requirements in that amending standard would be useful to the users of such PBEs' financial statements. Furthermore, it is arguably beneficial to maintain a consistent approach between NZ IAS 12 and PBE IAS 12 – which could particularly benefit 'mixed groups' containing both PBEs and for-profit entities.
 - (e) Consequently, staff recommended to incorporate *International Tax Reform – Pillar Two Model Rules* into PBE Standards in the next round of omnibus amendments to PBE Standards.
20. Therefore, we have included the amendments in *International Tax Reform – Pillar Two Model Rules* into the draft *ED 2024 Omnibus Amendments to PBE Standards*. We did not modify the wording from the for-profit amending standards, other than to change the mandatory date (as explained in the next section), and to update for PBE Standards terminology/references, etc.

Draft ED and Consultation Document

Draft ED

21. The draft *ED 2024 Omnibus Amendments to PBE Standards* is attached as Agenda Item 6.2. The proposed amendments to PBE IPSAS 1 and PBE IAS 12 are summarised below.

Table 2 Summary of proposed amendments to PBE IPSAS 1 – based on IPSASB amendments

Amendments to PBE IPSAS 1 – aligned with IPSASB amendments	Ref
<p>Right to defer settlement for at least twelve months</p> <p>In PBE IPSAS 1, the right to defer the settlement of a liability for at least 12 months after the reporting date is one of the criteria for classifying a liability as non-current. The proposed amendments clarify the following with respect to this requirement:</p> <p>(a) The classification of liabilities as either current or non-current is based on <i>the entity's rights at the end of the reporting period</i>, meaning <i>only rights in place at the reporting date</i> should affect this classification.</p> <p>(b) If the entity's right to defer settlement of the liability for at least 12 months after the reporting date depends on compliance with specified conditions, referred to as 'covenants', such covenants affect the liability's classification as current or non-current <i>only if the entity is required to comply with the covenant on or before the reporting date</i>. The key consideration is the time at which compliance with the covenant is required, not the time when compliance is assessed. For example:</p> <p>(i) A covenant based on the entity's financial position at the reporting date but assessed for compliance only after the reporting date would be taken into account when classifying the liability as current or non-current.</p> <p>(ii) A covenant based on the entity's financial position six months after the reporting date would not be taken into account when classifying the liability as current or non-current.</p> <p>(c) Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date.</p>	<p>Para 80(d), 83A – 86A</p>
<p>Meaning of "settlement"</p> <p>In PBE IPSAS 1, the criteria for classifying a liability as current or non-current depend on the timing of the <i>settlement</i> of the liability – for example, these criteria refer to settlement within the entity's normal operating cycle or within 12 months of the reporting date, etc. The proposed amendments clarify that '<i>settlement</i>' refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:</p> <p>(a) A transfer of cash or other resources—for example, goods or services; or</p> <p>(b) A transfer of the entity's own equity instruments (e.g. shares) – except that when the counterparty has an option to request the entity to transfer its own equity instruments as settlement, and that option is classified as an equity instrument and recognised separately from the liability as an equity component of a compound financial instrument, in such case the option does not affect classification of liability as current or non-current.</p>	<p>Para 87B - 87C</p>
<p>New disclosure requirements</p> <p>When the entity's right to defer settlement of liabilities is subject to the entity <i>complying with covenants within 12 months after the reporting date</i>, and when the entity <i>classifies those liabilities as non-current</i>, the proposed amendments require the entity to disclose information that enables users of financial statements to understand the <i>risk that the liabilities could become repayable within 12 months after the reporting date</i>, including:</p> <p>(a) Information about the covenants and the carrying amount of related liabilities; and</p> <p>(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.</p>	<p>Para 87A</p>

Table 3 Summary of proposed amendments to PBE IAS 12 – based on IASB amendments

Amendments to PBE IAS 12 – aligned with IASB amendments	Ref
<p>Temporary exemption</p> <p>The ED proposes to provide PBE entities with a temporary exception to the requirements in PBE IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.</p>	Para 4A
<p>New disclosure requirements</p> <p>The ED proposes to require entities to:</p> <ul style="list-style-type: none"> • Disclose that it has applied the above mentioned temporary exception; • Disclose separately its current tax expense (or income) related to Pillar Two income taxes; and • Disclose known or reasonably estimable information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation – this disclosure is required <i>only in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect</i>. 	Para 88A – 88D

Commencement and application

22. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply “must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect”. Furthermore, the Legislation Act 2019 does not allow legislation to have ‘retrospective effect’ in New Zealand.
23. We have made some modifications to the IPSASB’s ‘effective date’ wording in *Improvements to IPSAS, 2023*, to ensure consistency with the above legislative restrictions.
24. For the amendments based on *International Tax Reform – Pillar Two Model Rules*, we have used commencement and application wording consistent with the equivalent New Zealand for-profit amendment standard, which already takes into account the abovementioned legislative restrictions. However, we have changed the mandatory date itself, given the difference in the timing of issuing the PBE version of these amendments.
25. More information about the commencement and application paragraphs in the draft ED, including the rationale for the proposed mandatory dates, is provided in the table below.

Table 4 Commencement and application paragraphs

Amendments	Comments about commencement and application paragraphs	ED ref
Amendments to PBE IPSAS 1 – <i>Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants</i>	<p>Mandatory date:</p> <p>We propose a mandatory date is 1 January 2026, as aligned with the mandatory date of the equivalent IPSASB amendments in <i>Improvements to IPSAS, 2023</i>.</p> <p>This mandatory date should provide PBEs with enough time to prepare for the implementation of the new requirements.</p> <p>Earlier application would be permitted for accounting periods that begin before 1 January 2026, but do not end before the amendments take effect</p>	Para 154.20 – 154.23

Amendments	Comments about commencement and application paragraphs	ED ref
	<p>(which is 28 days after the final amendments are issued). This is consistent with the IPSASB's 'effective date' requirements in <i>Improvements to IPSAS, 2023</i>, to the extent permitted under section 28 of the Financial Reporting Act 2013.</p> <p>We have used wording aligned with New Zealand legislation to describe the commencement and application requirements (e.g. 'mandatory date' instead of 'effective date', and reference to when the amendments take effect for legislative purposes).</p> <p>Use of the term 'retrospective':</p> <p>In <i>Improvements to IPSAS, 2023</i>, the relevant 'effective date' paragraph requires the amendments to IPSAS 1 to be applied "retrospectively in accordance with IPSAS 3".</p> <p>While such retrospective application does not constitute 'retrospective effect' for legislative purposes, we have amended the abovementioned wording to avoid perceived inconsistency with the Legislation Act 2019 (see above) – using the same wording that we used when issuing the for-profit amending standard <i>Non-current Liabilities with Covenants</i> in New Zealand.</p> <p>Therefore, paragraph 154.20 of the draft ED requires the amendments to PBE IPSAS 1 to be applied "as if they have always been applied, in accordance with PBE IPSAS 3, in accordance with the commencement and application date provisions in paragraphs 154.21-154.23"</p>	
<p>Amendments to PBE IAS 12 – <i>International Tax Reforms – Pillar Two Model Rules</i></p>	<p>Mandatory date</p> <p><i>Temporary exception from recognising and disclosing information on deferred tax relating to Pillar Two income taxes:</i></p> <p>When issuing <i>International Tax Reform – Pillar Two Model Rules</i> for for-profit entities in 2023, the NZASB decided that in order for the temporary exception to work effectively, it needs to be available to for-profit entities immediately from the date that this amending Standard takes effect.</p> <p>If there are any PBEs that are affected by the Pillar Two Model Rules, the same logic would apply with respect to such PBEs.</p> <p>Therefore, we recommend that in the PBE equivalent to this amendment the temporary exception and requirement to disclose application of the exception be applicable from the date when the amending Standard takes effect (i.e. 28 days after the final amendments are issued).</p> <p><i>Remaining disclosure requirements</i></p> <p>As noted above, the ED includes a requirement to disclose separately the current tax expense (or income) related to Pillar Two income taxes (paragraph 88B) – as well as information about the entity's exposure to Pillar Two income taxes arising from Pillar Two legislation during periods when <i>that has been enacted or substantively enacted but is not yet in effect</i> (paragraph 88C-88D).</p> <p>In the for-profit version, these requirements became mandatory for periods beginning on or after 1 January 2023, but which do not end before the amending Standard takes effect (28 days after issue).</p> <p>We note that the OECD Pillar Two rules were enacted in New Zealand in March 2024, and apply for fiscal years beginning on or after 1 January 2025. Taking the above into account, we recommend that in 2024 <i>Omnibus</i></p>	<p>Para 98.14 – 98.16</p>

Amendments	Comments about commencement and application paragraphs	ED ref
	<p><i>Amendments to PBE Standards</i>, the abovementioned disclosure requirements be applicable for periods beginning on or after 1 January 2024, but which have do not end before the amending Standard comes into effect (28 days after issue).</p> <p>This is consistent with the commencement and application date requirements for the equivalent disclosure in the for-profit amending standard, albeit taking into account the fact that the PBE amendments are being issued a year later.</p> <p>Also, setting the effective date later than 1 January 2024 would mean that the disclosure relating to periods when the Pillar Two legislation has been enacted but not yet effective will not be relevant, due to the timing when the New Zealand Pillar Two legislation takes effect.</p> <p><i>Other comments on commencement and application</i></p> <p>The commencement and application wording in the ED with respect to <i>International Tax Reforms – Pillar Two Model Rules</i> are based on the equivalent paragraphs in the for-profit amending Standard issued in July 2023 – which are consistent with New Zealand legislative requirements relating to commencement and application.</p>	

RDR concessions

26. The ED does not propose any Tier 2 RDR concessions from the proposed new disclosure requirements. This is consistent with the NZASB's decision not to introduce RDR concessions for Tier 2 for-profit entities with respect to the equivalent for-profit amendments. We have not found any PBE-specific reason for providing RDR concessions to Tier 2 PBEs.

Draft Consultation Document

27. The draft Consultation Document, which is to accompany the ED, is attached as Agenda Item 6.3. The Consultation Document explains the rationale for the ED proposals, summarises the ED proposals, and includes the following questions for respondents:
- (a) Whether respondents agree with the proposed amendments to PBE IPSAS 1;
 - (b) Whether respondents agree with the proposed amendments to PBE IAS 12;
 - (c) Whether respondents agree with the proposed mandatory dates;
 - (d) Whether respondents have any other feedback on the ED.
28. In terms of the consultation period, we recommend the standard time of (approximately) 90 days.
29. We plan to seek assistance from our Communications Team to further improve the formatting of the Consultation Document before it is published.

Question for the Board

- Q2. Does the Board have any comments on the draft ED *2024 Omnibus Amendments to PBE Standards* and the accompanying Consultation Document?
- Q3. Does the Board APPROVE the ED *2024 Omnibus Amendments to PBE Standards* and the accompanying Consultation Document to be issued for public consultation (subject to any comments raised at this meeting to be finalised via review by the Chair)?
- Q4. Does the Board AGREE to a 90-day consultation period?

Next steps

- 30. We will update the draft ED and Consultation Document for any comments raised by Board Members at this meeting, and will publish the ED for public consultation on the XRB website in May 2024.

Attachments

Agenda item 6.2: Draft ED *2024 Omnibus Amendments to PBE Standards*

Agenda item 6.3: Draft *2024 Omnibus Amendments to PBE Standards* - Consultation Document

Agenda item 6.4: Draft *Improvements to IPSAS, 2023*

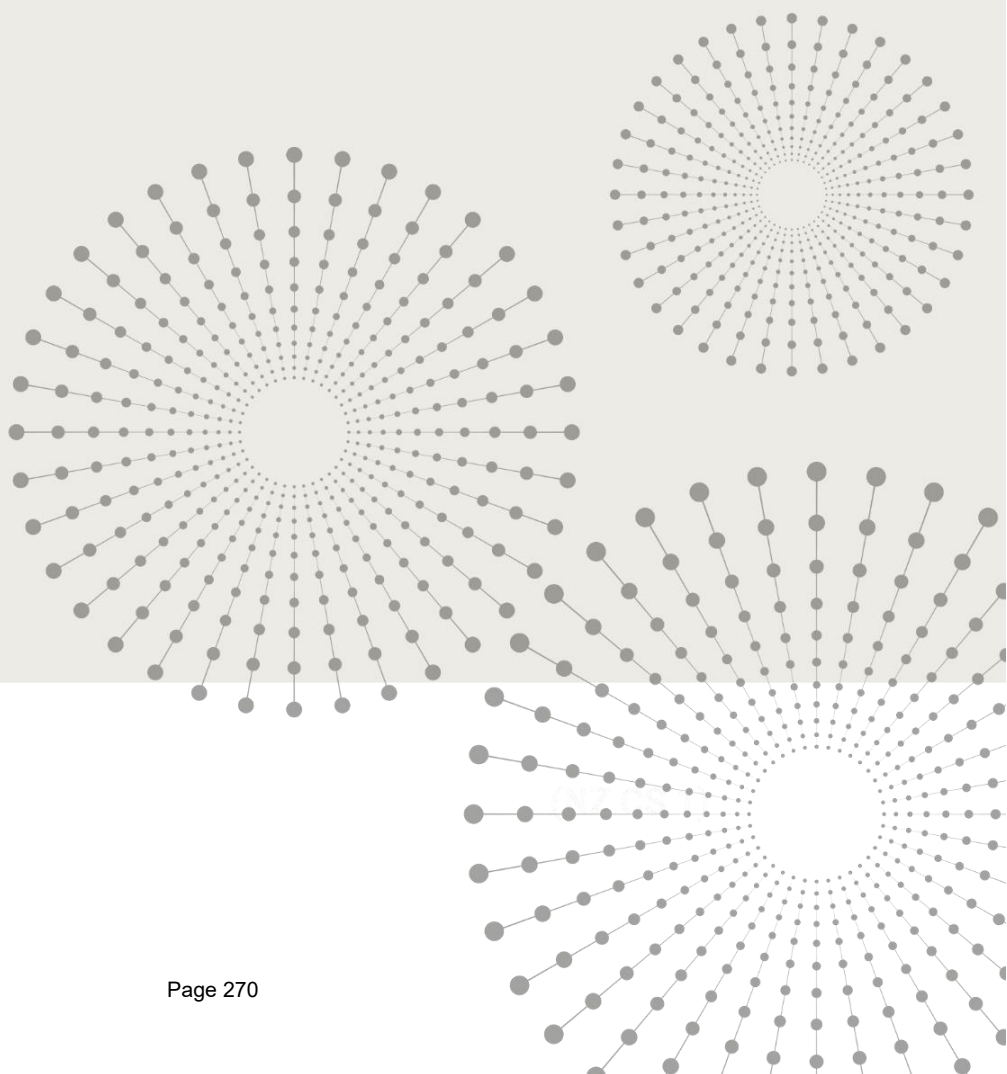
2024 Omnibus Amendments to PBE Standards

Proposed amendments to PBE IPSAS 1 and PBE IAS 12

Exposure Draft

Submissions close 15 August 2024

May 2024





NZASB EXPOSURE DRAFT 2024-3

2024 Omnibus Amendments to PBE Standards

Issued [date]

This [draft] Standard has been issued to amend the relevant Tier 1 and Tier 2 PBE Standards as a result of:

- (a) amendments arising from *Improvements to IPSAS, 2023*; and
- (b) amendments arising from *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*.

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

Legal status of amending Standard

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

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

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

Commencement and application

The amendments to PBE IPSAS 1 introduced by this [draft] amending Standard have a mandatory date of [1 January 2026], meaning they must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application of amendments to PBE IPSAS 1 to an earlier accounting period is permitted for accounting periods that end after this [draft] amending Standard takes effect – refer to paragraphs 154.21 – 154.23 of this [draft] amending Standard.

The amendments to paragraphs 4A and 88A of PBE IAS 12 introduced by this [draft] amending Standard must be applied by Tier 1 and Tier 2 PBEs for accounting periods that end on or after the date that this amending Standard takes effect (see paragraph 98.16).

Except for paragraphs 4A and 88A, the amendments to PBE IAS 12 introduced by this [draft] amending Standard has a mandatory date of [1 January 2024], meaning they must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date (see paragraph 98.15(b)).

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DRAFT

Part A – Introduction

This Standard includes amendments for the following.

- (a) Amendments arising from *Improvements to IPSAS, 2023*. The amendments relate to PBE IPSAS 1 *Presentation of Financial Reports*, and
- (b) Amendments arising from *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*. The amendments relate to PBE IAS 12 *Income Taxes*.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public sector public benefit entities.

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

Part C – Amendments arising from *Improvements to IPSAS, 2023*

PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 83A, 83B, 86A, 87A, 87B, 87C, and 154.20 – 154.23 are added. Paragraphs 70, 80, 82, 84, 85, and 87 are amended. New headings are inserted before paragraphs 81, 82, 83A, and 87A. New text is underlined and deleted text is struck through. Paragraphs 81, 83, and 86 are not amended but have been included for ease of reference.

...

Structure and Content

...

Statement of Financial Position

Current/Non-current Distinction

- 70. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87C, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.

...

Current Liabilities

- 80. A liability shall be classified as current when it satisfies any of the following criteria:
 - (a) It is expected to be settled in the entity’s normal operating cycle;
 - (b) It is held primarily for the purpose of being traded;
 - (c) It is due to be settled within twelve months after the reporting date; or
 - (d) The entity does not have ~~an unconditional~~ the right at the reporting date to defer settlement of the liability for at least twelve months after the reporting date (see paragraph 84). ~~Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.~~

All other liabilities shall be classified as non-current.

Normal Operating Cycle (paragraph 80(a))

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading in accordance with PBE IPSAS 29, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs ~~85 and 86~~ 83A–86.
83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:
- (a) The original term was for a period longer than twelve months; and
 - (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the reporting date.

83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:

- (a) Affect whether that right exists at the reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the reporting date. Such a covenant affects whether the right exists at the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the reporting date but assessed for compliance only after the reporting date).
 - (b) Do not affect whether that right exists at the reporting date if an entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the entity's financial position six months after the reporting date).
84. If an entity ~~expects, and~~ has the ~~discretion, right,~~ right, at the reporting date to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), If the entity has no such right, the entity does not consider the potential to refinance is not considered and classifies the obligation is classified~~ as current.
85. When an entity breaches ~~an undertaking a covenant under~~ a covenant under of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- 86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the reporting date and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).
87. ~~In respect of loans classified as current liabilities, if~~ If the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with PBE IPSAS 14 *Events After the Reporting Date*:
- (a) Refinancing on a long-term basis ~~of a liability classified as current (see paragraph 83);~~
 - (b) Rectification of a breach of a long-term loan agreement ~~classified as current (see paragraph 85); and~~
 - (c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ~~ending at least twelve months after the reporting date, classified as current (see paragraph 86); and~~
 - (d) Settlement of a liability classified as non-current (see paragraph 86A).
- 87A. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:
- (a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.
 - (b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the reporting date.

Settlement (paragraphs 80(a), 80(c) and 80(d))

- 87B. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:
- (a) Cash or other resources—for example, goods or services; or
 - (b) The entity's own equity instruments, unless paragraph 87C applies.
- 87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying PBE IPSAS 28 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument.

...

Effective Date Commencement and Application

...

2024 Omnibus Amendments to PBE Standards

- 154.20 The amending Standard *2024 Omnibus Amendments to PBE Standards*, issued in [month] 2024 added paragraphs 83A, 83B, 86A, 87A, 87B, and 87C and amended paragraphs 70, 80, 82, 84, 85, and 87. An entity shall apply those amendments as if they have always been applied, in accordance with PBE IPSAS 3, in accordance with the commencement and application date provisions in paragraphs

154.21-154.23. An entity that applies these amendments to an ‘early adoption accounting period’ shall disclose that fact.

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

154.21 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 [date] and takes effect on [date].

Accounting period in relation to which the amending Standard commences to apply (section 28 Financial Reporting Act 2013)

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

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

154.23 In paragraph 154.22:

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

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

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

Mandatory date means 1 January 2026.

Paragraph BC43 and the related heading are added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 1.

...

2024 Omnibus Amendments to PBE Standards

BC43. *Classification of Liabilities as Current and Non-current and Non-current Liabilities with Covenants*, issued by the IASB in January 2020 and October 2022 respectively, amended IAS 1 *Presentation of Financial Statements*. The amendments clarify the principles related to the right to defer settlement for at least twelve months (with or without covenants), and the meaning of ‘settlement’ when a liability is rolled over under an existing loan facility, for the purpose of classifying liabilities as current or non-current. The IPSASB subsequently made equivalent amendments to IPSAS 1 *Presentation of Financial Statements*, by issuing *Improvements to IPSAS, 2023* in April 2024. The NZASB amended PBE IPSAS 1 in [month] 2024, by issuing *2024 Omnibus Amendments to PBE Standards*.

Part D – Amendments arising from *International Tax Reform—Pillar Two Model Rules*

PBE IAS 12 *Income Taxes*

Paragraphs 4A, 88A – 88D and 98.14 – 98.16 are added including their related heading and the box after paragraph 88D. For ease of reading, new text is not underlined.

...

Scope

...

4A. This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the income taxes arising from it, are hereafter referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’. As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

...

Disclosure

...

International tax reform—Pillar Two model rules

- 88A** An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).
- 88B** An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.
- 88C** In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation.
- 88D** To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity’s progress in assessing its exposure.

Examples illustrating paragraphs 88C–88D

Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include:

- (a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and
- (b) quantitative information such as:
 - (i) an indication of the proportion of an entity’s profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
 - (ii) an indication of how the entity’s average effective tax rate would have changed if Pillar Two legislation had been in effect.

...

Effective Date Commencement and application

...

2024 Omnibus Amendments to PBE Standards

- 98.14 The amending Standard *2024 Omnibus Amendments to PBE Standards*, issued in [month] 2024 added paragraphs 4A and 88A–88D.
- 98.15 An entity shall:
- (a) apply paragraphs 4A and 88A on the date that this amending Standard takes effect (see paragraph 98.16) and for annual reporting periods that have not ended or do not end before that date. An entity shall apply those paragraphs as if they had always been applied, in accordance with PBE IPSAS 3; and
 - (b) apply paragraphs 88B–88D for annual reporting periods beginning on or after 1 January 2024 but have not ended or do not end before this amending Standard takes effect (see paragraph 98.16). An entity is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 December 2024.

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

- 98.16 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 [date] and takes effect on [date].

Paragraph BC11 and the related heading are added. For ease of reading, new text is not underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IAS 12

...

2024 Omnibus Amendments to PBE Standards

- BC11. *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)* issued by IASB in May 2023 gave entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The NZASB subsequently amended NZ IAS 12 *Income Taxes* by issuing *International Tax Reform—Pillar Two Model Rules* in July 2023. PBE IAS 12 is based on NZ IAS 12. The NZASB therefore made equivalent amendments to PBE IAS 12, by issuing *2024 Omnibus Amendments to PBE Standards* in [month] 2024.

2024 Omnibus Amendments to PBE Standards

Proposed Amendments to PBE IPSAS 1 and PBE IAS 12

Consultation document



May 2024

Consultation closes 15 August 2024



Contents

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PART ONE: Introduction

DRAFT

1.



What is this consultation document about?

The External Reporting Board (XRB) has issued this consultation document to seek feedback on its [Exposure Draft 2024 Omnibus Amendments to PBE Standards](#) (ED) that proposes the following limited-scope amendments:

- Amendments to PBE IPSAS 1 *Presentation of Financial Reports*, based on *Improvements to IPSAS, 2023* recently issued by the International Public Sector Accounting Standards Board (IPSASB).
- Amendments to PBE IAS 12 *Income Taxes*, based on *International Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12)* recently issued in New Zealand for for-profit entities.

The amendments would apply to public benefit entities (PBEs) in Tier 1 and Tier 2.

What is changing and why?

In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs are primarily based on International Public Sector Accounting Standards (IPSAS) issued by the IPSASB.

In April 2024, the IPSASB issued *Improvements to IPSAS, 2023*, which includes amendments to IPSAS 1 *Presentation of Financial Statements*. Those amendments are based on *Classification of Liabilities as Current or Non-current* and *Non-current Liabilities with Covenants (Amendments to IAS 1)*, issued by the International Accounting Standards Board (IASB), which were incorporated into the New Zealand for-profit standard NZ IAS 1 in 2023.

Consistent classification of liabilities as current or non-current is useful in both the for-profit and PBE sectors. We propose to incorporate the IPSASB's amendments into PBE Standards.

Proposed amendments to PBE IPSAS 1

Clarify the principles for classifying a liability as either current or non-current, specifically in relation to:

- The right to defer settlement for at least twelve months (with or without covenants); and
- The meaning of 'settlement' when a liability is rolled over under an existing loan facility.

The PBE Standard PBE IAS 12 *Income Taxes* is based on the for-profit standard NZ IAS 12 *Income Taxes*, as there is no equivalent IPSAS. In July 2023, the NZASB issued *Tax Reform—Pillar Two Model Rules (Amendments to NZ IAS 12)* for for-profit entities. Those amendments provide accounting relief to entities affected by the Organisation for Economic Co-operation and Development's (OECD) Pillar Two tax rules, and are based on equivalent amendments issued by the IASB.

While we are not aware of PBEs affected by the Pillar Two tax rules, such PBEs may exist now or in the future, and as such they should be provided with the same accounting relief as for-profit entities.

Proposed amendments to PBE IAS 12

Give entities temporary relief from accounting for deferred taxes arising from the OECD's international tax reform – referred to as '*Tax Reform—Pillar Two Model Rules*'.



2.

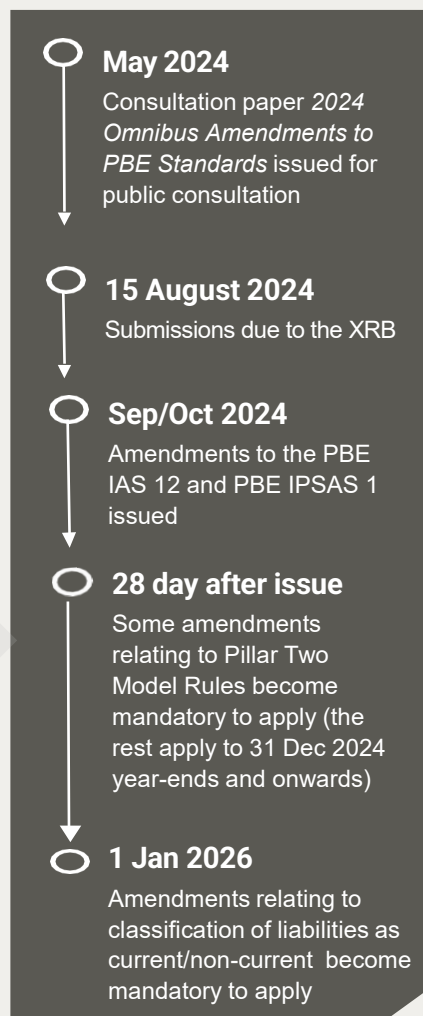
How to provide feedback?

Responding to consultation questions

We are seeking comments on the questions below. We will consider all comments received before finalising the amendments to PBE IPSAS 1 and PBE IAS 12.

- Q1.** Do you agree with the proposed amendments to PBE IPSAS 1? If not, why not?
- Q2.** Do you agree with the proposed amendments to PBE IAS 12? If not, why not?
- Q3.** Do you agree with the proposed mandatory dates for the amendments to PBE IPSAS 1 and PBE IAS 12 (see section 5 of this Consultation Document)?
- Q4.** Do you have any other feedback on the ED proposals?

Timeline



Making a submission

You can provide feedback to us via:

- the [consultation page](#) on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

The consultation closes on **15 August 2024**

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

We intend on publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.

PART TWO: Overview of proposals

DRAFT

3.



Overview of the proposed amendments to PBE IPSAS 1

AT A GLANCE

- Clarifications of the principles related to the following, in the context of **classifying liabilities as current or non-current**:
 - The right to defer settlement for at least twelve months (with or without covenants); and
 - The meaning of ‘settlement’ when a liability is rolled over under an existing loan facility.
- New disclosure requirements.

Approach to amending PBE IPSAS 1

The proposed amendments to PBE IPSAS 1 are closely based on the IPSASB’s amendments to IPSAS 1 introduced by *Improvements to IPSAS, 2023* which, in turn, are aligned with IASB’s *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants*.

In amending the PBE IPSAS 1 based on the updates to the IPSASB’s *Improvements to IPSAS, 2023*, the NZASB has considered the need for any enhancements to make the standard more appropriate for public benefit entities in New Zealand. The NZASB made no substantive changes to the IPSASB’s amendments.

Summary of proposed amendments to PBE IPSAS 1

	Amendments
Right to defer settlement for at least twelve months [ED ref: Para 80(d), 83A – 86A]	<p>In PBE IPSAS 1, the right to defer the settlement of a liability for at least 12 months after the reporting date is one of the criteria for classifying a liability as non-current. The proposed amendments clarify the following with respect to this requirement:</p> <ol style="list-style-type: none"> a) The classification of liabilities as either current or non-current is based on <i>the entity’s rights at the end of the reporting period</i>, meaning <i>only rights in place at the reporting date</i> should affect this classification. b) If the entity’s right to defer settlement of the liability for at least 12 months after the reporting date depends on compliance with specified conditions, referred to as ‘covenants’, such covenants affect the liability’s classification as current or non-current <i>only if the entity is required to comply with the covenant on or before the reporting date</i>. The key consideration is the time at which compliance with the covenant is required, not the time when compliance is assessed. For example: <ol style="list-style-type: none"> i. A covenant based on the entity’s financial position at the reporting date but assessed for compliance only after the reporting date would be taken into account when classifying the liability as current or non-current. ii. A covenant based on the entity’s financial position six months after the reporting date would not be taken into account when classifying the liability as current or non-current. c) Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date.



Summary of proposed amendments to PBE IPSAS 1 (continued)

	Amendments (continued)
<p>Meaning of “settlement”</p> <p>[ED ref: Para 87B - 87C]</p>	<p>The proposed amendments clarify that settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:</p> <ol style="list-style-type: none"> Cash or other resources—for example, goods or services; or The entity’s own equity instruments – except that when the counterparty has an option to request the entity to transfer its own equity instruments as settlement, and that option is classified as an equity instrument and recognised separately from the liability as an equity component of a compound financial instrument, in such case the option does not affect classification of liability as current or non-current.
<p>New disclosure requirements</p> <p>[ED ref: Para 87A]</p>	<p>When the entity’s right to defer settlement of liabilities is subject to the entity <i>complying with covenants within 12 months after the reporting date</i>, and when the entity <i>classifies those liabilities as non-current</i>, the proposed amendments require the entity to disclose information that enables users of financial statements to understand the <i>risk that the liabilities could become repayable within twelve months after the reporting date</i>, including:</p> <ol style="list-style-type: none"> Information about the covenants and the carrying amount of related liabilities; and Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

Question 1:

Do you agree with the proposed amendments to PBE IPSAS 1? If not, why not?

4.



Overview of the proposed amendments to PBE IAS 12

AT A GLANCE

- Introduction of a temporary exception to the requirements in PBE IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to **Pillar Two income taxes**.
- New disclosure requirements for entities affected by the Pillar Two tax legislation.



Background: What are the Pillar Two Model Rules?

In October 2021, more than 135 countries and jurisdictions, including New Zealand, agreed to join the OECD-sponsored “Inclusive Framework” that includes a two-pillar solution to address tax challenges arising from the increasing globalisation digitalisation of the global economy. This major international tax reform introduces a global minimum tax for large multinational enterprises.

In March 2024, the New Zealand Government has enacted legislation to implement the [OECD’s Pillar Two Model Rules](#) (‘the Rules’) in New Zealand.

Predominantly, the Rules apply to fiscal years beginning on or after 1 January 2025 and apply to all multinational groups operating in New Zealand with consolidated accounting revenue exceeding €750m in at least two of the preceding four years.

The Rules do not apply to government entities, international organisations (e.g. UN, IMF) and most non-profit and charitable entities – but there is a possibility that a PBE may be subject to the Rules, now or in the future.

Approach to amending PBE IAS 12

The proposed amendments to PBE IAS 12 *Income Taxes* are closely based on the New Zealand Accounting Standards Board’s (NZASB) amendments to *International Tax Reform—Pillar Two Model Rules* (Amendments to NZ IAS 12), which are in turn based on equivalent amendments issued by the IASB.

International Tax Reform—Pillar Two Model Rules provides for-profit entities with a **temporary exception from recognising deferred tax with respect to Pillar Two income taxes**. This is intended to provide relief for affected for-profit entities and to allow stakeholders time to assess the impact of the Pillar Two legislation, while avoiding the development of diverse accounting interpretations – considering the complexity of the Pillar Two tax legislation, which was enacted in several jurisdiction within a short time period .

The NZASB considered the rationale for providing the temporary exception to for-profit entities, and concluded that the same exception should be provided to those PBEs that are affected by Pillar Two tax legislation (if any).

The NZASB made no substantive changes to *International Tax Reform—Pillar Two Model Rules* when developing the equivalent PBE amendments, other than with respect to the ‘mandatory date’ (see Section 5 of this Consultation Document).



Summary of proposed amendments to PBE IAS 12

Exception from recognising deferred tax relating to Pillar Two

See the previous page.

[ED ref: Para 4A]

New disclosure requirements

Disclose that the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes was applied, and:

○ When the Pillar Two tax legislation is enacted or substantively enacted but not yet in effect

→ Disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

○ When the Pillar Two tax legislation is in effect

→ Disclose separately current tax expense (or income) related to Pillar Two income tax.

[ED ref: Para 88A–88D]

Question 2:

Do you agree with the proposed amendments to PBE IAS 12? If not, why not?



5.

Mandatory date and other comments

Proposed mandatory date for amendments to PBE IPSAS 1

- We propose that the amendments to the PBE IPSAS 1 have a mandatory date of **1 January 2026**, meaning that they would have to be applied for accounting periods that begin on or after that date.
- Application would be permitted for accounting periods that begin before 1 January 2026, but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

Rationale for the proposed mandatory date

This date is aligned with the mandatory date of the *Improvements to IPSAS, 2023* recently issued by the IPSASB, and provides PBEs sufficient time to prepare the implementation of the new requirements.

Proposed mandatory date for amendments to PBE IAS 12

- We propose that the **temporary exception** and requirement to disclose application of the exception **applies from the date that this amending Standard takes effect** (which is 28 days after the final amendments are issued).
- We proposed that the **other proposed disclosure requirements** (i.e. paragraphs 88A–88D) would have a mandatory date of **1 January 2024** – meaning that they would have to be applied for accounting periods that begin on or after that date. An entity is not required to provide those disclosures for any interim period ending on or before 31 December 2024.

Rationale for the proposed mandatory date

The NZASB concluded that for the temporary exception to work effectively, it needs to be available to entities affected by the Pillar Two tax legislation immediately from the date that this amending Standard takes effect.

Requiring a PBE to apply the rest of the disclosure requirements (paragraphs 88B–88D) for annual reporting periods beginning on or after 1 January 2024—but not for interim periods ending on or before 31 December 2024 — should provide enough time to prepare the required information.

The timing of this mandatory date reflects the fact that Pillar Two legislation has already been enacted in New Zealand and will come into effect from 1 January 2025.

Question 3:

Do you agree with the proposed mandatory date for the proposed amendments to PBE IPSAS 1 and PBE IAS 12? If not, why not?

Question 4:

Do you have any other feedback on the ED proposals?

DRAFT

Final Pronouncement
April 2024

IPSAS®

International Public Sector Accounting Standard®

Improvements to IPSAS, 2023

DRAFT

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general-purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB® are facilitated by the International Federation of Accountants® (IFAC®).

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IMPROVEMENTS TO IPSAS, 2023

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IFRS ALIGNMENT IMPROVEMENTS TO IPSAS

Objective

1. The objective of *Improvements to IPSAS, 2023* is to make Improvements to IPSAS to align with amendments to International Financial Reporting Standards (IFRS) based on the IASB's *Narrow Scope Amendments* projects.

IPSAS Addressed

2. *Improvements to IPSAS, 2023* deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated. Amendments arise through consideration of the narrow scope amendments projects of the IASB.¹
3. The Table below sets out the IFRS alignment improvements to IPSAS, including the summary of change.

The amendments to IPSAS are from the following IASB amendments:

IFRS	Equivalent IPSAS	Summary of Change
<p><i>Classification of Liabilities as Current or Non-current</i> (Amendments to IAS 1) (Issued in January 2020)</p> <p><i>Non-current Liabilities with Covenants</i> (Amendments to IAS 1) (Issued in October 2022)</p>	IPSAS 1, <i>Presentation of Financial Statements</i>	<p>The amendments clarify the principles related to:</p> <ul style="list-style-type: none"> • The right to defer settlement for at least twelve months (with or without covenants); and • The meaning of 'settlement' when a liability is rolled over under and existing loan facility. <p>(see Part 1)</p>
<p><i>Interest Rate Benchmark Reform—Phase 2</i> (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (Issued in August 2020)</p>	IPSAS 43, <i>Leases</i>	Practical expedient to account for lease modifications in IPSAS 43, <i>Leases</i> (see Part 2).
<p><i>Lease Liability in a Sale and Leaseback</i> (Amendments to IFRS 16) (Issued in September 2022)</p>	IPSAS 43, <i>Leases</i>	Amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any gain or loss that relates to the right-of-use it retains (see Part 3).

¹ IPSAS do not duplicate the Basis for Conclusions developed by the IASB. The Basis for Conclusion included in IPSAS includes considerations taken into account and conclusions drawn by the IPSASB when developing the pronouncement.

Amendment: Part 1 – Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 83A, 83B, 86A, 87A, 87B, 87C and 153S are added. Paragraphs 70, 80, 82, 84, 85, 87 are amended. New headings are inserted before paragraphs 81, 82, 83A, and 87A. Paragraphs 81, 83, 86 are not amended but have been included for ease of reference. New text is underlined and deleted text is struck through.

...

Structure and Content

...

Statement of Financial Position

...

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87C, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

...

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**
- (a) **It is expected to be settled in the entity’s normal operating cycle;**
 - (b) **It is held primarily for the purpose of being traded;**
 - (c) **It is due to be settled within twelve months after the reporting date; or**
 - (d) **The entity does not have an unconditional the right at the end of the reporting date to defer settlement of the liability for at least twelve months after the reporting date ~~(see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.~~**

All other liabilities shall be classified as non-current.

Normal Operating Cycle (paragraph 80(a))

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity’s normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the

classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities that meet the definition of held for trading in IPSAS 41, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs ~~85 and 86~~ 83A–86.
83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:
- (a) The original term was for a period longer than twelve months; and
 - (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

- 83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the ~~end of the~~ reporting date.
- 83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:
- (a) Affect whether that right exists at the ~~end of the~~ reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the ~~end of the~~ reporting date. Such a covenant affects whether the right exists at the ~~end of the~~ reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the ~~end of the~~ reporting date but assessed for compliance only after the reporting date).
 - (b) Do not affect whether that right exists at the ~~end of the~~ reporting date if an entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the entity's financial position six months after the ~~end of the~~ reporting date).
84. If an entity ~~expects, and has the discretion, right,~~ at the ~~end of the~~ reporting date, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance) If the entity has no such right, the entity does not consider the potential to refinance is not considered and classifies the obligation is classified as current.

85. When an entity breaches ~~an undertaking a covenant under~~ of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have ~~an unconditional~~ the right to defer its settlement for at least twelve months after that date.
86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- 86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the ~~end of the~~ reporting date and the date the financial statements are ~~authorised~~ authorized for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).
87. ~~In respect of loans classified as current liabilities, if~~ If the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, *Events after the Reporting Date*:
- (a) Refinancing on a long-term basis of a liability classified as current (see paragraph 83);
 - (b) Rectification of a breach of a long-term loan agreement classified as current (see paragraph 85); and
 - (c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ~~ending at least twelve months after the reporting date.~~ classified as current (see paragraph 86); and
 - (d) Settlement of a liability classified as non-current (see paragraph 86A).
- 87BA. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:
- (a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

- (b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting date.

Settlement (paragraphs 80(a), 80(c) and 80(d))

87A87B. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

- (a) Cash or other resources—for example, goods or services; or
(b) The entity's own equity instruments, unless paragraph 87C applies.

~~87B. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:~~

- ~~(a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.~~
~~(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting date.~~

87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IPSAS 28 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognizing it separately from the liability as an equity component of a compound financial instrument.

...

Effective Date and Transition

Effective Date

153S. Paragraphs 83A, 83B, 86A, 87A, 87B, and 87C were added and paragraphs 70, 80, 82, 84, 85, and 87 were amended by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026 retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Basis for Conclusions

...

Revision of IPSAS 1 as a result of *Improvements to IPSAS, 2023*

BC39. The IPSASB reviewed the revisions to IAS 1, *Presentation of Financial Statements*, included in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* and *Non-current Liabilities with Covenants* issued by the IASB in January 2020 and in October 2022, respectively, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

DRAFT

Amendment: Part 2 – Interest Rate Benchmark Reform—Phase 2

Amendments to IPSAS 43, Leases

Paragraphs 102A–102C, 103F, and 126A–126B are added. A new heading is inserted before paragraph 102A and a subheading is added before paragraph 126A. New text is underlined.

...

Temporary Exception Arising from Interest Rate Benchmark Reform

102A. A lessee shall apply paragraphs 102B–102C to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 72B and 72D of IPSAS 41). These paragraphs apply only to such lease modifications. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 155B of IPSAS 41.

102B. As a practical expedient, a lessee shall apply paragraph 43 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) The modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the lease payments is economically equivalent to the previous basis (i.e., the basis immediately preceding the modification).

102C. However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

...

Effective Date and Transition

...

Effective Date

...

103F. Paragraphs 102A–102C and 126A–126B were added by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Transition

...

Interest Rate Benchmark Reform—Phase 2

126A. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraph 126B.

126B. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

...

Basis for Conclusions

...

Revision of IPSAS 43 as a result of [draft] Improvements to IPSAS, 2023

BC105. The IPSASB reviewed the revisions to IFRS 16, *Leases*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 4, and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2* amendments.

Amendment: Part 3 – Lease Liability in a Sale and Leaseback

Amendments to IPSAS 43, Leases

Paragraphs 101A, 103G, and 126C are added. Paragraph 106 is amended. New text is underlined and deleted text is struck through.

...

Assessing whether the Transfer of the Asset is a Sale

...

Transfer of the Asset is a Sale

...

101A. After the commencement date, the seller-lessee shall apply paragraphs 30–36 to the right-of-use asset arising from the leaseback and paragraphs 37–47 to the lease liability arising from the leaseback. In applying paragraphs 37–47, the seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in surplus or deficit any gain or loss relating to the partial or full termination of a lease as required by paragraph 47(a).

...

Effective Date and Transition

Effective Date

...

103G. Paragraphs 101A and 126C were added, and paragraph 106 was amended by *Improvements to IPSAS, 2023*, issued in April 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

...

Transition

106. For the purposes of the requirements in paragraphs 103–~~123~~126C, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

...

Lease Liability in a Sale and Leaseback

126C. A seller-lessee shall apply paragraphs 101A and 106 (see paragraph 103G) retrospectively in accordance with IPSAS 3 to sale and leaseback transactions entered into after the date of initial application.

Basis for Conclusions

...

BC106. The IPSASB reviewed the revisions to IPSAS 43, *Leases*, included in *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) issued by the IASB in September 2022, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Lease Liability in a Sale and Leaseback* amendments.

...

Amendments to the Illustrative Examples Accompanying IPSAS 43, *Leases*

Paragraph IE11 and Illustrative example 24 are amended. Paragraph IE12 and Illustrative Example 25 are added. New text is underlined and deleted text is struck through.

Sale and Leaseback Transactions (paragraphs 97–102)

IE11. Example 24 illustrates the application of the requirements in paragraphs ~~97~~~~98~~~~100~~~~101~~ of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 24—Sale and Leaseback Transaction with fixed payments and above-market terms

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in of IPSAS 47, Revenue to be accounted for as a sale of the building. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. This example ignores any initial direct costs.

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 100(b) of IPSAS 43, the amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognized as additional financing provided by Buyer-lessor to Seller-lessee.

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) amounts to is CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

Seller-lessee

Applying paragraph 99(a) of IPSAS 43, at the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. Seller-lessee calculates this amount as: CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,259,200 (the

discounted lease payments for the 18-year right-of-use asset) ÷ CU1,800,000 (the fair value of the building).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

- (a) $CU559,645 (CU800,000 \div CU1,800,000 \times CU1,259,200 \div CU1,800,000)$ relates to the right to use the building retained by Seller-lessee; and
- (b) $CU240,355 (CU800,000 \div CU1,800,000 \times (CU1,800,000 - CU1,259,200) \div CU1,800,000)$ relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
<u>Lease liability</u>		<u>CU1,259,200</u>
Financial liability		<u>CU1,459,200</u>
		<u>CU200,000</u>
Gain on rights transferred		CU240,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000	
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)	
Cash		CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

IE12. Example 25 illustrates the application of the requirements in paragraph 101A and paragraphs 30–47 of IPSAS 43 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

Example 25—Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47 to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 percent per annum.

Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 percent.^(a) Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

<u>Dr Cash</u>	<u>CU1,800,000</u>
<u>Dr Right-of-use asset (CU1,000,000 × 25 per cent)</u>	<u>CU250,000</u>
<u>Cr Building</u>	<u>CU1,000,000</u>
<u>Cr Lease liability</u>	<u>CU450,000</u>
<u>Cr Gain on rights transferred ((CU1,800,000 – CU1,000,000) × 75 per cent)</u>	<u>CU600,000</u>

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 37–47 of IPSAS 43, Seller-lessee develops an accounting policy for determining 'lease payments' in a way that it would not recognize any amount of the gain that relates to the right of use it retains. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 99(a) of IPSAS 43—for determining the measurement of the right-of-use asset and the gain recognized on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 101A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payments ^(b)	3 percent interest expense ^(c)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	450,000	(95,902)	13,500	367,598	250,000	(50,000)	200,000
2	367,598	(98,124)	11,028	280,502	200,000	(50,000)	150,000
3	280,502	(99,243)	8,415	189,674	150,000	(50,000)	100,000
4	189,674	(100,101)	5,690	95,263	100,000	(50,000)	50,000
5	95,263	(98,121)	2,858	0	50,000	(50,000)	0

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,197 (CU99,321 – CU98,124) in surplus or deficit.

Approach 2—Equal lease payments over the lease term

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease liability				Right-of-use asset		
	Beginning balance	Lease payments ^(d)	3 percent interest expense ^(c)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	CU	CU	CU	CU	CU	CU	CU
1	450,000	(98,260)	13,500	365,240	250,000	(50,000)	200,000
2	365,240	(98,260)	10,957	277,937	200,000	(50,000)	150,000
3	277,937	(98,260)	8,338	188,015	150,000	(50,000)	100,000
4	188,015	(98,260)	5,640	95,395	100,000	(50,000)	50,000
5	95,395	(98,260)	2,865	0	50,000	(50,000)	0

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays

CU99,321 for the use of the building in Year 2, it recognizes CU1,061 (CU99,321 – CU98,260) in surplus or deficit.

- (a) Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 99(a) does not prescribe a particular method for determining that proportion.
- (b) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of CU450,000.
- (c) Applying paragraph 101A and paragraph 37(a) of IPSAS 43, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.
- (d) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of CU450,000.

DRAFT

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**International Public
Sector Accounting
Standards Board®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

Date: 26 April 2024
To: NZASB Members
From: Alex Stainer
Subject: *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*

COVER SHEET

Project priority and complexity

<p>Project priority</p>	<p>Medium</p> <p>The mandatory date for the existing amending standard <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</i> is currently 1 January 2025. As the IASB have indefinitely deferred the amending standard, the purpose of this project is to defer the mandatory date of the NZ equivalent until the IASB finalise the approach for this amending standard and determine an appropriate mandatory date.</p>
<p>Complexity of Board decision-making at this meeting</p>	<p>Low</p> <p>The Board is being asked to approve for issue an amending standard modifying the mandatory date of the existing amending standard <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28)</i>. No comments on the proposed amendments were received.</p>

Overview of agenda item

<p>Project status</p>	<p>Approval – we are seeking approval to issue the amending standard <i>Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)</i></p>
<p>Project purpose</p>	<p>The purpose of the project is to defer the mandatory date of the Amendment while awaiting IASB resolution on the Equity Method project.</p>
<p>Board action required at this meeting</p>	<p>APPROVAL to issue the amending standard <i>Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)</i></p>

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)* which amends 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); and
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*.

Background

2. At the Board meeting held on 28 March 2024, the Board agreed to consult on the change to the mandatory date of 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) to 1 January 2028;
3. The consultation closed on 22 April 2024 and no comments were received.

Due process

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

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).

Question for the Board

- Q1. Does the Board APPROVE for issue *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)* which amends 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)?
- Q2. Does the Board APPROVE the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board, requesting approval to issue the amending standard *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*?

Draft amending standard and signing memorandum

7. Attached as agenda item 7.2 is a copy of *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*
8. Attached as agenda item 7.3 is a draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Attachments

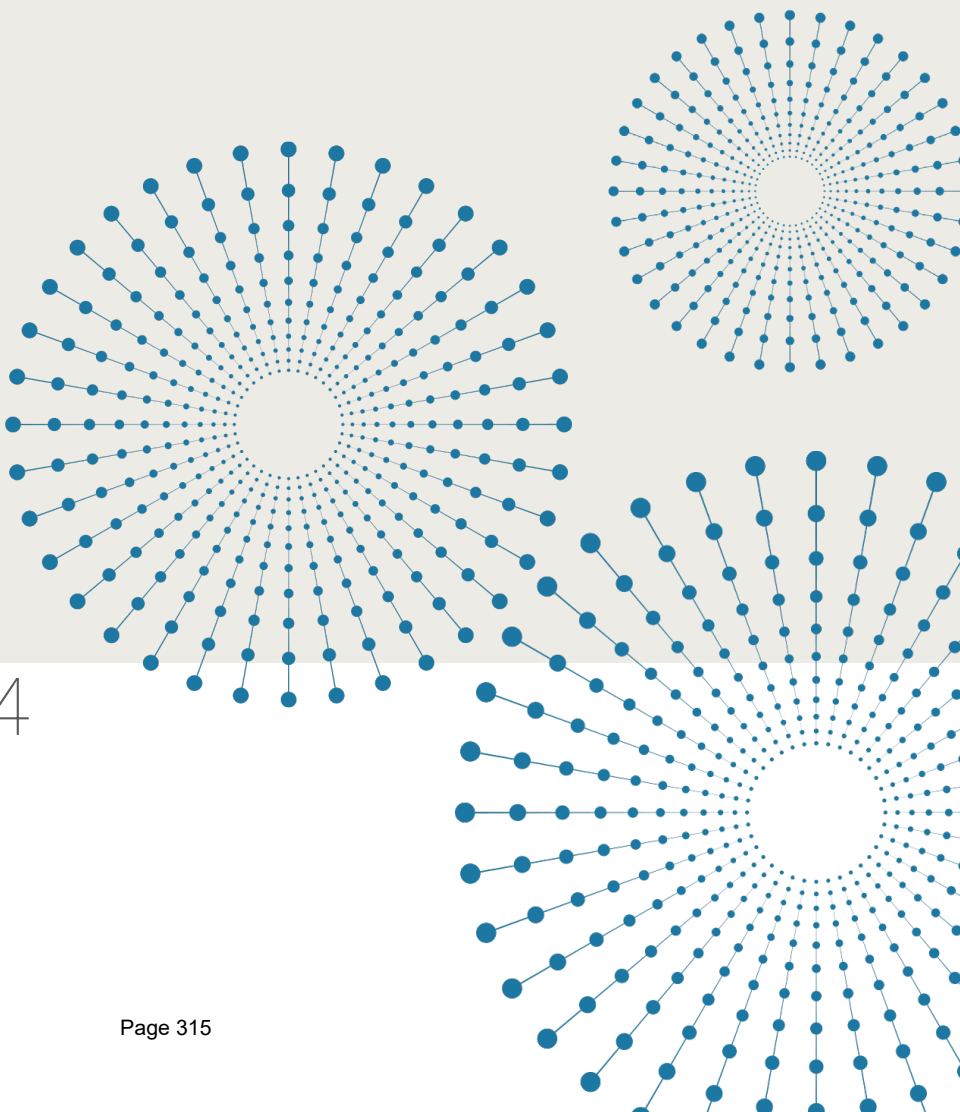
Agenda item 7.2: Draft *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*

Agenda item 7.3: Draft signing memorandum

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

Mandatory from 1 January 2025

Issued May 2024





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

Issued May 2024

This Tier 1 and Tier 2 for-profit amending Standard defers the mandatory date of the amending Standard *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) issued by the International Accounting Standards Board.

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

Legal status of amending Standard

This amending Standard was issued on XX May 2024 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on XX May 2024 and takes effect on XX June 2024.

Commencement and application

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

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Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
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Part A

Introduction

The amending standard changes the mandatory date of 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) from 1 January 2025 to 1 January 2028.

Part B

Scope

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

Part C

Amendments to NZ IFRS

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 **XX** May 2024 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** May 2024 and takes effect on **XX** June 2024.

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 XX May 2024, 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 May 2024 and takes effect on XX June 2024.

Date: 26 April 2024

To: Michele Embling, Chair External Reporting Board

From: Carolyn Cordery, Chair NZASB

Subject: ***Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)***

Introduction¹

1. In accordance with the protocols established by the External Reporting Board, NZASB seeks your approval to issue *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)* which amends 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).
2. This amending standard changes the mandatory date of the existing amending standard² from 1 January 2025 to 1 January 2028.

Background

3. In September 2014, the IASB issued *Sale 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. In August 2015, the IASB deferred the effective date of those amendments indefinitely to enable the IASB to consider more fully the equity method of accounting.
4. In New Zealand, standards are required to have a mandatory date. Therefore, in response to the IASB deferring the amending standard, the NZASB initially approved deferring the mandatory date to annual periods beginning on or after 1 January 2020. In 2019, 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.
5. As of the current date, the IASB Equity Method project which addresses the treatment proposed in the amending standard is not yet completed (ED expected H2 2024). On this basis the NZASB have approved deferring the mandatory date a further 3 years to 1 January 2028 in expectation that the deferral of this amending standard will be resolved by the IASB by that date.

Due process

6. At the NZASB meeting held on 28 March 2024, the NZASB agreed to consult on the change to the mandatory date of the amending standard *Sale or Contribution of Assets between an*

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

Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28) to 1 January 2028;

7. The consultation closed on 22 April 2024 and no comments were received.
8. The NZASB has approved *Mandatory Date of Amendments to NZ IFRS 10 and NZ IAS 28 (2024)*. The due process followed by the NZASB complied with the due process requirements established by the External Reporting Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
9. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

10. The amending standard is a standard in its own right. The amending standard changes the mandatory date of the NZ amending standard that is identical to *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) issued by the IASB.
11. Although the IASB amending standard has been deferred indefinitely it continues to be available for voluntary application within the IASB suite. Accordingly, with the only change being the deferral of the mandatory date of the NZ amending standard, our position (which also allows voluntary application) continues to be consistent with the IASB.
12. The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it continues to allow voluntarily application of the initial amending standard without it being mandatory, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the Accounting Standards Framework.

Mandatory date

13. The amending standard will be applicable for annual periods beginning on or after 1 January 2025 with early application permitted.

Other matters

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

Recommendation

15. The NZASB recommends that you sign the attached certificate of determination on behalf of the External Reporting Board.

Attachments

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

Certificate of determination

Carolyn Cordery

Chair NZASB