

Institute of Chartered Accountants of New Zealand

FINANCIAL REPORTING STANDARD NO. 40

Issued April 2005

Transitional Arrangements for the Early Adoption of the New Zealand Equivalent to IAS 19 Employee Benefits

*Issued by the Financial Reporting Standards Board of the
New Zealand Institute of Chartered Accountants*

*Approved April 2005 by the Accounting Standards Review Board under the Financial
Reporting Act 1993*

*This Financial Reporting Standard is a regulation for the purposes of the Regulations
(Disallowance) Act 1989*

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Published December 2006 by
New Zealand Institute of Chartered Accountants
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ISBN

1. INTRODUCTION

1.1 Entities are required to comply with the New Zealand equivalent to IAS 19 *Employee Benefits* (NZ IAS 19) for annual accounting periods beginning on or after 1 January 2007 as part of a requirement to comply with the New Zealand equivalents to International Financial Reporting Standards (IFRSs) from that date.

1.2 An entity may elect to apply New Zealand equivalents to IFRSs to general purpose financial reports for annual accounting periods beginning on or after 1 January 2005 provided they comply with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

1.3 NZ IAS 19 *Employee Benefits* does not conflict with any existing applicable financial reporting standards. An entity could therefore choose to apply NZ IAS 19 *Employee Benefits* as an individual standard, prior to complying with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

1.4 FRS-7: *Extraordinary Items and Fundamental Errors* requires the impact of any change in accounting policy to be recognised in the Statement of Financial Performance in the period the change in policy is made unless a financial reporting standard or statutory requirement specifies otherwise. This Standard directs that if an entity adopts NZ IAS 19 *Employee Benefits* prior to the adoption of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* the financial impact must be recognised in equity.

2. APPLICATION

2.1 This Standard applies to the general purpose external financial reports of all entities.

2.2 This Standard becomes operative for annual accounting periods beginning on or after 1 January 2005. Early adoption is encouraged.

3. PURPOSE

3.1 The purpose of this Standard is to provide transitional arrangements to assist entities in applying the New Zealand equivalent to IAS 19 *Employee Benefits* to general purpose financial reports for reporting periods prior to complying with NZ IFRS 1 *First-time Adoption of New Zealand International Financial Reporting Standards*.

4. FINANCIAL REPORTING

4.1 An entity which is not currently accounting for and disclosing information about employee benefits in accordance with NZ IAS 19 *Employee Benefits* is permitted to apply that Standard prior to the adoption of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

5. TRANSITIONAL ARRANGEMENTS

5.1 When an entity complies with NZ IAS 19 *Employee Benefits* for the first time for a period prior to the adoption of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*, an initial accounting entry shall be made to give retrospective effect to the changed policy with any resulting revenue or expense adjusted directly against equity at the beginning of the period in which the change is made. There is no requirement to adjust comparatives.

5.2 Under NZ IAS 19 *Employee Benefits*, an entity may elect to use an approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to NZ IFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter of NZ IAS 19 *Employee Benefits* may elect to recognise all cumulative actuarial gains and losses at the date of transition to that standard, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

6. CONSEQUENTIAL AMENDMENTS

6.1 Paragraph 157 of NZ IAS 19 *Employee Benefits* is amended to read:

“This Standard becomes operative for an entity’s financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005 or an entity complies with this Standard in accordance with FRS-40: *Transitional Arrangements for the Early Adoption of the New Zealand Equivalent to IAS 19 Employee Benefits*”.

6.2. Paragraph 159B of NZ IAS 19 *Employee Benefits* is amended to read:

“An entity that early adopts New Zealand equivalents to IFRSs or that complies with this Standard in accordance with FRS-40: *Transitional Arrangements for the Early Adoption of the New Zealand Equivalent to IAS 19 Employee Benefits* shall apply the amendments in paragraphs 32A, 34, 34A, 34B, 61, 120, 120A and 121 for annual accounting periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 January 2006, it shall disclose that fact.”

6.3. Paragraph 159C of NZ IAS 19 *Employee Benefits* is amended to read:

“The option in paragraphs 93A to 93D may be used for annual accounting periods ending on or after 1 January 2006. An entity that early adopts New Zealand equivalents to IFRSs or that complies with this Standard in accordance with FRS-40: *Transitional Arrangements for the Early Adoption of the New Zealand Equivalent to IAS 19 Employee Benefits* and uses the option in paragraphs 93A to 93D for annual accounting periods beginning before 1 January 2006 shall also apply the amendments in paragraphs 32A, 34, 34A, 34B, 61, 120, 120A and 121.”

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