Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amendments to the Classification and Measurement of Financial Instruments

Amendments to NZ IFRS 9 and NZ IFRS 7

Mandatory from 1 January 2026

Issued June 2024

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EXTERNAL REPORTING BOARD

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This Tier 1 and Tier 2 for-profit amending Standard is based on *Amendments to the Classification and Measurement of Financial Instruments,* issued by the International Accounting Standards Board, which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures.* This amending Standard provides clarifications on accounting for the settlement of liabilities through electronic payment systems, and on the application of the classification requirements for financial assets, including financial assets with environmental, social and corporate governance and similar features. It also introduces new disclosures for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features.

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 27 June 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 27 June 2024 and takes effect on 25 July 2024.

Commencement and application

The amending Standard has a mandatory date of 1 January 2026, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraph 7.1.12–NZ 7.1.13C of this amending Standard.

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CONTENTS

Part A – Introduction

This amending Standard sets out amendments to NZ IFRS 9 *Financial Instruments* and NZ IFRS 7 *Financial Instruments: Disclosures*. The amendments are identical to *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7), issued by the International Accounting Standards Board (IASB). This amending Standard provides clarifications on accounting for the settlement of liabilities through electronic payment systems, and on the application of the classification requirements for financial assets, including financial assets with environmental, social and corporate governance and similar features. It also introduces new disclosures for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features.

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

Part B – Scope

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

Part C – Amendments to NZ IFRS 9 *Financial Instruments*

Paragraphs 7.1.12–7.1.13, NZ 7.1.13A–NZ 7.1.13C, and 7.2.47–7.2.49 and the heading before paragraph 7.2.47 are added. For ease of reading these paragraphs have not been underlined.

7.1 ~~Effective date~~ Commencement and application

...

7.1.12 *Amendments to the Classification and Measurement of Financial Instruments*, which amended NZ IFRS 9 and NZ IFRS 7, issued in June 2024, added paragraphs 7.2.47–7.2.49, B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A. It also amended paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23. An entity shall apply these amendments in accordance with the commencement and application date provisions in paragraphs NZ 7.1.13A–NZ 7.1.13C. An entity that applies those amendments to an 'early adoption accounting period' shall disclose that fact.

7.1.13 If an entity elects to apply these amendments to an 'early adoption accounting period' it shall either:

(a) apply all the amendments at the same time and disclose that fact; or

(b) apply only the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets) for that earlier period and disclose that fact.

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

NZ 7.1.13A 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 27 June 2024 and takes effect on 25 July 2024.

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

NZ 7.1.13B The accounting periods in relation to which this amending Standard commences to apply are:

(a) for an **early adopter**, those accounting periods following and including, the **early adoption accounting period**.

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

NZ 7.1.13C In paragraph NZ 7.1.13B:

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

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

(a) that begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and

(b) for which the early adopter:

(i) first applies this amending Standard in preparing its financial statements; and

(ii) discloses in its financial statements for that accounting period that this amending Standard has been applied for that period.

mandatory date means 1 January 2026.

7.2 Transition

...

Transition for *Amendments to the Classification and Measurement of Financial Instruments*

7.2.47 An entity shall apply *Amendments to the Classification and Measurement of Financial Instruments* as if they had always been applied, in accordance with NZ IAS 8, except as specified in paragraphs 7.2.48–7.2.49. For the purposes of the requirements in these paragraphs, the date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments.

7.2.48 An entity is not required to restate prior periods to reflect the application of these amendments. An entity may restate prior periods if, and only if, it is possible to do so without the use of hindsight. If an entity does not restate prior periods, it shall recognise the effect of initially applying these amendments as an adjustment to the opening balance of financial assets and financial liabilities and the cumulative effect, if any, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

7.2.49 At the date of initial application of the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets), an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments:

(a) the measurement category and carrying amount determined immediately before the amendments were applied; and

(b) the measurement category and carrying amount determined immediately after the amendments were applied.

Appendix B
Application guidance

Paragraphs B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A and the heading before paragraph B3.1.2A are added. Paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23 are amended. Paragraphs B4.1.7A, B4.1.15 and B4.1.22 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

Recognition and derecognition (Chapter 3)

Initial recognition (Section 3.1)

...

Date of initial recognition or derecognition

B3.1.2A Unless paragraph 3.1.2 applies, an entity shall recognise a financial asset or financial liability on the date on which the entity becomes party to the contractual provisions of the instrument (see paragraph 3.1.1). A financial asset is derecognised on the date on which the contractual rights to the cash flows expire or the asset is transferred (see paragraph 3.2.3). Unless an entity elects to apply paragraph B3.3.8, a financial liability is derecognised on the settlement date, which is the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires (see paragraph 3.3.1) or the liability otherwise qualifies for derecognition (see paragraph 3.3.2).

...

Derecognition of financial liabilities (Section 3.3)

...

B3.3.8 Despite the requirement in paragraph B3.1.2A to derecognise a financial liability on the settlement date, when settling a financial liability (or part of a financial liability) in cash using an electronic payment system, an entity is permitted to deem the financial liability (or part of it) to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that resulted in:

(a) the entity having no practical ability to withdraw, stop or cancel the payment instruction;

(b) the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

(c) the settlement risk associated with the electronic payment system being insignificant.

B3.3.9 For the purpose of applying paragraph B3.3.8(c), settlement risk associated with an electronic payment system is insignificant if its characteristics are such that completion of the payment instruction follows a standard administrative process and the time between the criteria in paragraphs B3.3.8(a) and (b) being met and the cash being delivered to the counterparty is short. However, settlement risk would not be insignificant if completion of the payment instruction were subject to the entity's ability to deliver cash on the settlement date.

B3.3.10 An entity that elects to apply paragraph B3.3.8 to the settlement of a financial liability (or part of a financial liability) using an electronic payment system shall apply that paragraph to all settlements made through the same electronic payment system.

Classification (Chapter 4)

Classification of financial assets (Section 4.1)

...

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

...

B4.1.7A Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs B4.1.9A–B4.1.9E) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

...

B4.1.8A In assessing whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement, an entity may have to consider the different elements of interest separately. The assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives. Nonetheless, the amount of compensation an entity receives may indicate that the entity is being compensated for something other than basic lending risks and costs. Contractual cash flows are inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity) or if they represent a share of the debtor's revenue or profit, even if such contractual terms are common in the market in which the entity operates.

...

Contractual terms that change the timing or amount of contractual cash flows

B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows, irrespective of the probability of the change in contractual cash flows occurring. The entity may also need to assess the nature of any contingent event (ie the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. In the former case, the nature of the contingent event relates directly to, and the contractual cash flows change in the same direction as, changes in basic lending risks and costs. (See also paragraph B4.1.18.)

B4.1.10A In some cases, a contingent feature gives rise to contractual cash flows that are consistent with a basic lending arrangement both before and after the change in contractual cash flows, but the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs. For example, the interest rate on a loan is adjusted by a specified amount if the debtor achieves a contractually specified reduction in carbon emissions. In such a case, when applying paragraph B4.1.10, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding if, and only if, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature. In some circumstances, the entity may be able to make that determination by performing a qualitative assessment; but, in other circumstances, it may be necessary to perform a quantitative assessment. If it is clear, with little or no analysis, that the contractual cash flows are not significantly different, an entity need not perform a detailed assessment.

...

B4.1.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	**Analysis**
... **Instrument EA** Instrument EA is a loan with an interest rate that is adjusted every reporting period by a fixed number of basis points if the debtor achieves a contractually specified reduction in carbon emissions during the preceding reporting period. The maximum possible cumulative adjustments would not significantly change the interest rate on the loan.	... The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. The entity considers whether the contractual cash flows that could arise both before and after each change in contractual cash flows are solely payments of principal and interest (see paragraph B4.1.10). If the contingent event of achieving the carbon emissions target occurs, the interest rate is adjusted by a fixed number of basis points, resulting in contractual cash flows that are consistent with a basic lending arrangement. It is only because the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs that the entity cannot conclude – without further assessment – whether the cash flows on the financial asset are solely payments of principal and interest. The entity therefore assesses whether, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without the contingent feature linked to carbon emissions (see paragraph B4.1.10A). Because any adjustments over the life of the instrument would not result in contractual cash flows that are significantly different, the entity concludes that the loan has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

B4.1.14 The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	**Analysis**
... **Instrument I**	...

Instrument	Analysis
Instrument I is a loan with an interest rate that is adjusted every reporting period to track the movements in a market-determined carbon price index during the preceding reporting period.	The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The contractual cash flows are indexed to a variable (the carbon price index), which is not a basic lending risk or cost. The contractual cash flows are therefore inconsistent with a basic lending arrangement (see paragraph B4.1.8A).

B4.1.15 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.1.2(b), 4.1.2A(b) and 4.1.3 of this Standard.

B4.1.16 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraphs 4.1.2(b) and 4.1.2A(b). ~~This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).~~

B4.1.16A The situation described in paragraph B4.1.15 may also arise if a financial asset has 'non-recourse' features. A financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets. In other words, the entity is primarily exposed to the specified assets' performance risk rather than the debtor's credit risk. For example, a creditor's ultimate right to receive cash flows may be contractually limited to the cash flows generated by specified assets of a structured entity.

B4.1.17 However, the fact that a financial asset ~~is~~ has non-recourse features does not in itself necessarily preclude the financial asset from meeting the condition in paragraphs 4.1.2(b) and 4.1.2A(b). In such situations, the creditor is required to assess ('look through to') the link between the particular underlying assets or cash flows and the contractual cash flows of the financial asset being classified to determine whether those ~~the~~ contractual cash flows ~~of the financial asset being classified~~ are payments of principal and interest on the principal amount outstanding. An entity shall also consider how this link is affected by other contractual arrangements, such as subordinated debt or equity instruments issued by the debtor. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.

...

Contractually linked instruments

B4.1.20 In some types of transactions with non-recourse features, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments ~~that create concentrations of credit risk~~ (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer from the underlying pool of financial instruments are allocated to the tranche. The prioritisation of payments to the holders of these tranches is established through a waterfall payment structure that creates concentrations of credit risk and results in a disproportionate allocation of cash shortfalls from the underlying pool between the tranches. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches. In these types of transactions, the holders of a tranche apply paragraphs B4.1.21–B4.1.26 instead of paragraph B4.1.17.

B4.1.20A Some transactions that may contain multiple debt instruments and appear to have the characteristics described in paragraph B4.1.20 are, in fact, lending arrangements that are structured to provide enhanced credit protection to a creditor (or group of creditors). For example, a structured entity may be set up to hold the underlying assets that will generate the cash flows to repay the creditor. The structured entity issues senior and junior debt instruments. The creditor holds the senior debt instrument and the entity sponsoring the structured entity that holds the junior debt instrument has no practical ability to sell the junior instrument without the senior debt instrument becoming payable. The holders of such debt instruments apply paragraphs B4.1.7–B4.1.19 instead of paragraphs B4.1.21–B4.1.26.

B4.1.21 In ~~such~~ transactions that contain contractually linked instruments, as described in paragraph B4.1.20, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

(a) ...

B4.1.22 An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.

B4.1.23 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purposes of this assessment, the underlying pool can include financial instruments that are not within the scope of the classification requirements (see Section 4.1) but that have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding—for example, some lease receivables. However, lease receivables that are subject to residual value risk, or that comprise variable lease payments that are indexed to a variable that is not a basic lending risk or cost (for example, a market rental rate), do not have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding.

Part D – Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 20B, 20C, 20D, 44LL and 44MM are added. For ease of reading these paragraphs have not been underlined. Paragraphs 11A and 11B are amended. New text is underlined and deleted text is struck through.

Significance of financial instruments for financial position and performance

...

Statement of financial position

...

Investments in equity instruments designated at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of NZ IFRS 9, it shall disclose<u> for each class of investment</u>:

(a) ...

(b) ...

(c) the fair value~~ of each such investment~~ at the end of the reporting period.

(d) ...

(e) ...

<u>(f) the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss related to investments derecognised during the reporting period and the fair value gain or loss related to investments held at the end of the reporting period.</u>

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) ...

(b) ...

(c) ...

<u>(d) any transfers of the cumulative gain or loss within equity during the reporting period related to the investments derecognised during that reporting period.</u>

...

Statement of comprehensive income

Items of income, expense, gains or losses

...

20B An entity shall disclose the information required by paragraph 20C by class of financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed.

20C To enable users of financial statements to understand the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs (such as the time value of money or credit risk), an entity shall disclose:

(a) a qualitative description of the nature of the contingent event;

(b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and

(c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

20D For example, an entity shall disclose the information required by paragraph 20C for a class of financial liabilities measured at amortised cost whose contractual cash flows change if the entity achieves a reduction in its carbon emissions.

...

~~Effective date and transition~~ Commencement and application

...

44LL *Amendments to the Classification and Measurement of Financial Instruments*, issued in June 2024, added paragraphs 20B, 20C and 20D and amended paragraphs 11A and 11B. An entity shall apply these amendments when it applies the amendments to NZ IFRS 9 in accordance with paragraphs 7.1.12–NZ7.1.13C of NZ IFRS 9. If an entity elects to apply only the amendments to the Application Guidance to Section 4.1 of NZ IFRS 9 (Classification of financial assets) for an earlier period in accordance with paragraph 7.1.13(b) of NZ IFRS 9, the entity shall also apply paragraphs 20B, 20C and 20D of this Standard at the same time. In either case, the entity need not provide the disclosures required by the amendments for any period presented before the date of its initial application of the amendments.

44MM In the reporting period in which an entity first applies *Amendments to the Classification and Measurement of Financial Instruments*, the entity is not required to disclose the information that would otherwise be required by paragraph 28(f) of NZ IAS 8.