

NZ IFRS 9 (2009) (Diff Rep)



NZ International Financial Reporting Standard 9 (2009) (Diff Rep)

Financial Instruments (NZ IFRS 9 (2009) (Diff Rep))

Issued November 2012 excluding consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 13 *Fair Value Measurement*

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in NZ IFRS 9 *Financial Instruments* as applied by qualifying entities. Versions of NZ IFRS 9 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

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NZ International Financial Reporting Standard 9 (2009) (Diff Rep) *Financial Instruments* (NZ IFRS 9 (2009) (Diff Rep)) is set out in paragraphs 1.1–8.2.13 and Appendices A–C. NZ IFRS 9 (2009) (Diff Rep) is based on International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9) as published by the International Accounting Standards Board (IASB) in 2009. 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 they appear in the NZ IFRS Diff Rep. Definitions of other terms are given in the Glossary. NZ IFRS 9 (2009) (Diff Rep) should be read in the context of its objective and the IASB’s Basis for Conclusions on IFRS 9 and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ *Framework (Diff Rep)*). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 (Diff Rep) *Presentation of Financial Statements* paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 9 (2009) (Diff Rep) *Financial Instruments*

This table lists the pronouncement establishing NZ IFRS 9 (2009) (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 9 (2009) (Diff Rep) <i>Financial Instruments</i>	Nov 2012	Early application permitted	1 Jan 2015

Table of Amended Paragraphs in NZ IFRS 9 (2009) (Diff Rep)		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 2	Inserted	NZ IFRS 9 (2009) (Diff Rep) [Nov 2012]
Paragraph NZ 8.1.2	Inserted	NZ IFRS 9 (2009) (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRS 9 as applied by qualifying entities prior to the issue of this Standard as NZ IFRS 9 (2009) (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 13 *Fair Value Measurement*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRS 9 <i>Financial Instruments</i>	Nov 2009	Early application permitted	1 Jan 2013
<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> (Amendments to NZ IFRS 9 and NZ IFRS 7)	Feb 2012	Early application permitted	1 Jan 2015

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Table of Amended Paragraphs in NZ IFRS 9		
Paragraph affected	How affected	By ... [date]
Paragraph 8.1.1	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph 8.2.12	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph C8 NZ IFRS 7 paragraph 44I	Amended	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]
Paragraph NZ C8 NZ IFRS 7 paragraphs 44S–44W	Inserted	<i>Mandatory Effective Date of NZ IFRS 9 and Transition Disclosures</i> [Feb 2012]

Introduction

Reasons for issuing the IFRS

- IN1 IAS 39 *Financial Instruments: Recognition and Measurement* sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The International Accounting Standards Board (IASB) inherited IAS 39 from its predecessor body, the International Accounting Standards Committee.
- IN2 Many users of financial statements and other interested parties have told the IASB that the requirements in IAS 39 are difficult to understand, apply and interpret. They have urged the IASB to develop a new standard for financial reporting for financial instruments that is principle-based and less complex. Although the IASB has amended IAS 39 several times to clarify requirements, add guidance and eliminate internal inconsistencies, it has not previously undertaken a fundamental reconsideration of reporting for financial instruments.
- IN3 Since 2005, the IASB and the US Financial Accounting Standards Board (FASB) have had a long-term objective to improve and simplify the reporting for financial instruments. This work resulted in the publication of a discussion paper, *Reducing Complexity in Reporting Financial Instruments*, in March 2008. Focusing on the measurement of financial instruments and hedge accounting, the paper identified several possible approaches for improving and simplifying the accounting for financial instruments. The responses to the paper indicated support for a significant change in the requirements for reporting financial instruments. In November 2008 the IASB added this project to its active agenda, and in December 2008 the FASB also added the project to its agenda.
- IN4 In April 2009, in response to the input received on its work responding to the financial crisis, and following the conclusions of the G20 leaders and the recommendations of international bodies such as the Financial Stability Board, the IASB announced an accelerated timetable for replacing IAS 39. As a result, in July 2009 the IASB published an exposure draft *Financial Instruments: Classification and Measurement*, followed by IFRS 9 *Financial Instruments* in November 2009.
- IN5 In developing IFRS 9 the IASB considered input obtained in response to its discussion paper, the report from the Financial Crisis Advisory Group published in July 2009, the responses to the exposure draft and other discussions with interested parties, including three public round tables held to discuss the proposals in that exposure draft. The IASB staff also obtained additional feedback from users of financial statements and others through an extensive outreach programme.

The IASB's approach to replacing IAS 39

- IN6 The IASB intends that IFRS 9 will ultimately replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the IASB divided its project to replace IAS 39 into three main phases. As the IASB completes each phase, as well as its separate project on the derecognition of financial instruments, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that replace the requirements in IAS 39. The IASB aims to replace IAS 39 in its entirety by the end of 2010.
- IN7 The IASB included proposals for the classification and measurement of financial liabilities in the exposure draft that preceded IFRS 9. In that exposure draft the IASB also drew attention to the discussion paper *Credit Risk in Liability Measurement* published in June 2009. In their responses to the exposure draft and discussion paper, many expressed concern about recognising changes in an entity's own credit risk in the remeasurement of liabilities. During its redeliberations on the classification and measurement of financial liabilities, the IASB decided not to finalise the requirements for financial liabilities before considering those issues further and analysing possible approaches to address the concerns raised by respondents.
- IN8 Accordingly, in November 2009 the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. The IASB addressed those matters first because they form the foundation of a standard on reporting financial instruments. Moreover, many of the concerns expressed during the financial crisis arose from the classification and measurement requirements for financial assets in IAS 39.
- IN9 The IASB sees this first instalment on classification and measurement of financial assets as a stepping stone to future improvements in the financial reporting of financial instruments and is committed to completing its work on classification and measurement of financial instruments expeditiously.

Next steps

- IN10 IFRS 9 is the first part of Phase 1 of the IASB's project to replace IAS 39. The main phases are:
- (a) Phase 1: Classification and measurement. The exposure draft *Financial Instruments: Classification and Measurement*, published in July 2009, contained proposals for both assets and liabilities within the scope of IAS 39. The IASB is committed to completing its work on financial liabilities expeditiously and will include requirements for financial liabilities in IFRS 9 in due course.
 - (b) Phase 2: Impairment methodology. On 25 June 2009 the IASB published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets. This formed the basis of an exposure

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draft, *Financial Instruments: Amortised Cost and Impairment*, published in November 2009 with a comment deadline of 30 June 2010. The IASB is also setting up an expert advisory panel to address the operational issues arising from an expected cash flow approach.

- (c) Phase 3: Hedge accounting. The IASB has started to consider how to improve and simplify the hedge accounting requirements of IAS 39 and expects to publish proposals shortly.
- IN11 In addition to those three phases, the IASB published in March 2009 an exposure draft *Derecognition* (proposed amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*). Redeliberations are under way and the IASB expects to complete this project in the second half of 2010.
- IN12 As stated above, the IASB aims to have replaced IAS 39 in its entirety by the end of 2010.
- IN13 The IASB and the FASB are committed to achieving by the end of 2010 a comprehensive and improved solution that provides comparability internationally in the accounting for financial instruments. However, those efforts have been complicated by the differing project timetables established to respond to the respective stakeholder groups. The IASB and FASB have developed strategies and plans to achieve a comprehensive and improved solution that provides comparability internationally. As part of those plans, they reached agreement at their joint meeting in October 2009 on a set of core principles designed to achieve comparability and transparency in reporting, consistency in accounting for credit impairments, and reduced complexity of financial instrument accounting.
- IN14 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7), issued in December 2011, amended the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendments also modified the relief from restating prior periods. The Board has published amendments to IFRS 7 to require additional disclosures on transition from IAS 39 to IFRS 9. Entities that initially apply IFRS 9 in periods:
- (a) beginning before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;
 - (b) beginning on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and
 - (c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

Main features of the NZ IFRS Diff Rep

NZ IFRS 9 (2009) (Diff Rep) is identical to NZ IFRS 9 (2009) applied by qualifying entities prior to the issuance of NZ IFRS 9 (2009) (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IFRS 9 (2009) on adoption of this Standard.

- IN15 NZ International Financial Reporting Standard 9 (Diff Rep) (NZ IFRS 9 (2009) (Diff Rep)) is based on IFRS 9.
- IN16 Chapters 4 and 5 of NZ IFRS 9 (2009) (Diff Rep) specify how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be:
- (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
 - (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.
 - (c) subsequently measured at amortised cost or fair value.
- IN17 These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39 (Diff Rep). They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in NZ IAS 39 (Diff Rep), each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in NZ IAS 39 (Diff Rep) that arise from the different classification categories.

Compliance with IFRS 9

- IN17 [Deleted]

NZ International Financial Reporting Standard 9 (2009) (Diff Rep) *Financial Instruments* (NZ IFRS 9 (2009) (Diff Rep))

Chapter 1 Objective

- 1.1 The objective of this NZ IFRS Diff Rep is to establish principles for the financial reporting of *financial assets* that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

Chapter 2 Scope

NZ 2	This Standard applies only to Tier 3 for-profit entities.
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- 2.1 An entity shall apply this NZ IFRS Diff Rep to all assets within the scope of NZ IAS 39 (Diff Rep) *Financial Instruments: Recognition and Measurement*.

Chapter 3 Recognition and derecognition

3.1 Initial recognition of financial assets

- 3.1.1 **An entity shall recognise a financial asset in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs AG34 and AG35 of NZ IAS 39 (Diff Rep)). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1–4.5 and measure it in accordance with paragraph 5.1.1.**
- 3.1.2 A *regular way purchase or sale* of a financial asset shall be recognised and derecognised in accordance with paragraphs 38 and AG53–AG56 of NZ IAS 39 (Diff Rep).

Chapter 4 Classification

- 4.1 Unless paragraph 4.5 applies, an entity shall classify financial assets as subsequently measured at either *amortised cost* or *fair value* on the basis of both:
- (a) the entity's business model for managing the financial assets; and
 - (b) the contractual cash flow characteristics of the financial asset.
- 4.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:
- (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
 - (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Paragraphs B4.1–B4.26 provide guidance on how to apply these conditions.
- 4.3 For the purpose of this NZ IFRS Diff Rep, interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.
- 4.4 A financial asset shall be measured at fair value unless it is measured at amortised cost in accordance with paragraph 4.2.

Option to designate a financial asset at fair value through profit or loss

- 4.5 Notwithstanding paragraphs 4.1–4.4, an entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. (See paragraphs AG4D–AG4G of NZ IAS 39 (Diff Rep).)

Embedded derivatives

- 4.6 An embedded *derivative* is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A

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derivative that is attached to a *financial instrument* but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

- 4.7 **If a hybrid contract contains a host that is within the scope of this NZ IFRS Diff Rep, an entity shall apply the requirements in paragraphs 4.1–4.5 to the entire hybrid contract.**
- 4.8 **If a hybrid contract contains a host that is not within the scope of this NZ IFRS Diff Rep, an entity shall apply the requirements in paragraphs 11–13 and AG27–AG33B of NZ IAS 39 (Diff Rep) to determine whether it must separate the embedded derivative from the host. If the embedded derivative must be separated from the host, the entity shall:**
- (a) **classify the derivative in accordance with either paragraphs 4.1–4.4 for derivative assets or paragraph 9 of NZ IAS 39 (Diff Rep) for all other derivatives; and**
 - (b) **account for the host in accordance with other NZ IFRS Diff Rep.**

Reclassification

- 4.9 **When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with paragraphs 4.1–4.4.**

Chapter 5 Measurement

5.1 Initial measurement of financial assets

- 5.1.1 **At initial recognition, an entity shall measure a financial asset at its fair value (see paragraphs 48, 48A and AG69–AG82 of NZ IAS 39 (Diff Rep)) plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.**

5.2 Subsequent measurement of financial assets

- 5.2.1 **After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1-4.5 at fair value (see paragraphs 48, 48A and AG69–AG82 of NZ IAS 39 (Diff Rep)) or amortised cost.**
- 5.2.2 **An entity shall apply the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39 (Diff Rep) to financial assets measured at amortised cost.**

- 5.2.3 An entity shall apply the hedge accounting requirements in paragraphs 89–102 of NZ IAS 39 (Diff Rep) to a financial asset that is designated as a *hedged item* (see paragraphs 78–84 and AG98–AG101 of NZ IAS 39 (Diff Rep)).

5.3 Reclassification

- 5.3.1 If an entity reclassifies financial assets in accordance with paragraph 4.9, it shall apply the reclassification prospectively from the *reclassification date*. The entity shall not restate any previously recognised gains, losses or interest.
- 5.3.2 If, in accordance with paragraph 4.9, an entity reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.
- 5.3.3 If, in accordance with paragraph 4.9, an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

5.4 Gains and losses

- 5.4.1 A gain or loss on a financial asset that is measured at fair value and is not part of a hedging relationship (see paragraphs 89–102 of NZ IAS 39 (Diff Rep)) shall be recognised in profit or loss unless the financial asset is an investment in an *equity instrument* and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 5.4.4.
- 5.4.2 A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 89–102 of NZ IAS 39 (Diff Rep)) shall be recognised in profit or loss when the financial asset is derecognised, impaired or reclassified in accordance with paragraph 5.3.2, and through the amortisation process.
- 5.4.3 A gain or loss on financial assets that are
- (a) hedged items (see paragraphs 78–84 and AG98–AG101 of NZ IAS 39 (Diff Rep)) shall be recognised in accordance with paragraphs 89–102 of NZ IAS 39 (Diff Rep).
 - (b) accounted for using settlement date accounting shall be recognised in accordance with paragraph 57 of NZ IAS 39 (Diff Rep).

Investments in equity instruments

- 5.4.4 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an

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investment in an equity instrument within the scope of this NZ IFRS Diff Rep that is not held for trading.

- 5.4.5 If an entity makes the election in paragraph 5.4.4, it shall recognise in profit or loss dividends from that investment when the entity's right to receive payment of the dividend is established in accordance with NZ IAS 18 (Diff Rep) *Revenue*.

Chapter 6 Hedge accounting – not used

Chapter 7 Disclosures – not used

Chapter 8 Effective date and transition

8.1 Effective date

- 8.1.1 An entity shall apply this NZ IFRS Diff Rep for annual periods beginning on or after 1 January 2015. Earlier application is permitted. If an entity applies this NZ IFRS Diff Rep in its financial statements for a period beginning before 1 January 2015, it shall disclose that fact and at the same time apply the amendments in Appendix C.

NZ 8.1.2 This Standard replaces NZ IFRS 9 (2009) as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IFRS 9 (2009) as it applied to qualifying entities.

8.2 Transition

- 8.2.1 An entity shall apply this NZ IFRS Diff Rep retrospectively, in accordance with NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 8.2.4–8.2.13. This NZ IFRS Diff Rep shall not be applied to financial assets that have already been derecognised at the date of initial application.
- 8.2.2 For the purposes of the transition provisions in paragraphs 8.2.1 and 8.2.3–8.2.13, the date of initial application is the date when an entity first applies the requirements of this NZ IFRS Diff Rep. The date of initial application may be:
- any date between the issue of this NZ IFRS Diff Rep and 31 December 2010, for entities initially applying this NZ IFRS Diff Rep before 1 January 2011; or
 - the beginning of the first reporting period in which the entity adopts this NZ IFRS Diff Rep, for entities initially applying this NZ IFRS Diff Rep on or after 1 January 2011.

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- 8.2.3 If the date of initial application is not at the beginning of a reporting period, the entity shall disclose that fact and the reasons for using that date of initial application.
- 8.2.4 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.2(a) on the basis of the facts and circumstances that exist at the date of initial application. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.
- 8.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.4 or paragraph 4.5 but the fair value of the hybrid contract had not been determined in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.
- 8.2.6 At the date of initial application, an entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application:
- (a) in the opening retained earnings of the reporting period of initial application if the entity initially applies this NZ IFRS Diff Rep at the beginning of a reporting period; or
 - (b) in profit or loss if the entity initially applies this NZ IFRS Diff Rep during a reporting period.
- 8.2.7 At the date of initial application, an entity may designate:
- (a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.5; or
 - (b) an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.4.4.
- Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.
- 8.2.8 At the date of initial application, an entity:
- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset does not meet the condition in paragraph 4.5.
 - (b) may revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset meets the condition in paragraph 4.5.
- Such revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

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8.2.9 At the date of initial application, an entity shall apply paragraph 103M of NZ IAS 39 (Diff Rep) to determine when it:

- (a) may designate a *financial liability* as measured at fair value through profit or loss; and
- (b) shall or may revoke its previous designation of a financial liability as measured at fair value through profit or loss.

Such revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

8.2.10 If it is impracticable (as defined in NZ IAS 8 (Diff Rep)) for an entity to apply retrospectively the *effective interest method* or the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39 (Diff Rep), the entity shall treat the fair value of the financial asset at the end of each comparative period as its amortised cost if the entity restates prior periods. In those circumstances, the fair value of the financial asset at the date of initial application shall be treated as the new amortised cost of that financial asset at the date of initial application of this NZ IFRS Diff Rep.

8.2.11 If an entity previously accounted for an investment in an unquoted equity instrument (or a derivative that is linked to and must be settled by delivery of such an unquoted equity instrument) at cost in accordance with NZ IAS 39 (Diff Rep), it shall measure that instrument at fair value at the date of initial application. Any difference between the previous carrying amount and fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.

8.2.12 Despite the requirement in paragraph 8.2.1, an entity that adopts this NZ IFRS Diff Rep for reporting periods:

- (a) beginning before 1 January 2012 need not restate prior periods, and is not required to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7 (Diff Rep) (see Appendix C);
- (b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7 (Diff Rep) (see Appendix C) or to restate prior periods; and
- (c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of NZ IFRS 7 (Diff Rep) (see Appendix C). The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise 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 in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

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- 8.2.13 If an entity prepares interim financial reports in accordance with NZ IAS 34 (Diff Rep) *Interim Financial Reporting* the entity need not apply the requirements in this NZ IFRS Diff Rep to interim periods prior to the date of initial application if it is impracticable (as defined in NZ IAS 8 (Diff Rep)).

Appendix A Defined terms

This appendix is an integral part of the NZ IFRS Diff Rep.

reclassification date The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

The following terms are defined in paragraph 11 of NZ IAS 32 (Diff Rep) *Financial Instruments: Presentation* or paragraph 9 of NZ IAS 39 (Diff Rep) and are used in this NZ IFRS Diff Rep with the meanings specified in NZ IAS 32 (Diff Rep) or NZ IAS 39 (Diff Rep):

- (a) amortised cost of a financial asset or financial liability
- (b) derivative
- (c) effective interest method
- (d) equity instrument
- (e) fair value
- (f) financial asset
- (g) financial instrument
- (h) financial liability
- (i) hedged item
- (j) hedging instrument
- (k) held for trading
- (l) regular way purchase or sale
- (m) transaction costs.

Appendix B Application guidance

This appendix is an integral part of the NZ IFRS Diff Rep.

Classification

The entity's business model for managing financial assets

- B4.1 Paragraph 4.1(a) requires an entity to classify financial assets as subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets. An entity assesses whether its financial assets meet this condition on the basis of the objective of the business model as determined by the entity's key management personnel (as defined in NZ IAS 24 (Diff Rep) *Related Party Disclosures*).
- B4.2 The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. However, a single entity may have more than one business model for managing its financial instruments. Therefore, classification need not be determined at the reporting entity level. For example, an entity may hold a portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to trade to realise fair value changes.
- B4.3 Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. For example, the entity may sell a financial asset if:
- (a) the financial asset no longer meets the entity's investment policy (eg the credit rating of the asset declines below that required by the entity's investment policy);
 - (b) an insurer adjusts its investment portfolio to reflect a change in expected duration (ie the expected timing of payouts); or
 - (c) an entity needs to fund capital expenditures.

However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows.

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B4.4 The following are examples of when the objective of an entity's business model may be to hold financial assets to collect the contractual cash flows. This list of examples is not exhaustive.

Example	Analysis
<p>Example 1</p> <p>An entity holds investments to collect their contractual cash flows but would sell an investment in particular circumstances.</p>	<p>Although an entity may consider, among other information, the financial assets' fair values from a liquidity perspective (ie the cash amount that would be realised if the entity needs to sell assets), the entity's objective is to hold the financial assets and collect the contractual cash flows. Some sales would not contradict that objective.</p>
<p>Example 2</p> <p>An entity's business model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets with incurred credit losses. If payment on the loans is not made on a timely basis, the entity attempts to extract the contractual cash flows through various means—for example, by making contact with the debtor by mail, telephone or other methods.</p> <p>In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate.</p>	<p>The objective of the entity's business model is to hold the financial assets and collect the contractual cash flows. The entity does not purchase the portfolio to make a profit by selling them.</p> <p>The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (eg some of the financial assets have incurred credit losses).</p> <p>Moreover, the fact that the entity has entered into derivatives to modify the cash flows of the portfolio does not in itself change the entity's business model. If the portfolio is not managed on a fair value basis, the objective of the business model could be to hold the assets to collect the contractual cash flows.</p>
<p>Example 3</p> <p>An entity has a business model with the objective of originating loans to customers and subsequently to sell those loans to a securitisation vehicle. The securitisation vehicle issues instruments to investors.</p> <p>The originating entity controls the securitisation vehicle and thus consolidates it.</p>	<p>The consolidated group originated the loans with the objective of holding them to collect the contractual cash flows.</p> <p>However, the originating entity has an objective of realising cash flows on the loan portfolio by selling the loans to the securitisation vehicle, so for the purposes of its separate financial statements it would not be considered to be managing this portfolio in order to collect the contractual cash flows.</p> <p style="text-align: right;"><i>continued...</i></p>

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Example	Analysis
<p>The securitisation vehicle collects the contractual cash flows from the loans and passes them on to its investors.</p> <p>It is assumed for the purposes of this example that the loans continue to be recognised in the consolidated statement of financial position because they are not derecognised by the securitisation vehicle.</p>	

- B4.5 One business model in which the objective is not to hold instruments to collect the contractual cash flows is if an entity manages the performance of a portfolio of financial assets with the objective of realising cash flows through the sale of the assets. For example, if an entity actively manages a portfolio of assets in order to realise fair value changes arising from changes in credit spreads and yield curves, its business model is not to hold those assets to collect the contractual cash flows. The entity's objective results in active buying and selling and the entity is managing the instruments to realise fair value gains rather than to collect the contractual cash flows.
- B4.6 A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis (as described in paragraph 9(b)(ii) of NZ IAS 39 (Diff Rep)) is not held to collect contractual cash flows. Also, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows. Such portfolios of instruments must be measured at fair value through profit or loss.

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

- B4.7 Paragraph 4.1 requires an entity (unless paragraph 4.5 applies) to classify a financial asset as subsequently measured at amortised cost or fair value on the basis of the contractual cash flow characteristics of the financial asset that is in a group of financial assets managed for the collection of the contractual cash flows.
- B4.8 An entity shall assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated (see also paragraph B5.13).
- B4.9 Leverage is a contractual cash flow characteristic of some financial assets. Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Stand-alone option, forward and swap contracts are examples of financial assets that include leverage.

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Thus such contracts do not meet the condition in paragraph 4.2(b) and cannot be subsequently measured at amortised cost.

- B4.10 Contractual provisions that permit the issuer (ie the debtor) to prepay a debt instrument (eg a loan or a bond) or permit the holder (ie the creditor) to put a debt instrument back to the issuer before maturity result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding only if:
- (a) the provision is not contingent on future events, other than to protect:
 - (i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law; and
 - (b) the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.
- B4.11 Contractual provisions that permit the issuer or holder to extend the contractual term of a debt instrument (ie an extension option) result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding only if:
- (a) the provision is not contingent on future events, other than to protect:
 - (i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations) or a change in control of the issuer; or
 - (ii) the holder or issuer against changes in relevant taxation or law; and
 - (b) the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding.
- B4.12 A contractual term that changes the timing or amount of payments of principal or interest does not result in contractual cash flows that are solely principal and interest on the principal amount outstanding unless it:
- (a) is a variable interest rate that is consideration for the time value of money and the credit risk (which may be determined at initial recognition only, and so may be fixed) associated with the principal amount outstanding; and
 - (b) if the contractual term is a prepayment option, meets the conditions in paragraph B4.10; or
 - (c) if the contractual term is an extension option, meets the conditions in paragraph B4.11.

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- B4.13 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
<p>Instrument A Instrument A is a bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects ‘real’ interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding.</p> <p>However, if the interest payments were indexed to another variable such as the debtor’s performance (eg the debtor’s net income) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the interest payments are not consideration for the time value of money and for credit risk associated with the principal amount outstanding. There is variability in the contractual interest payments that is inconsistent with market interest rates.</p>
<p>Instrument B Instrument B is a variable interest rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis. For example, at each interest rate reset date, the borrower can choose to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding as long as the interest paid over the life of the instrument reflects consideration for the time value of money and for the credit risk associated with the instrument. The fact that the LIBOR interest rate is reset during the life of the instrument does not in itself disqualify the instrument.</p> <p>However, if the borrower is able to choose to pay one-month LIBOR for three months and that one-month LIBOR is not reset each month, the contractual cash flows are not payments of principal and interest.</p> <p>The same analysis would apply if the borrower is able to choose between the lender’s published one-month variable interest rate and the lender’s published three-month variable interest rate.</p> <p style="text-align: right;"><i>continued...</i></p>

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Instrument	Analysis
	<p>However, if the instrument has a contractual interest rate that is based on a term that exceeds the instrument's remaining life, its contractual cash flows are not payments of principal and interest on the principal amount outstanding. For example, a constant maturity bond with a five-year term that pays a variable rate that is reset periodically but always reflects a five-year maturity does not result in contractual cash flows that are payments of principal and interest on the principal amount outstanding. That is because the interest payable in each period is disconnected from the term of the instrument (except at origination).</p>
<p>Instrument C Instrument C is a bond with a stated maturity date and pays a variable market interest rate. That variable interest rate is capped.</p>	<p>The contractual cash flows of both:</p> <ul style="list-style-type: none"> (a) an instrument that has a fixed interest rate and (b) an instrument that has a variable interest rate <p>are payments of principal and interest on the principal amount outstanding as long as the interest reflects consideration for the time value of money and for the credit risk associated with the instrument during the term of the instrument. Therefore, an instrument that is a combination of (a) and (b) (eg a bond with an interest rate cap) can have cash flows that are solely payments of principal and interest on the principal amount outstanding. Such a feature may reduce cash flow variability by setting a limit on a variable interest rate (eg an interest rate cap or floor) or increase the cash flow variability because a fixed rate becomes variable.</p>
<p>Instrument D Instrument D is a full recourse loan and is secured by collateral.</p>	<p>The fact that a full recourse loan is collateralised does not in itself affect the analysis of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.</p>

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- B4.14 The following examples illustrate contractual cash flows that are not payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<p>Instrument E Instrument E is a bond that is convertible into equity instruments of the issuer.</p>	<p>The holder would analyse the convertible bond in its entirety. The contractual cash flows are not payments of principal and interest on the principal amount outstanding because the interest rate does not reflect only consideration for the time value of money and the credit risk. The return is also linked to the value of the equity of the issuer.</p>
<p>Instrument F Instrument F is a loan that pays an inverse floating interest rate (ie the interest rate has an inverse relationship to market interest rates).</p>	<p>The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The interest amounts are not consideration for the time value of money on the principal amount outstanding.</p> <p style="text-align: right;"><i>continued...</i></p>

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Instrument	Analysis
<p>Instrument G</p> <p>Instrument G is a perpetual instrument but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due.</p> <p>Instrument G pays a market interest rate but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards.</p> <p>Deferred interest does not accrue additional interest.</p>	<p>The contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the issuer may be required to defer interest payments and additional interest does not accrue on those deferred interest amounts. As a result, interest amounts are not consideration for the time value of money on the principal amount.</p> <p>If interest accrued on the deferred amounts, the contractual cash flows could be payments of principal and interest on the principal amount outstanding.</p> <p>The fact that Instrument G is perpetual does not in itself mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding. In effect, a perpetual instrument has continuous (multiple) extension options. Such options may result in contractual cash flows that are payments of principal and interest on the principal amount outstanding if interest payments are mandatory and must be paid in perpetuity.</p> <p>Also, the fact that Instrument G is callable does not mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding unless it is callable at an amount that does not substantially reflect payment of outstanding principal and interest on that principal. Even if the callable amount includes an amount that compensates the holder for the early termination of the instrument, the contractual cash flows could be payments of principal and interest on the principal amount outstanding.</p>

B4.15 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 4.2(b) and 4.3 of this NZ IFRS Diff Rep.

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- B4.16 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, the contractual cash flows may include payment for factors other than consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. As a result, the instrument would not satisfy the condition in paragraph 4.2(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).
- B4.17 However, the fact that a financial asset is non-recourse does not in itself necessarily preclude the financial asset from meeting the condition in paragraph 4.2(b). In such situations, the creditor is required to assess ('look through to') the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding. 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 paragraph 4.2(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.
- B4.18 If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.
- B4.19 In almost every lending transaction the creditor's instrument is ranked relative to the instruments of the debtor's other creditors. An instrument that is subordinated to other instruments may have contractual cash flows that are payments of principal and interest on the principal amount outstanding if the debtor's non-payment is a breach of contract and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy. For example, a trade receivable that ranks its creditor as a general creditor would qualify as having payments of principal and interest on the principal amount outstanding. This is the case even if the debtor issued loans that are collateralised, which in the event of bankruptcy would give that loan holder priority over the claims of the general creditor in respect of the collateral but does not affect the contractual right of the general creditor to unpaid principal and other amounts due.

Contractually linked instruments

- B4.20 In some types of transactions, an entity 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 are allocated to the tranche. In such situations, the holders of a tranche have the right

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to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

- B4.21 In such transactions, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:
- (a) the contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (eg the interest rate on the tranche is not linked to a commodity index);
 - (b) the underlying pool of financial instruments has the cash flow characteristics set out in paragraphs B4.23 and B4.24; and
 - (c) the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 per cent as a result of credit losses and under all circumstances the tranche would lose 50 per cent or less.
- B4.22 An entity must look through until it can identify the underlying pool of instruments that are creating (rather than passing through) the cash flows. This is the underlying pool of financial instruments.
- B4.23 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.
- B4.24 The underlying pool of instruments may also include instruments that:
- (a) reduce the cash flow variability of the instruments in paragraph B4.23 and, when combined with the instruments in paragraph B4.23, result in cash flows that are solely payments of principal and interest on the principal amount outstanding (eg an interest rate cap or floor or a contract that reduces the credit risk on some or all of the instruments in paragraph B4.23); or
 - (b) align the cash flows of the tranches with the cash flows of the pool of underlying instruments in paragraph B4.23 to address differences in and only in:
 - (i) whether the interest rate is fixed or floating;
 - (ii) the currency in which the cash flows are denominated, including inflation in that currency; or
 - (iii) the timing of the cash flows.
- B4.25 If any instrument in the pool does not meet the conditions in either paragraph B4.23 or paragraph B4.24, the condition in paragraph B4.21(b) is not met.

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- B4.26 If the holder cannot assess the conditions in paragraph B4.21 at initial recognition, the tranche must be measured at fair value. If the underlying pool of instruments can change after initial recognition in such a way that the pool may not meet the conditions in paragraphs B4.23 and B4.24, the tranche does not meet the conditions in paragraph B4.21 and must be measured at fair value.

Measurement

Initial measurement of financial assets

- B5.1 The fair value of a financial asset at initial recognition is normally the transaction price (ie the fair value of the consideration given, see also paragraph AG76 of NZ IAS 39 (Diff Rep)). However, if part of the consideration given is for something other than the financial instrument, the fair value of the financial instrument is estimated using a valuation technique (see paragraphs AG74–AG79 of NZ IAS 39 (Diff Rep)). For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.
- B5.2 If an entity originates a loan that bears an off-market interest rate (eg 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognises the loan at its fair value, ie net of the fee it receives.

Subsequent measurement of financial assets

- B5.3 If a financial instrument that was previously recognised as a financial asset is measured at fair value and its fair value decreases below zero, it is a financial liability measured in accordance with NZ IAS 39 (Diff Rep). However, hybrid contracts with financial asset hosts are always measured in accordance with NZ IFRS 9 (2009) (Diff Rep).
- B5.4 The following example illustrates the accounting for transaction costs on the initial and subsequent measurement of a financial asset measured at fair value with changes through other comprehensive income in accordance with paragraph 5.4.4. An entity acquires an asset for CU100¹ plus a purchase commission of CU2. Initially, the entity recognises the asset at CU102. The reporting period ends one day later, when the quoted market price of the asset is CU100. If the asset were sold, a commission of CU3 would be paid. On that date, the entity measures the

¹ In this NZ IFRS Diff Rep monetary amounts are denominated in 'currency units (CU)'.

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asset at CU100 (without regard to the possible commission on sale) and recognises a loss of CU2 in other comprehensive income.

Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instruments)

- B5.5 All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.
- B5.6 Indicators that cost might not be representative of fair value include:
- (a) a significant change in the performance of the investee compared with budgets, plans or milestones.
 - (b) changes in expectation that the investee's technical product milestones will be achieved.
 - (c) a significant change in the market for the investee's equity or its products or potential products.
 - (d) a significant change in the global economy or the economic environment in which the investee operates.
 - (e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.
 - (f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.
 - (g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.
- B5.7 The list in paragraph B5.6 is not exhaustive. An entity shall use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must estimate fair value.
- B5.8 Cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments).

Reclassification

- B5.9 Paragraph 4.9 requires an entity to reclassify financial assets if the objective of the entity's business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes must be determined by

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the entity's senior management as a result of external or internal changes must be significant to the entity's operations and demonstrable to external parties. Examples of a change in business model include the following:

- (a) An entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans and all are held to collect the contractual cash flows.
- (b) A financial services firm decides to shut down its retail mortgage business. That business no longer accepts new business and the financial services firm is actively marketing its mortgage loan portfolio for sale.

B5.10 A change in the objective of the entity's business model must be effected before the reclassification date. For example, if a financial services firm decides on 15 February to shut down its retail mortgage business and hence must reclassify all affected financial assets on 1 April (ie the first day of the entity's next reporting period), the entity must not accept new retail mortgage business or otherwise engage in activities consistent with its former business model after 15 February.

B5.11 The following are not changes in business model:

- (a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions).
- (b) a temporary disappearance of a particular market for financial assets.
- (c) a transfer of financial assets between parts of the entity with different business models.

Gains and losses

B5.12 Paragraph 5.4.4 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with NZ IAS 18 (Diff Rep) *Revenue* unless the dividend clearly represents a recovery of part of the cost of the investment.

B5.13 An entity applies NZ IAS 21 (Diff Rep) *The Effects of Changes in Foreign Exchange Rates* to financial assets that are monetary items in accordance with NZ IAS 21 (Diff Rep) and denominated in a foreign currency. NZ IAS 21 (Diff Rep) requires any foreign exchange gains and losses on monetary assets to be recognised in profit or loss. An exception is a monetary item that is designated as a *hedging instrument* in either a cash flow hedge (see

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paragraphs 95–101 of NZ IAS 39 (Diff Rep)) or a hedge of a net investment (see paragraph 102 of NZ IAS 39 (Diff Rep)).

- B5.14 Paragraph 5.4.4 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. Such an investment is not a monetary item. Accordingly, the gain or loss that is presented in other comprehensive income in accordance with paragraph 5.4.4 includes any related foreign exchange component.
- B5.15 If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are presented in profit or loss.

Transition

Financial assets held for trading

- B8.1 At the date of initial application of this NZ IFRS Diff Rep, an entity must determine whether the objective of the entity's business model for managing any of its financial assets meets the condition in paragraph 4.2(a) or if a financial asset is eligible for the election in paragraph 5.4.4. For that purpose, an entity shall determine whether financial assets meet the definition of held for trading as if the entity had acquired the assets at the date of initial application.

Appendix C Amendments to other NZ IFRSs

Except where otherwise stated, an entity shall apply the amendments in this appendix when it applies NZ IFRS 9. Amended paragraphs are shown with new text underlined and deleted text struck through.

When an entity adopts NZ IFRS 9 (2010) (Diff Rep), the consequential amendments to other NZ IFRSs in this Appendix are to be read as consequential amendments to other NZ IFRS Diff Rep that are applied by that entity.

NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

NZ IFRS 1 (as revised in December 2008)

- C1 In NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (as revised in December 2008), paragraph 29 is amended and paragraphs 29A and 39B are added as follows:
- 29 An entity is permitted to designate a previously recognised financial asset ~~or financial liability~~ as a financial asset ~~or financial liability~~ at measured at fair value through profit or loss ~~or a financial asset as available for sale~~ in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets ~~or financial liabilities~~ so designated ~~into each category~~ at the date of designation and their classification and carrying amount in the previous financial statements.
- 29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.
- 39B NZ IFRS 9 *Financial Instruments* amended paragraphs 29, B1 and D19 and added paragraphs 29A, B8, D19A–D19C, E1 and E2. An entity shall apply those amendments when it applies NZ IFRS 9.
- C2 In Appendix B, paragraph B1, B2 and B5 are amended, and a heading and paragraph B8 are added as follows:
- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);

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- (b) hedge accounting (paragraphs B4–B6); ~~and~~
 - (c) non-controlling interests (paragraph B7); and
 - (d) classification and measurement of financial assets (paragraph B8).
- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in NZ IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after ~~1 January 2004~~ the date of transition to NZ IFRSs. ~~In other words~~ For example, if a first-time adopted derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before ~~1 January 2004~~ the date of transition to NZ IFRSs, it shall not recognise those assets and liabilities in accordance with NZ IFRSs (unless they qualify for recognition as a result of a later transaction or event).
- B8 An entity shall not reflect in its opening New Zealand equivalents to IFRSs statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with NZ IAS 39 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged instrument is a net position; ~~or where the hedge covers interest risk in a held to maturity investment~~).

Classification and measurement of financial assets

- B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.2 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.
- C3 In Appendix D (Exemptions from other IFRSs), paragraphs D14(b), D19 and D20 are amended and paragraphs D19A–D19C are added as follows.
- D14 ...
- (b) in accordance with NZ IFRS 9 and NZ IAS 39;
- D19 NZ IAS 39 permits a financial liability ~~asset to be designated on initial recognition as available for sale or a financial instrument~~ (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement ~~exceptions apply in the following circumstances:~~
- (a) ~~an entity is permitted to make an available for sale designation at the date of transition to IFRSs.~~
 - (b) an entity is permitted to designate, at the date of transition to NZ IFRSs, any financial asset or financial liability as at fair value through profit or loss provided the ~~asset or liability~~ asset or liability meets the

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criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of NZ IAS 39 at that date.

- D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.5 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.4.4 of NZ IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NZ IFRSs.
- D19C If it is impracticable (as defined in NZ IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of NZ IAS 39, the fair value of the financial asset at the date of transition to NZ IFRSs shall be the new amortised cost of that financial asset at the date of transition to NZ IFRSs.
- D20 notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of NZ IAS 39 paragraph AG76 and in paragraph AG76A, ~~in either of the following ways:~~
- (a) ~~prospectively to transactions entered into on or after the date of transition to NZ IFRSs 25 October 2002; or~~
 - (b) ~~prospectively to transactions entered into after 1 January 2004.~~

In Appendix E (Short-term exemptions from NZ IFRSs), a heading and paragraphs E1 and E2 are added as follows:

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

- E1 In its first NZ IFRS financial statements, an entity that (a) adopts NZ IFRSs for annual periods beginning before 1 January 2012 and (b) applies NZ IFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with NZ IFRS 9 or NZ IFRS 7 *Financial Instruments: Disclosures*, to the extent that the disclosures required by NZ IFRS 7 relate to assets within the scope of NZ IFRS 9. For such entities, references to the ‘date of transition to IFRSs’ shall mean, in the case of NZ IFRS 9 and NZ IFRS 7 only, the beginning of the first IFRS reporting period.

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- E2 An entity that chooses to present comparative information that does not comply with NZ IFRS 9 and NZ IFRS 7 in its first year of transition shall:
- (a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of NZ IAS 39 and NZ IFRS 9 to comparative information about assets within the scope of NZ IFRS 9.
 - (b) disclose this fact together with the basis used to prepare this information.
 - (c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first IFRS reporting period* (ie the first period that includes information that complies with NZ IFRS 9 and NZ IFRS 7) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of NZ IAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.
 - (d) apply paragraph 17(c) of NZ IAS 1 to provide additional disclosures when compliance with the specific requirements in NZ IFRSs 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.

NZ IFRS 1 (issued 2004)

C4 [Deleted]

NZ IFRS 3 *Business Combinations*

NZ IFRS 3 (2008)

C5 In NZ IFRS 3 *Business Combinations* (as revised in 2008), paragraphs 16, 42 and 58 are amended and paragraph 64A is added as follows:

- 16 In some situations, NZ IFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
- (a) classification of particular financial assets and liabilities as ~~measured a financial asset or liability~~ at fair value ~~through profit or loss, or at amortised cost as a financial asset available for sale or~~

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~~held to maturity~~, in accordance with NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*;

- (b) designation of a derivative instrument as a hedging instrument in accordance with NZ IAS 39; and
 - (c) assessment of whether an embedded derivative should be separated from ~~the~~ a host contract outside the scope of NZ IFRS 9 in accordance with NZ IAS 39 (which is a matter of 'classification' as this IFRS uses that term).
- 42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (~~for example, because the investment was classified as available for sale~~). If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

58 ...

- (b) Contingent consideration classified as an asset or a liability that:
 - (i) is a financial instrument and is within the scope of NZ IFRS 9 or NZ IAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with ~~that~~ NZ IFRS 9 or NZ IAS 39 as applicable.
 - (ii) is not within the scope of NZ IFRS 9 or NZ IAS 39 shall be accounted for in accordance with NZ IAS 37 or other IFRSs as appropriate.
- 64A NZ IFRS 9, issued in November 2009, amended paragraphs 16, 42 and 58. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IFRS 4 *Insurance Contracts*

C6 Paragraphs 3 and 45 are amended and paragraph 41C is added as follows:

- 3 This NZ IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see NZ IAS 32 *Financial Instruments: Presentation*, NZ IAS 39 *Financial Instruments: Recognition and Measurement*, ~~and~~ NZ IFRS 7 and NZ IFRS 9 *Financial Instruments*), except in the transitional provisions in paragraph 45.

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- 45 ~~Notwithstanding paragraph 4.9 of NZ IFRS 9, w~~When an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets as measured 'at fair value ~~through profit or loss~~'. This reclassification is permitted if an insurer changes accounting policies when it first applies this NZ IFRS and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and NZ IAS 8 applies.
- 41C NZ IFRS 9, issued in November 2009, amended paragraphs 3 and 45. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ C6.1 In Appendix C of NZ IFRS 4 paragraph 2.1A is added as follows:

- 2.1A Where a life insurer has early adopted NZ IFRS 9 *Financial Instruments*, all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments*.

NZ C6.2 In Appendix D of NZ IFRS 4 paragraph 2.1A is added as follows:

- 2.1A Where an entity that issues insurance contracts, other than a life insurer, has early adopted NZ IFRS 9 *Financial Instruments*, all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments*.

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

- C7 In paragraph 5(c), the reference to 'NZ IAS 39 *Financial Instruments: Recognition and Measurement*' is replaced with 'NZ IFRS 9 *Financial Instruments*'. New paragraph 44F is added as follows:
- 44F NZ IFRS 9 amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 9.

NZ IFRS 7 Financial Instruments: Disclosures

- C8 In the rubric, the reference to 'Appendices A–E' is amended to 'Appendices A–C and Appendix E'. In paragraph 4 the references to 'NZ IAS 39' and in paragraph 5 the first reference to 'NZ IAS 39' are replaced with 'NZ IAS 39 and NZ IFRS 9'. A heading and paragraphs 11A, 11B, 12B–12D, 20A and 44H–44J are added, paragraphs 12 and 12A are deleted and paragraphs 2, 3, 8, 9, 20, 29 and 30 are amended as follows:
- 2 The principles in this Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in NZ IAS 32 *Financial Instruments: Presentation*, ~~and NZ IAS 39 *Financial Instruments: Recognition and Measurement*~~ and NZ IFRS 9 *Financial Instruments*.

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- 3 This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with NZ IAS 27 *Consolidated and Separate Financial Statements*, NZ IAS 28 *Investments in Associates* or NZ IAS 31 *Interests in Joint Ventures*. However, in some cases, NZ IAS 27, NZ IAS 28 or NZ IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using NZ IAS 39 and NZ IFRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in NZ IAS 32.
- 8 The carrying amounts of each of the following categories, as ~~specified~~ defined in NZ IFRS 9 or NZ IAS 39, shall be disclosed either in the statement of financial position or in the notes:
- (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily classified as measured at fair value held for trading in accordance with NZ IFRS 9 IAS 39;
 - ~~(b)–(d) [deleted by IASB]~~
 - ~~(b) held to maturity investments;~~
 - ~~(c) loans and receivables;~~
 - ~~(d) available for sale financial assets;~~
 - (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of classified as held for trading in accordance with NZ IAS 39; and
 - (f) financial ~~assets~~ liabilities measured at amortised cost.
 - (g) financial liabilities measured at amortised cost.
 - (h) financial assets measured at fair value through other comprehensive income.
- 9 If the entity has designated a ~~loan or receivable (or group of loans or receivables)~~ as measured at fair value through profit or loss a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:
- (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ financial assets) at the end of the reporting period.
 - (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

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- (c) the amount of change, during the period and cumulatively, in the fair value of the ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
...
- (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the ~~loan or receivable~~ financial asset was designated.
...

Financial assets measured 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 5.4.4 of NZ IFRS 9, it shall disclose:
 - (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
 - (b) the reasons for using this presentation alternative.
 - (c) the fair value of each such investment at the end of the reporting period.
 - (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
 - (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.
- 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) the reasons for disposing of the investments.
 - (b) the fair value of the investments at the date of derecognition.
 - (c) the cumulative gain or loss on disposal.
- 12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.9 of NZ IFRS 9. For each such event, an entity shall disclose:
 - (a) the date of reclassification.

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- (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.
 - (c) the amount reclassified into and out of each category.
- 12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.9 of NZ IFRS 9:
- (a) the effective interest rate determined on the date of reclassification; and
 - (b) the interest income or expense recognised.
- 12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:
- (a) the fair value of the financial assets at the end of the reporting period; and
 - (b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.
- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) ~~financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily measured at fair value classified as held for trading in accordance with NZ IFRS 9 IAS 39;~~
 - (ii)-(iv) [deleted by IASB]
 - (ii) ~~available for sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;~~
 - (iii) ~~held to maturity investments;~~
 - (iv) ~~loans and receivables; and~~
 - (v) financial liabilities measured at amortised cost at fair value through profit or loss, showing separately those on financial liabilities designated as such upon initial recognition, and those on financial liabilities that meet the definition of held for trading in NZ IAS 39.
 - (vi) financial assets measured at amortised cost.

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- (vii) financial liabilities measured at amortised cost;
 - (viii) financial assets measured at fair value through other comprehensive income.
 - (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets ~~or financial liabilities~~ that are measured at amortised cost or financial liabilities not at fair value through profit or loss;
 - (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - (i) ~~financial assets or financial liabilities~~ measured at amortised cost or financial liabilities that are not at fair value through profit or loss; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
 - (d) ...
- 20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.
- *29 Disclosures of fair value are not required:
- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;
 - (b) ~~for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to investments in equity instruments that do not have a quoted market price in an active market that are such equity instruments, that is~~ measured at cost in accordance with NZ IAS 39 because its their fair value cannot be measured reliably; or
 - (c) for a contract containing a discretionary participation feature (as described in NZ IFRS 4) if the fair value of that feature cannot be measured reliably.
- *30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those ~~financial assets or financial liabilities~~ contracts and their fair value, including:
- (a) ...

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44H NZ IFRS 9, issued in November 2009, amended paragraphs 2, 3, 8, 9, 20, 29 and 30, added paragraphs 11A, 11B, 12B–12D and 20A and deleted paragraphs 2 and 12A. It also amended the last paragraph of Appendix A (Defined terms) and paragraphs B1, B5, B10, B22 and B27, and deleted Appendix D (Amendments to NZ IFRS 7 if the Amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied). An entity shall apply those amendments when it applies NZ IFRS 9.

44I When an entity first applies NZ IFRS 9, it shall disclose for each class of financial assets and financial liabilities at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with NZ IAS 39;
- (b) the new measurement category and carrying amount determined in accordance with NZ IFRS 9;
- (c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that NZ IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies NZ IFRS 9, it shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in NZ IFRS 9 to those financial assets whose classification has changed as a result of applying NZ IFRS 9.
- (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

NZ C8 Insert new paragraphs 44S–44W.

44S When an entity first applies the classification and measurement requirements of NZ IFRS 9, it shall present the disclosures set out in paragraphs 44T–44W of this NZ IFRS if it elects to, or is required to, provide these disclosures in accordance with NZ IFRS 9 (see paragraph 8.2.12 of IFRS 9 (2009) and paragraph 7.2.14 of NZ IFRS 9 (2010)).

44T If required by paragraph 44S, at the date of initial application of NZ IFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

- (a) the changes in the carrying amounts on the basis of their measurement categories in accordance with NZ IAS 39 (ie not

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resulting from a change in measurement attribute on transition to NZ IFRS 9); and

- (b) the changes in the carrying amounts arising from a change in measurement attribute on transition to NZ IFRS 9.

The disclosures in this paragraph need not be made after the annual period in which NZ IFRS 9 is initially applied.

44U In the reporting period in which NZ IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to NZ IFRS 9:

- (a) the fair value of the financial assets or financial liabilities at the end of the reporting period;
- (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;
- (c) the effective interest rate determined on the date of reclassification; and
- (d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of NZ IFRS 9 (2009) and paragraph 7.2.10 of NZ IFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of NZ IFRS 9, those disclosures, and the disclosures in paragraph 28 of NZ IAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

- (a) the measurement categories in accordance with NZ IAS 39 and NZ IFRS 9; and
- (b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of NZ IFRS 9, those disclosures, and the disclosures in paragraph 25 of this NZ IFRS at the date of initial application, must permit reconciliation between:

- (a) the measurement categories presented in accordance with NZ IAS 39 and NZ IFRS 9; and
- (b) the class of financial instrument at the date of initial application.

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C9 In Appendix A (Defined terms), the last paragraph is amended as follows:

The following terms are defined in paragraph 11 of NZ IAS 32 or paragraph 9 of NZ IAS 39 and are used in the Standard with the meaning specified in NZ IAS 32 and NZ IAS 39.

- amortised cost of a financial asset or financial liability
- ~~available for sale financial assets~~
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- ~~financial asset or financial liability at fair value through profit or loss~~
- ~~financial asset or financial liability held for trading~~
- financial guarantee contract
- financial instrument
- financial liability
- forecast transaction
- hedging instrument
- held for trading
- ~~held to maturity investments~~
- ~~loans and receivables~~
- regular way purchase or sale

C10 In Appendix B (Application guidance), paragraphs B1, B5, B10, B22 and B27 are amended as follows:

B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in NZ IAS 39 and NZ IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

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- B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:
- (a) for ~~financial assets or~~ financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the ~~financial assets or~~ financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such ~~financial assets or~~ financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of NZ IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a ~~financial asset or~~ financial liability at fair value through profit or loss in NZ IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a ~~financial asset or~~ financial liability at fair value through profit or loss in NZ IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.
 - (aa) for financial assets designated as measured at fair value through profit or loss:
 - (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss;
 - (ii) how the entity has satisfied the criteria in paragraph 4.5 of NZ IFRS 9 for such designation.
 - (b) [deleted by IASB] the criteria for designating financial assets as available for sale.
 - (c) ...
- B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- (a) granting loans ~~and receivables~~ to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.
 - (b) ...
- B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg ~~loans and receivables~~

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~~and~~ debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured ~~classified as~~ at fair value through profit or loss ~~and impairments of available for sale financial assets~~) is disclosed separately from the sensitivity of other comprehensive income equity ~~equity~~ (that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income ~~classified as available for sale~~).

C11 Appendix D (Amendments to NZ IFRS 7 if the Amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied) is deleted.

NZ C11.1 In Appendix E of NZ IFRS 7 paragraph C2.1A is added as follows:

C 2.1A Where a financial institution has early adopted NZ IFRS 9 *Financial Instruments*, all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments*.

NZ IAS 1 Presentation of Financial Statements

C12 In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 82, 93, 95 and 123 are amended and paragraph 139E is added as follows:

7 ...

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other NZ IFRSs.

The components of other comprehensive income include:

(a) ...

(d) gains and losses ~~on remeasuring available for sale financial assets (see IAS 39 *Financial Instruments: Recognition and Measurement*)~~ from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.4.4 of NZ IFRS 9 *Financial Instruments*;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see NZ IAS 39).

68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial

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assets ~~that meet the definition of~~ ~~classified as~~ held for trading in accordance with NZ IAS 39) and the current portion of non-current financial assets.

82 **As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:**

- (a) revenue;
- (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;**
- (b) finance costs;
- (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in NZ IFRS 9);**
- (d) ...

93 Other NZ IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. ~~For example, gains realised on the disposal of available for sale financial assets are included in profit or loss of the current period.~~ These amounts may have been recognised in other comprehensive income ...

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see NZ IAS 21), ~~on derecognition of available for sale financial assets (see IAS 39)~~ and when a hedged forecast transaction affects profit or loss (see paragraph 100 of NZ IAS 39 in relation to cash flow hedges).

123 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 recognizes in the financial statements. For example, management makes judgements in determining:

- (a) [deleted by IASB] whether financial assets are held to maturity investments;
- (b) ...

139E NZ IFRS 9, issued in November 2009, amended the definition of 'other comprehensive income' in paragraph 7 and paragraphs 68, 82, 93 and 95. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 2 Inventories

C13 Paragraph 2(b) is amended and paragraph 40A added as follows:

2 This Standard applies to all inventories, except:

...

(b) **financial instruments (see NZ IAS 32 *Financial Instruments: Presentation*, ~~and~~ NZ IAS 39 *Financial Instruments: Recognition and Measurement* and NZ IFRS 9 *Financial Instruments*); and**

...

40A NZ IFRS 9, issued in November 2009, amended paragraph 2(b). An entity shall apply that amendment when it applies NZ IFRS 9.

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

C14 Paragraph 53 is amended and paragraph 54A is added as follows:

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, ~~when an entity corrects a prior period error in measuring financial assets previously classified as held to maturity investments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition,~~ when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with NZ IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A NZ IFRS 9 *Financial Instruments*, issued in November 2009, amended paragraph 53. An entity shall apply that amendment when it applies NZ IFRS 9.

NZ IAS 12 Income Taxes

- C15 In the rubric the reference to ‘paragraphs 1–95’ is amended to ‘paragraphs 1–96’. Paragraph 20 is amended and paragraph 96 is added as follows:
- 20 New Zealand equivalents to International Financial Reporting Standards permit or require certain assets to be carried at fair value or to be revalued (see, for example, NZ IAS 16 *Property, Plant and Equipment*, NZ IAS 38 *Intangible Assets*, NZ IFRS 9 *Financial Instruments* ~~IAS 39 *Financial Instruments: Recognition and Measurement*~~ and NZ IAS 40 *Investment Property*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result,....
- 96 NZ IFRS 9, issued in November 2009, amended paragraph 20. An entity shall apply that amendment when it applies NZ IFRS 9.

NZ IAS 18 Revenue

- C16 In the rubric the reference to ‘paragraphs 1–38’ is amended to ‘paragraphs 1–39’. Paragraph 6(d) and the last sentence of paragraph 11 are amended and paragraph 39 is added as follows:
- 6 This Standard does not deal with revenue arising from:
- ...
- (d) changes in the fair value of financial assets and financial liabilities or their disposal (see NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*);
- 11 In most cases ... The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with NZ IAS 39 and NZ IFRS 9.
- 39 NZ IFRS 9, issued in November 2009, amended paragraphs 6(d) and 11. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 21 The Effects of Changes in Foreign Exchange Rates

- C17 Paragraphs 3(a), 4 and 52(a) are amended and paragraph 60C is added as follows:
- 3 **This Standard shall be applied:** [footnote omitted]
- (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of NZ IAS 39 *Financial***

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***Instruments: Recognition and Measurement and NZ IFRS 9
Financial Instruments;***

...

4 NZ IFRS 9 and NZ IAS 39 ~~apply~~ **applies** to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of NZ IFRS 9 and NZ IAS 39 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

52 **An entity shall disclose:**

*(a) **the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with NZ IFRS 9 and NZ IAS 39; and**

(b) ...

60C NZ IFRS 9, issued in November 2009, amended paragraphs 3(a), 4 and 52(a). An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 27 Consolidated and Separate Financial Statements

NZ IAS 27 (2008)

C18 In paragraph IN10 after the reference to 'NZ IAS 39 *Financial Instruments: Recognition and Measurement*' is added 'and NZ IFRS 9 *Financial Instruments*'. Paragraphs 35, 37, 38 and 40 are amended and paragraph 45D is added as follows:

35 If a parent loses control of a subsidiary, ... For example, if a subsidiary has cumulative exchange differences relating to a foreign operation available for sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~these assets~~. Similarly, ...

37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with NZ IFRS 9 *Financial Instruments* ~~NZ IAS 39 *Financial Instruments: Recognition and Measurement*~~ or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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38 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost, or

(b) in accordance with NZ IFRS 9 and NZ IAS 39.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5. The ~~accounting for measurement of investments accounted for~~ in accordance with NZ IFRS 9 and NZ IAS 39 is not changed in such circumstances.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with NZ IFRS 9 and NZ IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

45D NZ IFRS 9, issued in November 2009, amended paragraphs 35, 37, 38 and 40. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 27 (2004)

C19 [Deleted]

NZ IAS 28 *Investments in Associates*

NZ IAS 28 (issued November 2004 and amended in 2008)

C20 NZ IAS 28 *Investments in Associates* (issued November 2004 and amended in 2008) is amended as described below.

The Introduction to NZ IAS 28 is amended as follows:

This Standard prescribes the accounting treatment for investments in associates except for investments in associates held by venture capital organisations or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that upon initial recognition are designated as at fair value through profit or loss ~~or are classified as held for trading~~ and accounted for at fair value through profit or loss in accordance with NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

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Paragraphs 1 and 18–19A are amended and paragraph 41D is added as follows:

- 1** This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:
- (a) venture capital organisations, or
 - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds
- ~~that are measured upon initial recognition are designated as~~ at fair value through profit or loss ~~or are classified as held for trading and accounted for~~ in accordance with NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. ~~An entity shall measure such~~ Such investments shall be measured at fair value through profit or loss in accordance with NZ IFRS 9 IAS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).
- 18** An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with NZ IFRS 9 and NZ IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in NZ IAS 31. On the loss of significant influence, ...
- 19** When an investment ceases to be an associate and is accounted for in accordance with NZ IFRS 9 and NZ IAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with NZ IFRS 9 IAS 39.
- 19A** If an investor loses significant influence over an associate, ... For example, if an associate has cumulative exchange differences relating to a foreign operation available for sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If ...
- 41D** NZ IFRS 9, issued in November 2009, amended paragraphs 1 and 18–19A. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 28 (2004 excluding 2008 amendments)

C21 [Deleted]

NZ IAS 31 *Interests in Joint Ventures*

NZ IAS 31 (issued 2004 and amended in May 2008)

C22 NZ IAS 31 *Interests in Joint Ventures* (as amended in May 2008) is amended as described below.

The Introduction to NZ IAS 31 is amended as follows:

This Standard:

- (a) prescribes the accounting treatment for interests in joint ventures except for interests in joint ventures held by venture capital organisations or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that upon initial recognition are designated as at fair value through profit or loss ~~or are classified as held for trading~~ and accounted for at fair value through profit or loss in accordance with NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*;

Paragraphs 1, 45–45B and 51 are amended and paragraph 58C is added as follows:

- 1 This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

- (a) venture capital organisations, or
(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

~~that are measured upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for~~ in accordance with NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. ~~An entity shall measure such~~ Such investments shall be measured at fair value through profit or loss in accordance with NZ IFRS 9 ~~NZ IAS 39, with changes in fair value recognised in profit or loss in the period of the change.~~ A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

- 45 When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with NZ IFRS 9 and NZ IAS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From ...**

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- 45A** When an investment ceases to be a jointly controlled entity and is accounted for in accordance with NZ IFRS 9 and NZ IAS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with NZ IFRS 9 NZ IAS 39.
- 45B If an investor loses joint control of an entity, ... For example, if a jointly controlled entity has cumulative exchange differences relating to a foreign operation ~~available for sale financial assets~~ and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If ...
- 51** An investor in a joint venture that does not have joint control shall account for that investment in accordance with NZ IFRS 9 and NZ IAS 39 or, if it has significant influence in the joint venture, in accordance with NZ IAS 28.
- 58C NZ IFRS 9, issued in November 2009, amended paragraphs 1, 45–45B and 51. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 31 (2004)

C23 [Deleted]

NZ IAS 32 *Financial Instruments: Presentation*

- C24 Paragraphs 3, 12 and 31 are amended and paragraph 97F is added as follows:
- 3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*, and for disclosing information about them in NZ IFRS 7 *Financial Instruments: Disclosures*.
- 12 The following terms are defined in paragraph 9 of NZ IAS 39 and are used in this Standard with the meaning specified in NZ IAS 39.
- amortised cost of a financial asset or financial liability
 - ~~available for sale financial assets~~
 - derecognition
 - derivative
 - effective interest method
 - ~~financial asset or~~ financial liability at fair value through profit or loss
 - financial guarantee contract

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- firm commitment
 - forecast transaction
 - hedge effectiveness
 - hedged item
 - hedging instrument
 - held for trading
 - ~~held to maturity investments~~
 - ~~loans and receivables~~
 - regular way purchase or sale
 - transaction costs.
- 31 NZ IFRS 9 and NZ IAS 39 deals with the measurement of financial assets and financial liabilities respectively. Equity instruments ...
- 97F NZ IFRS 9, issued in November 2009, amended paragraphs 3, 12, 31, AG2 and AG30. An entity shall apply those amendments when it applies NZ IFRS 9.
- C25 In the Appendix (Application Guidance), paragraphs AG2 and AG30 are amended as follows:
- AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about ~~the~~ recognition and measurement are set out in NZ IFRS 9 for ~~of~~ financial assets and NZ IAS 39 for financial liabilities.
- AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. NZ IFRS 9 deals with the classification and measurement of financial assets that are compound instruments from the holder's perspective. NZ IAS 39 deals with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain debt and equity features.

NZ IAS 36 Impairment of Assets

- C26 In NZ IAS 36, paragraphs 2(e) and 5 are amended and paragraph 140F is added as follows:
- 2 ...
- (e) ***financial assets that are within the scope of ~~NZ IAS 39 Financial Instruments: Recognition and Measurement~~ NZ IFRS 9 Financial Instruments;***
- 5 This Standard does not apply to financial assets within the scope of ~~IAS 39~~ NZ IFRS 9, investment property measured at fair value in accordance with NZ IAS 40, or biological assets related to agricultural activity

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measured at fair value less costs to sell in accordance with NZ IAS 41. However, ...

- 140F NZ IFRS 9, issued in November 2009, amended paragraphs 2(e) and 5. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IAS 39 Financial Instruments: Recognition and Measurement

- C27 NZ IAS 39 *Financial Instruments: Recognition and Measurement* is amended as described below.

The Introduction to NZ IAS 39 above the sentence “In adopting IAS 39 for application as NZ IAS 39 no changes have been made to the requirements of IAS 39.” is deleted and a new Introduction is added as follows:

The International Accounting Standards Board has decided to replace IAS 39 *Financial Instruments: Recognition and Measurement* over a period of time. The first instalment, dealing with classification and measurement of financial assets, was issued as IFRS 9 *Financial Instruments* in November 2009. As a consequence, part of IAS 39 is being superseded and will become obsolete for annual periods beginning on or after 1 January 2013. Proposals to replace the requirements on impairment and derecognition have been published and further proposals are expected in 2009 and 2010. The remaining requirements of IAS 39 continue in effect until superseded by future instalments of IFRS 9.

The ASRB has approved NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) which is based on IFRS 9. As a consequence, part of NZ IAS 39 is being superseded and will become obsolete for annual periods beginning on or after 1 January 2013. Proposals to replace the requirements on impairment and derecognition have been published and further proposals are expected in 2009 and 2010. The remaining requirements of NZ IAS 39 continue in effect until superseded by future instalments of NZ IFRS 9. The Board aims to have replaced IAS 39 in its entirety by the end of 2010.

Paragraph 1 is amended as follows:

- 1 The objective of this Standard is to establish principles for recognising and measuring ~~financial assets~~, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in NZ IAS 32 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in NZ IFRS 7 *Financial Instruments: Disclosures*. Requirements for classifying and measuring financial assets are in NZ IFRS 9 *Financial Instruments*.

In paragraph 9, the heading ‘Definitions of four categories of financial instruments’ and the definitions of ‘financial asset or financial liability at fair value through profit or loss’ and ‘amortised cost of a financial asset or financial liability’ are amended as follows:

Definitions of four categories of financial instruments

...

A financial asset or financial liability is held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;**
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or**
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).**

~~A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.~~

- ~~(a) It is classified as meets the definition of held for trading. A financial asset or financial liability is classified as held for trading if:
 - ~~(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;~~
 - ~~(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking; or~~
 - ~~(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).~~~~
- ~~(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either~~

...

- ~~(ii) a group of ~~financial assets~~, financial liabilities or ~~both~~ financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in NZ IAS 24 *Related Party Disclosures* (as revised in 2003~~

2009)), for example the entity's board of directors and chief executive officer.

In NZ IFRS 7, paragraphs ~~9–10 and 11~~ **and B4** require the entity to provide disclosures about ~~financial assets and financial liabilities~~ it has designated as at fair value through profit or loss, including how it has satisfied these conditions (see paragraphs B4 and B5 of NZ IFRS 7). For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

~~Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured (see paragraph 46(c) and Appendix A paragraphs AG80 and AG81), shall not be designated as at fair value through profit or loss.~~

It should be noted that paragraphs 48, 48A, 49 and Appendix A paragraphs AG69–AG82, which set out requirements for determining a reliable measure of the fair value of a ~~financial asset or~~ financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed.

...

In paragraph 9 the following terms are deleted:

- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

Paragraphs 10–11A, 13 and 14 are amended as follows:

10 An embedded derivative is a component of a hybrid (combined) ~~contract instrument~~ that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined ~~contract instrument~~ vary in a way similar to a stand-alone derivative. An ...

11 An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

...

- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; ~~and~~
- (c) the hybrid (combined) ~~contract instrument~~ is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a ~~financial asset or~~

financial liability at fair value through profit or loss is not separated); and

(d) the host is outside the scope of NZ IFRS 9.

If an embedded derivative is separated, the host contract shall be accounted for ~~under this Standard if it is a financial instrument, and in accordance with the other appropriate NZ IFRSs Standards if it is not a financial instrument.~~ This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.

- 11A Notwithstanding paragraph 11, if a contract contains one or more embedded derivatives and the host is outside the scope of NZ IFRS 9, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:**

...

- 13 If an entity is unable to determine reliably the fair value of an embedded derivative on the basis of its terms and conditions ~~(for example, because the embedded derivative is based on an unquoted equity instrument)~~, the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) contract instrument and the fair value of the host contract, if those can be determined under this Standard. If the entity is unable to determine the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) contract instrument is designated as at fair value through profit or loss.**
- 14 An entity shall recognise ~~a financial asset or a financial liability~~ in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. ~~(See paragraph 38 with respect to regular way purchases of financial assets.)~~**

Paragraphs 26, 27, 31, 33 and 34 are amended as follows:

- 26 On derecognition of a financial asset in its entirety, the difference between:**
- (a) the carrying amount (measured at the date of derecognition) and**
 - (b) ~~the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (see paragraph 55(b))~~**

shall be recognised in profit or loss.

- 27 ... The difference between:**

- (a) the carrying amount (measured at the date of recognition) allocated to the part derecognised and
- (b) ~~the sum of (i) the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (paragraph 55(b))...~~

~~shall be recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.~~

- 31 When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard and NZ IFRS 9, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is ...

(a) ...

- 33 For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 55 and NZ IFRS 9 paragraph 5.4.1, and shall not be offset.

- 34 ...The difference between:

- (a) the carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognised; and
- (b) ~~the sum of (i) the consideration received for the part no longer recognised and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (see paragraph 55(b))~~

~~shall be recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised, on the basis of the relative fair values of those parts.~~

In the section titled 'Measurement' the following are deleted: the headings above paragraphs 45, 63, 66 and 67; and paragraphs 45, 46, 50B–52, 61 and 66–70. The heading above paragraphs 43 and 58 and paragraphs 43, 44, 47, 48, 50, 50A, 53–58 and 63 are amended as follows:

Initial measurement of ~~financial assets and~~ financial liabilities

- 43 When a ~~financial asset or~~ financial liability is recognised initially, an entity shall measure it at its fair value ~~minus~~ plus, in the case of a ~~financial asset or~~ financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the ~~acquisition or~~ issue of the ~~financial asset or~~ financial liability.
- 44 When an entity uses settlement date accounting for an asset that is subsequently measured at ~~cost or~~ amortised cost, the asset is recognised initially at its fair value on the trade date (see Appendix A paragraphs AG53–AG56).
- 47 **After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:**
- (a) **financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost (see Appendix A paragraphs AG80 and AG81).**
- ...
- 48 **In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, NZ IAS 32, ~~or~~ NZ IFRS 7 or NZ IFRS 9, an entity shall apply paragraphs AG69–AG82 of Appendix A.**
- 50 **An entity shall not reclassify a financial liability except in accordance with paragraphs 53 and 54.**
- ~~(a) shall not reclassify ...~~
- ~~... after initial recognition.~~
- 50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:
- (a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- (b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;
- (c) [deleted by IASB]
- 53 **If a reliable measure becomes available for a ~~financial asset or~~ financial liability for which such a measure was previously not available, and the ~~asset or~~ liability is required to be measured at fair**

value if a reliable measure is available (see paragraphs ~~46(e) and 47(a)~~), the ~~asset or liability~~ shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55.

- 54 ~~If, as a result of a change in intention or ability or in the rare circumstances that a reliable measure of fair value is no longer available (see paragraphs 46(e) and 47(a)), or because the 'two preceding financial years' referred to in paragraph 9 have passed, it becomes appropriate to carry a financial asset or an entity shall measure the financial liability at cost or amortised cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that the date of reclassification becomes its new cost, or amortised cost, as applicable. Any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for as follows:~~
- ~~(a) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method, similar to the amortisation of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67.~~
 - ~~(b) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognised in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67.~~
- 55 ~~A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value through profit or loss that is not part of a hedging relationship (see paragraphs 89–102), shall be recognised in profit or loss, as follows~~
- ~~(a) — A gain or loss ...~~
 - ~~(b) — ... the entity's right to receive payment is established (see IAS 18).~~
- 56 ~~For financial assets and financial liabilities carried measured at amortised cost (see paragraphs 46 and 47), a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.~~

However, for ~~financial assets or~~ financial liabilities that are hedged items (see paragraphs 78–84 and Appendix A paragraphs AG98–AG101) the accounting for the gain or loss shall follow paragraphs 89–102.

- 57 If an entity recognises financial assets using settlement date accounting (see paragraph 38 and Appendix A paragraphs AG53 and AG56), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets ~~carried at cost or~~ measured at amortised cost (other than impairment losses). For assets ~~carried~~ measured at fair value, however, the change in fair value shall be recognised in profit or loss or in other comprehensive income, as appropriate under ~~paragraph 55 and~~ paragraph 5.4.1 of NZ IFRS 9.

Impairment and uncollectibility of financial assets measured at amortised cost

- 58 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 (~~for financial assets carried at amortised cost~~), ~~paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available for sale financial assets)~~ to determine the amount of any impairment loss.
- 63 If there is objective evidence that an impairment loss on financial assets measured ~~loans and receivables or held to maturity investments~~ ~~carried~~ at amortised cost has been incurred, the amount of the loss is measured as ...

Paragraph 79 is deleted and paragraphs 88(d), 89(b), 90 and 96(c) are amended as follows:

- 88 A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.
- ...
- (d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured (see paragraphs ~~46 and 47(a)~~ and Appendix A paragraphs AG80 and AG81 for guidance on determining fair value).
- ...
- 89 If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

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...

- (b) **the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. ~~Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available for sale financial asset.~~**

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 55 of this Standard and paragraph 5.4.1 of NZ IFRS 9.

96 ...

- (c) if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 55 of this Standard and paragraph 5.4.1 of NZ IFRS 9.

Paragraphs 103L and 103M are added as follows:

103L NZ IFRS 9, issued in November 2009, amended paragraphs 1, 9–11A, 13, 14, 26(b), 27(b), 31, 33, 34(b), 43, 44, 47, 48, 50, 50A, 53–58, 63, 88(d), 89(b), 90, 96(c), AG3, AG3A, AG4B–AG4E, AG4H, AG4I, AG8, AG29, AG31–AG35, AG50, AG53, AG56, AG64, AG76A, AG80, AG81, AG83, AG84, AG95, AG96 and AG114(a) and deleted paragraphs 45, 46, 50B–52, 61, 66–70, 79, AG16–AG26, AG30(b), AG30(f) and AG65–AG68. An entity shall apply those amendments when it applies NZ IFRS 9.

103M At the date of initial application of NZ IFRS 9, an entity:

- (a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 9(b)(i) of NZ IAS 39.
- (b) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with paragraph 9(b)(i) of NZ IAS 39 and such designation does not satisfy that condition at the date of initial application of NZ IFRS 9.
- (c) may revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with paragraph 9(b)(i) of NZ IAS 39 and such designation satisfies that condition at the date of initial application of NZ IFRS 9.

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Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application of NZ IFRS 9. That classification shall be applied retrospectively.

- C28 Appendix A of NZ IAS 39 (Application guidance) is amended as described below.
- Paragraphs AG3, AG3A, AG4B–AG4E, AG4H, AG4I and AG8 are amended as follows:
- AG3 ... If neither the equity method nor proportionate consolidation is appropriate, the entity applies this Standard and NZ IFRS 9 *Financial Instruments* to that strategic investment.
- AG3A This Standard and NZ IFRS 9 ~~apply~~ ~~applies~~ to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under contracts within the scope of NZ IFRS 4.
- AG4B Paragraph 9 of this Standard and paragraph 4.5 of NZ IFRS 9 allows an entity to designate a financial asset, a financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit or loss provided that doing so results in more relevant information.
- AG4C The decision of an entity to designate a financial asset or financial liability as at fair value through profit or loss is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph 14(b) of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the chosen policy to result in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. For example, in the case of designation of a financial liability as at fair value through profit or loss, paragraph 9 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 9, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.
- AG4D Under NZ IAS 39 and NZ IFRS 9 measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as measured at fair value in accordance with NZ IFRS 9 available for sale ~~(with most changes in fair value recognised in other comprehensive income)~~ and a liability the entity considers related would be measured at amortised cost (with changes in fair value not recognised). In such

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circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were ~~classified~~ measured as at fair value through profit or loss.

AG4E The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 9(b)(i) ~~or paragraph 4.5 of NZ IFRS 9.~~

- (a) ~~[deleted by IASB] An entity has liabilities ... the value of liabilities.~~
- (b) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by NZ IFRS 4, paragraph 24), and financial assets it considers related that would otherwise be ~~classified as available for sale~~ ~~or~~ measured at amortised cost.
- (c) ...
- (d) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not qualify for hedge accounting because none of the instruments is a derivative. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example:;
 - (i) ~~the entity has financed a portfolio of fixed rate assets that would otherwise be classified as available for sale with fixed rate debentures whose changes in fair value tend to offset each other. Reporting both the assets and the debentures at fair value through profit or loss corrects the inconsistency that would otherwise arise from measuring the assets at fair value with changes recognised in other comprehensive income and the debentures at amortised cost.~~
 - (ii) the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

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Paragraph 9(b)(ii): A group of ~~financial assets~~, financial liabilities or ~~both financial assets and financial liabilities~~ is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

AG4H An entity may manage and evaluate the performance of a group of ~~financial assets~~, financial liabilities or ~~both financial assets and financial liabilities~~ in such a way that measuring that group at fair value through profit or loss results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, rather than on the nature of its financial instruments.

AG4I ~~For example, The following examples show when this condition could be met. In all cases,~~ an entity may use this condition to designate ~~financial assets or financial liabilities~~ as at fair value through profit or loss ~~only~~ if it meets the principle in paragraph 9(b)(ii) ~~and-~~

- (a) ~~The entity is a venture capital organisation ... IAS 28 or IAS 31.~~
- (b) ~~The entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management. An example could be an entity that has issued 'structured products' containing multiple embedded derivatives and manages the resulting risks on a fair value basis using a mix of derivative and non-derivative financial instruments. A similar ... financial instruments.~~
- (c) ~~The entity is an insurer ... subject to the insurer's discretion.~~

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense. ~~If a financial asset is reclassified in accordance with paragraph 50B, 50D or 50E, and the entity subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.~~

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The heading above paragraph AG14 and paragraphs AG29 and AG31–AG35 are amended as follows and the headings above paragraphs AG16 and AG26 and paragraphs AG16–AG26 and AG30(b) and (f) are deleted.

Financial assets and financial liabilities held for trading

AG14 ...

AG29 Generally, multiple embedded derivatives in a single hybrid contract instrument are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity (see NZ IAS 32) are accounted for separately from those classified as assets or liabilities. In addition, if a hybrid contract instrument has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

AG31 An example of a hybrid contract instrument is a financial instrument that gives the holder a right to put the financial instrument back to the issuer in exchange for an amount of cash or other financial assets that varies on the basis of the change in an equity or commodity index that may increase or decrease (a 'puttable instrument'). Unless the issuer ...

AG32 In the case of a puttable instrument that can be put back at any time for cash equal to a proportionate share of the net asset value of an entity (such as units of an open-ended mutual fund or some unit-linked investment products), the effect of separating an embedded derivative and accounting for each component is to measure the hybrid contract combined instrument at the redemption amount that is payable at the end of the reporting period if the holder exercised its right to put the instrument back to the issuer.

AG33 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

- (a) An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract or insurance contract is closely related to the host contract unless the hybrid contract combined instrument can be settled in such a way that the holder would not recover substantially all of its recognised investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.

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(b) ...

AG33A When an entity becomes a party to a hybrid (combined) ~~contract instrument~~ that contains one or more embedded derivatives, paragraph 11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through profit or loss. For that reason this Standard permits the entire hybrid contract instrument to be designated as at fair value through profit or loss.

AG33B Such designation may be used whether paragraph 11 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 11A would not justify designating the hybrid (combined) ~~contract instrument~~ as at fair value through profit or loss in the cases set out in paragraph 11A(a) and (b) because doing so would not reduce complexity or increase reliability.

AG34 As a consequence of the principle in paragraph 14 and paragraph 3.1.1 of NZ IFRS 9, an entity recognises ...

AG35 The following are examples of applying the principle in paragraph 14 and paragraph 3.1.1 of NZ IFRS 9:

(a) ...

Paragraphs AG50, AG53 and AG56 are amended as follows:

AG50 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. If the transferor has both a right and an obligation to reacquire control of the entire transferred asset for a fixed amount (such as under a repurchase agreement), the transferee may measure account for its receivable at amortised cost if it meets the criteria in paragraph 4.2 of NZ IFRS 9 as a loan or receivable.

AG53 A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting as described in paragraphs AG55 and AG56. An entity shall apply the same method ~~The method used is applied~~ consistently for all purchases and sales of financial assets that are classified in the same way in accordance with NZ IFRS 9 belong to the same category of financial assets defined in paragraph 9. For this purpose assets that meet the definition of held for trading form a separate category classification from assets designated as measured at fair value through profit or loss. In addition, investments in equity instruments accounted for using the option provided in paragraph 5.4.4 of NZ IFRS 9 form a separate classification.

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AG56 ... In other words, the change in value is not recognised for assets measured ~~carried~~ at ~~cost or~~ amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at fair value through profit or loss; and it is recognised in other comprehensive income for investments in equity instruments accounted for in accordance with paragraph 5.4.4 of NZ IFRS 9 ~~assets classified as available for sale~~.

Paragraphs AG65–AG68 are deleted. The headings above paragraph AG64 and paragraphs AG64 and AG76A are amended as follows:

Measurement (paragraphs 43–7065)

Initial measurement of financial assets and financial liabilities (paragraph 43)

AG64 The fair value of a financial ~~instrument~~ liability on initial recognition is normally the transaction price (ie the fair value of the consideration ~~given or~~ received, see also paragraph AG76). However, if part of the consideration given or received is for something other than the financial ~~instrument~~ liability, the fair value of the financial ~~instrument~~ liability is estimated, using a valuation technique (see paragraphs AG74–AG79). ~~For example, the fair value of a long term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.~~

AG76A The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard or NZ IFRS 9 as appropriate. The application ...

The heading above paragraph AG80 and paragraphs AG80 and AG81 are amended as follows:

No active market: derivatives on unquoted equity instruments

AG80 The fair value of ~~investments in equity instruments that do not have a quoted market price in an active market and~~ derivatives that are linked to and must be settled by delivery of ~~such an~~ unquoted equity instruments (see paragraphs ~~46(e) and 47(a)~~) is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant

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for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

- AG81 There are many situations in which the variability in the range of reasonable fair value estimates of ~~investments in equity instruments that do not have a quoted market price and~~ derivatives that are linked to and must be settled by delivery of ~~such an~~ unquoted equity instruments (see paragraphs ~~46(e) and 47(a)~~) is likely not to be significant. Normally it is possible to estimate the fair value of such derivatives ~~a financial asset~~ that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

The headings above paragraph AG84 and paragraphs AG83 and AG84 are amended as follows:

- AG83 An entity applies NZ IAS 21 to ~~financial assets and~~ financial liabilities that are monetary items in accordance with NZ IAS 21 and denominated in a foreign currency. Under NZ IAS 21, any foreign exchange gains and losses on ~~monetary assets and~~ monetary liabilities are recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge (see paragraphs 95–101) or a hedge of a net investment (see paragraph 102). ~~For the purpose of recognising foreign exchange gains and losses under NZ IAS 21, a monetary available for sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in accordance with paragraph 55(b). For available for sale financial assets that are not monetary items under NZ IAS 21 (for example, equity instruments), the gain or loss that is recognised in other comprehensive income under paragraph 55(b) includes any related foreign exchange component.~~ If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are recognised in profit or loss.

Impairment and uncollectibility of financial assets measured at amortised cost (paragraphs 58–7065)

Financial assets carried at amortised cost (paragraphs 63–65)

- AG84 Impairment of a financial asset ~~carried~~ measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise

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measured at amortised cost. If the terms of a financial asset measured at amortised cost ~~loan, receivable or held-to-maturity investment~~ are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a financial asset measured at amortised cost ~~loan, receivable or held-to-maturity investment~~ has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset ~~measured~~ carried at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Paragraphs AG95 and AG96 are amended as follows:

AG95 A financial asset measured ~~held-to-maturity investment~~ carried at amortised cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG96 ~~An investment in an~~ A derivative that is linked to and must be settled by delivery of unquoted equity instruments and is not carried at fair value because its fair value cannot be reliably measured ~~or a derivative that is linked to and must be settled by delivery of such an unquoted equity instrument~~ (see paragraphs ~~46(e) and~~ 47(a)) cannot be designated as a hedging instrument.

Paragraph AG114(a) is amended as follows:

AG114...

- (a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios ~~(eg the entity may group its available-for-sale assets into a separate portfolio)~~, in which case it applies the guidance below to each portfolio separately.

In the heading above paragraph AG133, the reference to 'paragraphs 103–108B' is amended to 'paragraphs 103–108C'.

NZ IFRIC 10 Interim Financial Reporting and Impairment

- C29 In the rubric the reference to ‘paragraphs 1–10’ is amended to ‘paragraphs 1–11’. In the ‘References’ section, a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraphs 1, 2, 7 and 8 are amended, paragraph 11 is added and paragraphs 5 and 6 are deleted as follows:
- 1 An entity is required to assess goodwill for impairment at the end of each reporting period, ~~to assess investments in equity instruments and in financial assets carried at cost for impairment at the end of each reporting period~~ and, if required, to recognise an impairment loss at that date in accordance with NZ IAS 36 ~~and NZ IAS 39~~. However, ...
 - 2 The Interpretation addresses the interaction between the requirements of NZ IAS 34 and the recognition of impairment losses on goodwill in NZ IAS 36 ~~and certain financial assets in NZ IAS 39~~, and the effect of that interaction on subsequent interim and annual financial statements.
 - 7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill ~~and investments in equity instruments and in financial assets carried at cost~~ if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?
 - 8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill ~~or an investment in either an equity instrument or a financial asset carried at cost~~.
 - 11 NZ IFRS 9, issued in November 2009, amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5 and 6. An entity shall apply those amendments when it applies NZ IFRS 9.

NZ IFRIC 12 Service Concession Arrangements

- C30 In the ‘References’ section, a reference to NZ IFRS 9 *Financial Instruments* is added. Paragraphs 23–25 are amended and paragraph 28A is added as follows:
- 23 NZ IASs 32 and 39 and NZ IFRSs 7 and 9 apply to the financial asset recognised under paragraphs 16 and 18.
 - 24 The amount due from or at the direction of the grantor is accounted for in accordance with NZ IFRS 9 ~~NZ IAS 39~~ as:
 - (a) at amortised cost a loan or receivable; or
 - (b) measured at fair value through profit or loss an available for sale financial asset; or
 - (c) if so designated upon initial recognition, a financial asset at fair value through profit or loss, if the conditions for that classification are met.

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- 25 If the amount due from the grantor is accounted for ~~either as a loan or receivable or as an available-for-sale financial asset~~ at amortised cost, NZ IFRS 9 ~~NZ IAS 39~~ requires interest calculated using the effective interest method to be recognised in profit or loss.
- 28A NZ IFRS 9, issued in November 2009, amended paragraphs 23–25. An entity shall apply those amendments when it applies NZ IFRS 9.