NZ ACCOUNTING STANDARDS BOARD

Board Meeting Agenda

Wednesday 2 August 2017
External Reporting Board, Level 7, 50 Manners Street, Wellington
External Reporting Board, Level 12, 55 Shortland Street, Auckland

Est Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
Preliminary					
9.00 am	**1**	**Welcome and Introduction** Apologies			
9.05 am	**2**	**Board Management**			
9.45 am	**3**	**Prioritisation of IASB and IPSASB Projects 2017/2018**			
10.25 am		*Morning tea*			
B: PUBLIC SESSION					
For-profit and PBE Items for Consideration					
10.40 am	**4**	**IVSC IVS Agenda Consultation 2017**	(ALH)		
	4.1	Cover Memo	Consider	Paper	
	4.2	Draft comment letter	Consider	Paper	
	4.3	IVSC IVS Agenda Consultation 2017 ITC	Note	Supp Paper	
11.00 am	**5**	**FRS-42 and PBE FRS 42 Practice Issues**	(TC/AH)		
	5.1	Cover Memo	Consider	Paper	
PBE Items for Consideration					
11.40 am	**6**	**IPSASB CP *Financial Reporting for Heritage in the Public Sector***	(JP/AH)		
	6.1	Cover Memo	Consider	Paper	
	6.2	Draft comment letter	Consider	Paper	
	6.3	Submission received: NZ Police College Museum	Note	Paper	
	6.4	IPSASB CP *Financial Reporting for Heritage in the Public Sector – At a Glance*	Note	Supp Paper	
	6.5	IPSASB CP *Financial Reporting for Heritage in the Public Sector*	Note	Supp Paper	
12.40 pm		*Lunch*			

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Est Time	Item	Topic	Objective		Page
For-profit Items for Consideration					
1.10 pm	**7**	**2017 For-profit Omnibus Amendments**	(TC/VSF)		
	7.1	Cover Memo	Consider	Paper	
	7.2	Draft ITC and ED	Approve	Paper	
1.40 pm	**8**	**Principles of Disclosure**	(DB/LK)		
	8.1	Cover Memo	Consider	Paper	
	8.2	Feedback received from outreach	Consider	Paper	
	8.3	Draft comment letter to IASB	Consider	Paper	
	8.4	DP/2017/1 *Disclosure Initiative—Principles of Disclosure*	Note	Supp Paper	
	8.5	*Alternative Performance Measures: A New Zealand user-needs survey*—Summary report	Note	Supp Paper	
	8.6	*Alternative Performance Measures: A New Zealand user-needs survey*—Full report	Note	Supp Paper	
2.40 pm	**9**	**For-profit RDR**	(VSF)		
	9.1	Cover Memo	Consider	Paper	
	9.2	Analysis of Submissions Received	Note	Supp Paper	
	9.3	Submissions Received			
	9.3.1	BDO New Zealand	Note	Supp Paper	
	9.3.2	Chartered Accountants Australia and New Zealand	Note	Supp Paper	
	9.3.3	Ernst & Young	Note	Supp Paper	
	9.3.4	Audit New Zealand	Note	Supp Paper	
	9.3.5	Audit New Zealand (Tax Director)	Note	Supp Paper	
	9.3.6	CPA Australia	Note	Supp Paper	
	9.3.7	KPMG	Note	Supp Paper	
	9.3.8	Financial Markets Authority (FMA)	Note	Supp Paper	
3.10 pm		*Afternoon tea*			
For-profit Standards for Approval					
3.25 pm	**10**	**NZ IFRS 17 *Insurance Contracts***	(VSF/DB)		
	10.1	Cover Memo	Note	Paper	
	10.2	Draft NZ IFRS 17 *Insurance Contracts*	Approve	Paper	
	10.3	Draft Certificate Signing Memorandum	Approve	Paper	
3.55 pm	**11**	**NZ IFRIC 23 *Uncertainty over Income Tax Treatments***	(JP)		
	11.1	Cover Memo	Note	Paper	
	11.2	Draft NZ IFRIC 23 *Uncertainty over Income Tax Treatments*	Approve	Paper	
	11.3	Draft Certificate Signing Memorandum	Approve	Paper	

Est Time	Item	Topic	Objective		Page
	11.4 11.5	Application of the PBE Policy Approach Policy Approach to Modifying PBE Standards	Consider Note	Paper Supp Paper	
C: NON-PUBLIC SESSION					
Items for Noting					
4.15 pm	**12**	**International & Domestic Update**			
5.00 pm		*Finish*			

Next NZASB meeting: Wednesday 13 September 2017 (Auckland)

Property, Plant and Equipment—Proceeds before Intended Use

(Proposed amendments to IAS 16)

Comments to be received by 19 October 2017

Exposure Draft ED/2017/4 *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16) is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **19 October 2017** and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment' page at: http://ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this and how we use your Personal Data.

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes to amend IAS 16 *Property, Plant and Equipment*. The amendments would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

Background

Paragraph 17 of IAS 16 specifies examples of costs directly attributable to bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. One such example is the costs of testing. Paragraph 17(e) of IAS 16 states that the cost of an item of property, plant and equipment includes the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition.

The IFRS Interpretations Committee (Committee) received a request asking two questions about paragraph 17(e) of IAS 16:

(a) whether the proceeds referred to in that paragraph relate only to items produced from testing; and

(b) whether an entity deducts from the cost of an item of property, plant and equipment any proceeds that exceed the costs of testing.

When discussing the issue, the Committee identified a number of related questions about the cost of property, plant and equipment. After exploring different approaches, the Committee recommended that the Board propose an amendment to IAS 16 to prohibit deducting sales proceeds from the cost of an item of property, plant and equipment. The Board agreed with the Committee's recommendations.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the question as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider.

The Board is not requesting comments on matters that are not considered in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **19 October 2017**.

Question for respondents

The Board is proposing to amend IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Do you agree with the Board's proposal? Why or why not? If not, what alternative would you propose, and why?

How to comment

Comments should be submitted using one of the following methods.

Electronically (our preferred method)	Visit the 'Open for comment' page, which can be found at: http://ifrs.org/projects/open-for-comment/
Email	Email comments can be sent to: commentletters@ifrs.org
Postal	IFRS Foundation 30 Cannon Street London EC4M 6XH United Kingdom

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

[Draft] Amendments to IAS 16 *Property, Plant and Equipment*

Paragraph 17 is amended; paragraphs 20A, 80D and 81M are added. Deleted text is struck through and new text is underlined.

Elements of cost

...

17 Examples of directly attributable costs are:

(a) ...

(e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes)~~, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)~~; and

(f) ...

...

20A Items may be produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as inventories produced when testing an asset. An entity recognises the proceeds from selling any such items, and the costs of producing those items, in profit or loss in accordance with applicable Standards.

...

Transitional provisions

...

80D [Draft] *Property, Plant and Equipment—Proceeds before Intended Use*, issued in [date], amended paragraph 17 and added paragraph 20A. An entity shall apply those amendments retrospectively only to items of property, plant and equipment brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective date

...

81N [Draft] *Property, Plant and Equipment—Proceeds before Intended Use*, issued in [date], amended paragraph 17, and added paragraphs 20A and 80D. An entity shall apply those amendments for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

[Draft] Amendments to other Standards

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

Paragraph 2 is amended. Deleted text is struck through and new text is underlined.

Background

...

2 During the development phase of the mine (before production begins), stripping costs are ~~usually capitalised as part of the depreciable cost of building, developing and constructing the mine~~ accounted for applying IAS 16 *Property, Plant and Equipment*. ~~Those capitalised~~ Capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.

Approval by the Board of Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* published in June 2017

The Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16) was approved for publication by twelve of the thirteen members of the International Accounting Standards Board. Mr Zhang voted against its publication. His alternative view is set out after the Basis for Conclusions on the Exposure Draft.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Stephen Cooper	
Martin Edelmann	
Françoise Flores	
Amaro Gomes	
Gary Kabureck	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on the Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

BC1 Paragraph 16(b) of IAS 16 *Property, Plant and Equipment* explains that the cost of an item of property, plant and equipment includes costs directly attributable to bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Paragraph 17 of IAS 16 specifies examples of directly attributable costs. One example specified is the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition.

BC2 The IFRS Interpretations Committee (Committee) received a request asking whether:

(a) the proceeds specified in paragraph 17(e) of IAS 16 relate only to items produced from testing; and

(b) an entity deducts from the cost of an item of property, plant and equipment any proceeds that exceed the costs of testing.

BC3 The Committee noted that feedback from its outreach on the request indicated that:

(a) the issue mainly affects a few industries, such as the extractive and petrochemical industries.

(b) diverse reporting methods are applied. Some entities deduct only proceeds from selling items produced from testing; others deduct all sales proceeds until the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management (ie available for use). For some entities, the proceeds deducted from the cost of an item of property, plant and equipment can be significant and can exceed the costs of testing.

BC4 In addition, feedback from outreach indicated that entities use different methods to assess when an item of property, plant and equipment is available for use.

Prohibit deducting sales proceeds from the cost of an item of property, plant and equipment

BC5 Having considered the Committee's recommendations, the Board proposes to amend paragraph 17 of IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. As a consequence, an entity would recognise such sales proceeds in profit or loss. The Board views its proposals as a simple and effective way of removing the identified diversity in practice in a manner that would improve financial reporting.

BC6 The Board concluded that the proposed amendments would provide relevant information to users of financial statements by requiring entities to recognise all sales as income (including revenue) when they occur. The existing requirements in IAS 16 make it difficult for a user to have a clear picture of an entity's total revenue in the period because some sales proceeds might be offset against the cost of property, plant and equipment. Those requirements also make it difficult to have a clear picture of the actual cost of some items of property, plant and equipment. The cost of those assets can be distorted by deducting sales proceeds before the assets are available for use.

BC7 During the development of the proposed amendments, the Board observed the following:

(a) an entity would be required to identify the costs that relate to items produced and sold before an item of property, plant and equipment is available for use, and to distinguish those costs from other costs incurred before that date. This is discussed further in paragraphs BC8–BC10.

(b) before an item of property, plant and equipment is available for use, the costs of producing any inventories excludes depreciation of that asset. This is because an entity depreciates an item of property, plant and equipment only from the date it is available for use. This is discussed further in paragraph BC11.

BC8 The Board observed that an entity would have to apply judgement in identifying the costs that relate to items produced and sold before an item of property, plant and equipment is available for use, and to distinguish those costs from other costs incurred before that date. However, the proposed amendments would require little more judgement beyond that already required to apply IFRS Standards. For example, an entity is already required to identify and distinguish the following:

(a) costs directly attributable to making an item of property, plant and equipment available for use, which the entity includes in the cost of the asset;

(b) costs of bringing inventories to their present location and condition included as part of the cost of inventories (paragraph 10 of IAS 2 *Inventories*), which it then recognises in profit or loss at the time that the inventories are sold;

(c) costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred, such as abnormal amounts of wasted materials, labour or other production costs (paragraph 16 of IAS 2);

(d) costs of stripping activity assets and cost of inventories produced during the production phase of a surface mine (IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*); and

(e) costs that it recognises directly in profit or loss, for example:

(i) administrative, marketing or staff training costs (paragraph 19 of IAS 16);

(ii) costs of using or redeploying property, plant and equipment (paragraph 20 of IAS 16); and

(iii) costs of incidental operations (paragraph 21 of IAS 16).

BC9 In applying the proposed amendments, an entity might need to assess whether particular costs incurred are costs of inventories (applying IAS 2), costs of testing (applying IAS 16) or costs the entity would be required to recognise in profit or loss. The Board noted that the existing requirements in IAS 2 and IAS 16 on costs are helpful in this respect. For example, in assessing whether costs incurred while an item of property, plant and equipment is being tested are costs of inventories or costs of testing (included in the cost of the item of property, plant and equipment), an entity would consider whether the items produced during testing meet the definition of inventories in IAS 2. Similarly, an entity might consider whether particular costs represent (a) abnormal amounts of wasted material (recognised in profit or loss); or (b) costs necessary to make the item of property, plant and equipment available for use or to bring inventories to their present location and condition.

BC10 In addition, to help when assessing costs, the Board decided to clarify the meaning of 'testing', as specified in paragraph 17 of IAS 16. The Board concluded that when testing whether an item of property, plant and equipment is functioning properly, an entity assesses the technical and physical performance of the asset. The assessment of functioning properly is not an assessment of the financial performance of an asset, such as assessing whether the asset has achieved the level of operating margin initially anticipated by management.

BC11 With respect to the exclusion of depreciation from the cost of inventories produced and sold before an item of property, plant and equipment is available for use, the Board observed that any consumption of an item of property, plant and equipment before it is available for use is likely to be negligible. Paragraph 12 of IAS 2 states that the costs of conversion of inventories include a systematic allocation of fixed overheads incurred in converting materials into finished goods, such as depreciation of assets used in the production process. However, for inventories produced before an item of property, plant and equipment is available for use, the costs of conversion do not include depreciation of that asset because no such depreciation would exist.

Other approaches considered by the Board

BC12 The Board considered two other approaches to reduce the identified diversity in practice:

(a) clarifying which proceeds an entity deducts from the cost of property, plant and equipment; and

(b) clarifying when an item of property, plant and equipment is available for use.

Clarifying which proceeds an entity deducts from the cost of property, plant and equipment

BC13 Paragraph 17(e) of IAS 16 implies that the sales proceeds an entity deducts from the cost of an item of property, plant and equipment are proceeds from selling items produced only when testing whether the asset is functioning properly. This is because the reference within paragraph 17 of IAS 16 to deducting sales proceeds is directly linked to the costs of testing. This is also supported by the example in that paragraph of samples produced when testing equipment.

BC14 Paragraph 17(e) of IAS 16 also implies that the proceeds deducted from the cost of an item of property, plant and equipment should not exceed the costs of testing. Paragraph 17 of IAS 16 states that an example of directly attributable costs is 'costs of testing whether the asset is functioning properly, *after* deducting the net proceeds...' [emphasis added]. Arguably, this implies that an entity includes in the cost of an item of property, plant and equipment the net costs of testing (after deducting related sales proceeds), but that the net costs of testing could never be a negative amount.

BC15 Nonetheless, the Board acknowledged that the explanation in paragraphs BC13–BC14 might be unclear because of the wording in the Standard. The phrase within paragraph 17(e) of IAS 16 'proceeds from selling any items produced' does not refer specifically to proceeds from testing. In addition, IAS 16 does not specify any limit on the amount of proceeds an entity can deduct from the cost of an item of property, plant and equipment.

BC16 Consequently, the Board considered whether to amend IAS 16 to require an entity to:

(a) deduct from the cost of an item of property, plant and equipment proceeds from selling items produced only when testing whether the asset is functioning properly;

(b) limit the amount of proceeds deducted from the cost of an item of property, plant and equipment to the costs of testing; and

(c) recognise any other sales proceeds before property, plant and equipment is available for use in profit or loss in accordance with applicable IFRS Standards.

BC17 The Board decided not to proceed with the approach set out in paragraph BC16 because:

(a) this approach would have required an entity to distinguish proceeds from testing from any other sales proceeds before an item of property, plant and equipment is available for use. Consequently, this approach would be more complicated to apply than the proposed amendments would be.

(b) it would be difficult to understand why an entity would account for proceeds from testing differently from other sales proceeds earned before an item of property, plant and equipment is available for use. Similarly, if the proceeds from testing were to exceed the costs of testing, it would be difficult to understand why an entity would recognise some proceeds from testing in the cost of an asset and other proceeds from testing in profit or loss.

Clarifying when an item of property, plant and equipment is available for use

BC18 Paragraph 20 of IAS 16 states that 'recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management'. Determining the point at which that occurs is important—it is at that point that an entity stops accumulating costs in the carrying amount of the asset, and starts depreciating the asset.

BC19 During the development of the proposed amendments, the Board was informed of diverse practices in some industries in determining when an item of property, plant and equipment is available for use—the Board was informed that some entities include costs within, and deduct sales proceeds from, the cost of an asset for an extensive period of time. The Board observed that some think clarifying when an item of property, plant and equipment is available for use would reduce the sales proceeds that entities deduct from the cost of property, plant and equipment, and thus respond to a concern that may have led to the request to the Committee.

BC20 Consequently, the Board considered whether to amend IAS 16 to include the following as indicators of when an item of property, plant and equipment is available for use:

(a) the physical construction of the asset is complete (as described in paragraph 23 of IAS 23 *Borrowing Costs*).

(b) the testing of the technical and physical performance of the asset is complete (as described above in paragraph BC10).

(c) the asset is capable of producing items that can be sold in the ordinary course of business (ie capable of producing inventories as defined in IAS 2). Consistent with the meaning of testing, this assessment would focus on the technical and physical performance of the asset, and not its financial performance.

BC21 Such an approach would not have removed the need to apply judgement in determining when an item of property, plant and equipment is available for use—it would just have provided some additional information to help when making that judgement.

BC22 The Board concluded that such an approach would be a much broader project than the proposed amendments would be. This approach would have affected the accounting for many items of property, plant and equipment and additional research would have been required to assess any potential unintended consequences. The Board also observed that it was unclear whether the indicators considered would be helpful in determining when an item of property, plant and equipment is available for use, without raising additional questions. For these reasons, the Board decided not proceed with this approach.

BC23 When developing the June 2014 amendments to IAS 16 and IAS 41 *Agriculture* regarding bearer plants, the Board considered whether to clarify when an item of property, plant and equipment is available for use, but decided not to do so.

Other matters

Disclosure requirements

BC24 The Board considered whether disclosures already required by IFRS Standards are sufficient to provide useful information in the context of the proposed amendments. The Board observed that the most common items produced by an item of property, plant and equipment before it is available for use are inventories produced during testing of the asset. If the asset is to be used in the entity's ordinary activities, there is no basis on which to conclude that inventories produced by the asset before it is available for use would not be output from the entity's ordinary activities. Consequently, proceeds from selling inventories produced would represent revenue within the scope of IFRS 15 *Revenue from Contracts with Customers*.

BC25 If revenue and the cost of inventories produced before an item of property, plant and equipment is available for use has a material effect on an entity's financial statements, the entity would disclose:

(a) the information required by IFRS 15. In particular, the entity might consider revenue from sale of those inventories as a category of revenue when disclosing information required by paragraph 114 of IFRS 15.

(b) the information required by IAS 2 regarding the costs of producing inventories; for example, the accounting policy adopted, the carrying amount of inventories (if any), and the amount of inventories recognised as an expense.

BC26 In the light of the requirements in IFRS 15 and IAS 2, the Board proposes no additional disclosure requirements. The Board concluded that the existing requirements are sufficient to require an entity to disclose relevant information about the sale of output produced before an item of property, plant and equipment is available for use.

Transition requirements

Entities that already apply IFRS Standards

BC27 The Board considered the following in relation to transition:

(a) the proposed amendments to IAS 16 are narrow in scope and are expected to mainly affect a few industries, such as the extractive and petrochemical industries. For most entities, output produced before property, plant and equipment is available for use is not expected to be material. Consequently, there might be little need for transition requirements beyond those in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(b) if an entity is required to apply the amendments retrospectively, it would recalculate the carrying amount of property, plant and equipment at the beginning of the earliest period presented when first applying the amendments. In recalculating that carrying amount, an entity would be required to go back to the initial recognition of each relevant item of property, plant and equipment to ascertain whether it deducted from the cost of the asset proceeds from selling items produced before the asset was available for use.

(c) entities affected by the amendments are likely to find it burdensome to apply the amendments retrospectively, especially for items of property, plant and equipment constructed many years ago. A less burdensome approach would require application of the amendments only for items of property, plant and equipment made available for use from the beginning of the earliest period presented when first applying the amendments. This approach would achieve consistent application of the amendments for all periods presented, but limit the number of assets an entity is required to reassess.

BC28 On the basis of the above factors, the Board concluded that the benefits of retrospective application applying IAS 8 might be outweighed by the costs. Consequently, the Board proposes retrospective application of the proposed amendments only to items of property, plant and equipment made available for use from the beginning of the earliest period presented when first applying the amendments. An entity would not apply the proposed amendments to items of property, plant and equipment made available for use before that date.

First-time adopters

BC29 In relation to transition for first-time adopters, the Board noted the following:

(a) IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides a deemed cost exemption for property, plant and equipment (paragraphs D5–D7 of IFRS 1). That exemption allows an entity to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value, and to use that fair value as its deemed cost. Additionally, there are specific deemed cost exemptions for entities with particular oil and gas properties (paragraph D8A of IFRS 1), and for entities holding items of property, plant and equipment used in operations subject to rate regulation (paragraph D8B of IFRS 1).

(b) apart from the exemptions described above, IFRS 1 does not exempt a first time adopter from the requirements in IAS 16. Accordingly, if a first-time adopter does not apply the deemed cost exemptions in IFRS 1, it would apply all of the requirements in IAS 16 retrospectively. The Board concluded that there would be little benefit in providing a first-time adopter with relief from applying these amendments when it would have to apply all the other requirements in IAS 16.

BC30 On the basis of these considerations, the Board proposes no further transition relief for first-time adopters beyond the deemed cost exemptions already in IFRS 1.

Alternative view

Alternative view on the Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* published in June 2017

AV1 Mr Zhang voted against publication of the Exposure Draft. He disagrees with the proposal to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced during testing before the asset is available for use. He thinks that the circumstances that led to the submission do not highlight the need to amend the requirements in IAS 16, but instead highlight inappropriate application and enforcement of those requirements.

AV2 Mr Zhang supports the Board's decision to clarify the meaning of testing as explained in paragraph BC10. Applying that meaning of testing, he is of the view that it would be rare for proceeds from selling items produced during testing to exceed the costs of testing. Consequently, he thinks that clarifying the meaning of testing, in isolation, would be helpful to ensure greater discipline in the application of paragraph 17 of IAS 16.

AV3 Mr Zhang believes that the issues the Board is attempting to solve in this Exposure Draft affect all, rather than a few, industries in which property, plant and equipment takes a long time to become available for use. He believes that the testing period, as explained in paragraph BC10, might be quite long, and the related expenditure might be significant. As a result, he is deeply concerned about unintended consequences of the proposed amendments.

The cost and revenue recognition principles

AV4 One of the basic accounting principles that has prevailed for a century is the cost principle. Applying this principle, the cost of acquiring or constructing an asset is defined as the consideration paid and accumulated that is necessary to bring the asset to the location and condition capable of meeting management's intended use. Therefore, if equipment is acquired or self-constructed and it requires a test to prove that the equipment has reached the point at which it is able to meet management's intended use, then the test is a necessary process of the acquisition or construction of the asset. The cost of the test, net of the proceeds from selling items produced during testing, is added to the cost of the equipment. Mr Zhang believes that the above principle has been generally accepted worldwide for a long time, and the proposed amendments depart sharply from the above time-honoured principle and related requirements in IFRS Standards.

AV5 The proposed amendments would require an entity to recognise in profit or loss the proceeds from selling items produced when testing equipment applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 is established to account for revenue from selling goods or providing services that are an output of the entity's ordinary activities. Since testing is an integral part of the acquisition or construction process to make equipment available for use, Mr Zhang is of the view that testing by nature is not part of an entity's ordinary activities, and the products from the process are not an output of an entity's ordinary activities.

Hence, he questions the appropriateness of applying IFRS 15 to proceeds from testing. He would like to point out that, in many cases, newly established entities have not started ordinary production because all of their property, plant and equipment is still under construction. If those newly established entities are required to recognise revenue and profit in the manner required by the proposed amendments, he is of the view that users of financial statements would be confused to see that entities have revenue and profit even before they commence their ordinary operations. To prevent possible misunderstanding, Mr Zhang emphasises that this discussion of ordinary activities reflects his views on the accounting principles underlying the IFRS Standards on revenue, inventories, property, plant and equipment etc. This discussion does not reflect his views on the conceptual debate on whether an income or expense is from ordinary or extraordinary transactions.

AV6 Mr Zhang believes that the requirements in related IFRS Standards are conceptually consistent, and that the proposed amendments would create inconsistencies between different IFRS Standards. For example, Mr Zhang thinks that the proposed amendments would create an inconsistency between IAS 16 and IAS 23 *Borrowing Costs*. For funds borrowed specifically to obtain a qualifying asset, IAS 23 requires an entity to determine the borrowing costs eligible for capitalisation as the actual borrowing costs less any investment income on the temporary investment of those borrowings. Mr Zhang views the existing requirements in IAS 16 as consistent with those requirements in IAS 23.

AV7 Similarly, Mr Zhang believes that the proposed amendments would create questions in relation to other IFRS Standards. For example, should an entity charge to profit or loss the costs of knocking down an old building in preparing a site instead of adding them to the costs of the land, and recognise the proceeds from selling the scrap of the old building in profit or loss instead of offsetting them against the costs of the land? If yes, how should the entity identify the costs related to that revenue? Moreover, he believes that similar questions would arise for extractive industries in relation to stripping costs incurred and proceeds from selling lower grade ores and other materials during the development stage.

Allocation of costs

AV8 Mr Zhang believes that depreciation forms an important part of cost of goods sold for most extractive and manufacturing industries applying IAS 2 *Inventories*. In relation to this, paragraph BC11 says that any consumption of the asset during testing is likely to be negligible. Mr Zhang does not find the reasons for saying so in this Exposure Draft. Paragraph BC11 also says that the Board noted that for inventories produced during testing of an item of property, plant and equipment, the costs of conversion do not include depreciation of that asset because no such depreciation would exist. Mr Zhang believes it is contradictory to require the recognition of income from selling items produced during testing and, at the same time, not to recognise depreciation on the basis that the asset is not available for use. He also believes that the resulting cost of goods sold and gross margin information will be misleading.

AV9 In determining the cost of items produced during testing, Mr Zhang understands the Board's considerations explained in paragraphs BC7–BC10. He does not agree, however, with the Board's observation that the proposed amendments would require little more judgement beyond that already required applying IFRS Standards.

AV10 He agrees that the examples listed in paragraph BC8 involve the use of judgement, but in all those examples he thinks that there is a reasonable basis to distinguish between the costs. However, the sales proceeds discussed in this Exposure Draft arise from the testing process that is an integral part of making an item of property, plant and equipment available for use. As a consequence, Mr Zhang thinks there is no reasonable basis to distinguish the costs of producing the items sold from the costs of testing.

Earnings manipulation

AV11 Mr Zhang agrees that it is judgmental to determine the point at which the process of making an asset available for use ends and the use of that asset to produce goods begins. Mr Zhang is deeply concerned about whether the proposed amendments would result in more severe earnings manipulation among entities through allocating more or less cost to the proceeds, and through changing the time to stop capitalising the related costs into property, plant and equipment. The possibility that more severe earnings manipulation could take place applying the proposed amendments arises from the earlier recognition of revenue and profit from selling items produced during testing, which is not currently permitted by IFRS Standards.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Aimy Luu Huynh
Subject:	**IVSC Invitation to Comment: IVS Agenda Consultation 2017**

Action required[1]

1. To CONSIDER and APPROVE the draft comment letter to the IVSC Standards Review Board on its Invitation to Comment: IVS Agenda Consultation 2017.

Background

2. The International Valuation Standards Council (IVSC) Standards Review Board published an Invitation to Comment IVS Agenda Consultation 2017 (the ITC). Comments are due to the IVSC Standards Review Board by 15 August 2017.

3. The purpose of the ITC is to seek feedback on:

    (a) the valuation topics that the IVSC should address as part of its current agenda; and

    (b) additional valuation topics that stakeholders feel should be prioritised or added to the IVSC's agenda.

4. At the June meeting, the Board agreed to provide comments on the ITC. The Board suggested that the draft comment letter cover the following points:

    (a) the IVSC continues to work closely with the IASB and IPSASB;

    (b) work with the IASB because of the potential overlap with the IASB Request for Information: Post-implementation Review—IFRS 13 *Fair Value Measurement* and the IVSC Standards Review Board's possible project on biological assets; and

    (c) consider adding specialised public sector assets to the IVSC Standards Review Board's current agenda and liaise closely with the IPSASB because of the potential overlap with IPSASB's projects on heritage, public sector measurement and public sector infrastructure.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

5. The Board also requested staff liaise with Chris Stanley for feedback on how we can effectively communicate our points to the IVSC Standards Review Board. Chris is a member of the valuation and property standards board, which is a committee of the Property Institute of New Zealand and a member of the IVSC Tangible Assets Board.

Draft comment letter

6. We liaised with Chris and he supported our proposed comments and approach of encouraging the boards to work together.

7. The IVSC Standards Review Board appreciates this feedback even though it may sound like repetitive comments. This acts as a reminder and gives them the reinforcement to work with the IASB and IPSASB. The examples of areas of interests outlined in the draft comment letter will be helpful to the IVSC Standards Review Board.

8. No changes were made to the draft comment letter as a result of Chris' feedback.

Recommendations

9. We recommend that the Board CONSIDERS and APPROVES the draft comment letter to the IVSC Standards Review Board on its Invitation to Comment: IVS Agenda Consultation 2017.

Attachments

Agenda item 4.2: NZASB draft comment letter IVS Agenda Consultation 2017

Agenda item 4.3: IVSC Invitation to Comment: IVS Agenda Consultation 2017 (in supporting papers)

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

XX August 2017

Mr Mark Zyla
Chair
The IVSC Standards Review Board
1 King Street
London EC2V 8AU
UNITED KINGDOM

Submitted to: aaronsoh@ivsc.org

Dear Mr Zyla

IVSC Invitation to Comment: IVS Agenda Consultation 2017

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the IVSC Standards Review Board's Agenda Consultation 2017 (Agenda Consultation). We appreciate the opportunity to comment on the future work of the IVSC Standards Review Board.

The NZASB is a sub-board of the External Reporting Board, an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand. The NZASB has delegated authority from the External Reporting Board to develop (or adopt) and issue accounting standards for general purpose financial reporting in New Zealand.

We note that international valuation standards are developed to be applied in different circumstances and for different purposes. Our interest lies in the application of international valuation standards for general purpose financial reporting purposes.

In New Zealand, the accounting standards for for-profit entities are based on International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB) and the accounting standards for public benefit entities are based on International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB). Both IFRS Standards and IPSASs contain requirements for various classes or types of assets and liabilities to be valued for financial reporting purposes. The use of international valuation standards for financial reporting purposes is therefore an important use of the international valuation standards and can contribute significantly to the quality of general purpose financial reports.

In this regard, we consider it is important that international valuation standards are appropriate and work with the requirements in accounting standards. We strongly encourage the IVSC Standards Review Board, in developing its agenda, to consult and work closely with the IASB and the IPSASB. Working with those Boards will help to identify topics or areas where valuation standards are required or where existing standards could be improved to work with the requirements in accounting standards. We have provided examples of topics or areas of interest below.

The IASB has recently published a Request for Information (RFI) as part of its Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*. The RFI aims to explore whether there is a need for further guidance on measuring the fair value of biological assets. The Agenda Consultation has identified biological assets as one of the major valuation topics. One of New Zealand's major industries is agriculture and we are aware there are often challenges in valuing biological assets for financial reporting purposes. Some of those challenges are identified as perceived issues in the Agenda Consultation. There could be some overlap between the IASB's project and the IVSC Standards Review Board's potential project on biological assets and benefits from working together.

The IPSASB has a number of current projects (for example, heritage, public sector measurement and public sector infrastructure) which will be considering some of the issues identified in the Agenda Consultation. We recommend the IVSC Standards Review Board considers moving its project on specialised public service assets to its current agenda and working closely with the IPSASB. Again, there could be some overlap between those projects and benefits from both boards working together on their respective projects.

If you have any questions or require clarification of any matters in this comment letter, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Anthony Heffernan and Tracey Crookston
Subject:	**FRS-42 and PBE FRS 42 Practice Issues**

Action required

1. The Board is asked to:

   (a) CONSIDER the analysis of the current legislative requirements to present prospective financial information (PFI) in accordance with generally accepted accounting practice (GAAP);

   (b) CONSIDER the analysis of practice issue 2 — what forms of general purpose PFI are required to be prepared in accordance with FRS-42 *Prospective Financial Statements* or PBE FRS 42 *Prospective Financial Statements*?

   (c) PROVIDE FEEDBACK on the proposed recommendations to address practice issue 2; and

   (d) PROVIDE FEEDBACK on the next steps for this project.

Background

2. The Technical Reference Group (TRG), at its meeting in December 2014, raised concerns that preparers were encountering issues when applying the scope of FRS-42 and PBE FRS 42.

3. The Board has previously considered feedback from the TRG and deliberated on FRS-42 and PBE FRS 42 practice issues at the following meetings.

April 2015	The Board considered the TRG feedback and agreed for staff to review the scope of FRS-42 and PBE FRS 42.
February 2016	The Board discussed scope issues with FRS-42 and PBE FRS 42.
May 2016	The Board requested outreach be undertaken to obtain a fuller understanding of practice issues arising from the application of FRS-42 and PBE FRS 42.
March 2017	The Board discussed issues identified from outreach and agreed on the approach for bringing these issues back to the Board. The Board considered the analysis of practice issue 1 together with staff recommendations.

4. In August and October 2016, staff completed targeted outreach activities with selected professionals with significant experience in applying the requirements of FRS-42 and PBE FRS 42. The outreach was conducted on an informal basis and focused on obtaining feedback on general issues arising in practice from applying the requirements in these Standards. The feedback received was largely centred around whether different forms of PFI were in the intended scope of the Standards and when full compliance with these Standards was required.

5. At the March 2017 NZASB meeting the Board:

   (a) NOTED the three broad practice issues arising from the implementation of FRS-42 and PBE FRS 42 identified from outreach activities:

      (i) Practice issue 1 — When is an entity required to comply with FRS-42 or PBE FRS 42?

      (ii) Practice issue 2 — What forms of general purpose PFI are in the scope of FRS-42 or PBE FRS 42?

      (iii) Practice issue 3 — Do FRS-42 and PBE FRS 42 provide for appropriate accounting principles and requirements for PFI within the intended scope of the Standard?

   A summary of each practice issue was provided in agenda item 5.1 of the March NZASB meeting.

   (b) CONSIDERED the analysis of practice issue 1 regarding when an entity is required to comply with FRS-42 or PBE FRS 42.

   Practice issue 1 addressed the question of whether the scope of FRS-42 or PBE FRS 42 applied to both:

      (i) entities with a legislative requirement to present general purpose PFI in accordance with GAAP; and

      (ii) entities that choose to present general purpose PFI.

   (c) AGREED in principle that FRS-42 and PBE FRS 42 should apply to entities with a legislative requirement to prepare general purpose PFI in accordance with GAAP.

   This position reflected the view that the NZASB has neither the responsibility nor the mandate to develop and issue accounting standards for entities with no legislative or regulatory requirement to present general purpose PFI in accordance with GAAP.

   (d) AGREED with the proposed next steps, which would involve the discussion of each of the two remaining broad practice issues with the Board separately, together with staff recommendations.

6. The focus of this agenda paper is practice issue 2, which addresses the question of “What forms of general purpose PFI are in the scope of FRS-42 or PBE FRS 42”?

7. The remainder of this agenda paper refers mainly to FRS-42 when discussing practice issues. However, the practice issues discussed will likely be equally applicable to PBE FRS 42. Any resulting amendments to FRS-42 would result in the consideration of similar amendments to PBE FRS 42.

Structure of this memo

8. The remaining sections in this memo are:

   (a) clarification of practice issue 2 — "What forms of general purpose PFI are in the scope of FRS-42"?

   (b) statutory requirements to prepare PFI in accordance with GAAP;

   (c) consideration of the scope of FRS-42;

   (d) proposed approach to limit the scope of FRS-42 in response to practice issue 2;

   (e) outcomes of proposed approach; and

   (f) next steps.

Practice issue 2 — what forms of general purpose PFI are in the scope of FRS-42?

9. During targeted outreach activities, it was identified that preparers find it difficult to determine whether different forms of PFI are required to be prepared in full compliance with FRS-42. These difficulties arise from the interpretation of the intended scope of FRS-42.

10. Preparers highlighted that PFI can take many different forms, including the following.

   (a) A complete set of general purpose prospective financial statements prepared in accordance with GAAP.

   (b) Pro forma prospective financial statements, which may include a mixture of both GAAP and non-GAAP prospective financial information.

   (c) Selected items of PFI included in public offer documents, for example, product disclosure statements (PDSs)[1], which may include a mixture of both GAAP and non-GAAP prospective financial information.

   (d) Individual prospective financial reports taken or derived from a complete set of general purpose prospective financial statements (for example, a prospective cash flow statement) prepared in accordance with GAAP.

   (e) Individual amounts or information taken or derived from a complete set of general purpose prospective financial statements (for example, a sales forecast) prepared in accordance with GAAP.

[1] Under the Financial Markets Conduct Act (FMCA Act), for regulated offers, a PDS must be prepared and lodged with the Registrar of Financial Service Providers for inclusion on the Register of offers of financial products, and the issuer must supply to the Registrar all of the information that the Register entry is required to contain.

(f) Other forms of general purpose PFI not taken or derived from a complete set of prospective financial statements prepared in accordance with GAAP.

11. The FRS-42 scope interpretation issues primarily arise from the interpretation of the defined terms for *general purpose prospective financial information* and *general purpose prospective financial statements* in Appendix A of FRS-42. The application of these definitions, together with the scope of the Standard, and the Financial Reporting Standards Board's (FRSB) Bases for Conclusions (BCs) has led to different outcomes when preparers determine to what extent different forms of PFI are required to be prepared in accordance with GAAP.

12. The key question for Board consideration under practice issue 2 is to what extent the scope of FRS-42 should apply to both:

(a) the preparation of a complete set of general purpose prospective financial statements; and

(b) other forms of PFI, such as individual prospective reports, amounts or information, which may be presented separately or together with other general purpose financial statements or with general purpose prospective financial statements?

Current scope of FRS-42

13. FRS-42 provides principles and requirements for the presentation of general purpose PFI. Paragraphs 3–6 of FRS-42 provide the primary guidance on the intended scope of the Standard.

> 3 An entity shall apply this Standard where it is required, or chooses, to present general purpose prospective financial information.
>
> 4 General purpose prospective financial information includes, but is not limited to:
>
> (a) prospective financial statements required to be published by public sector entities (for example, forecast financial statements of the Crown, forecast financial statements of government departments and Crown entities, and forecast financial statements in annual plans and long-term council community plans of local authorities); and
>
> (b) prospective financial statements published in a product disclosure statement, a disclosure document and/or an advertisement for an offer of financial products or other similar documents, including prospective financial statements published in order to satisfy the requirements of financial markets conduct legislation or regulations.
>
> 5 An entity shall apply the principles in this Standard to any prospective financial information published in conjunction with prospective financial statements.
>
> 6 Examples of prospective information to which this Standard does not apply include:
>
> (a) special purpose prospective financial information;
>
> (b) prospective information expressed solely in general terms; and
>
> (c) prospective non-financial information.

14. Appendix A of FRS-42, which is an integral part of the Standard defines the following terms.

General purpose prospective financial information	One or more future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.
General purpose prospective financial statements	Future-oriented financial statements prepared for external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.

15. The BCs which accompany FRS-42 provide background on the FRSB's previous considerations in reaching conclusions on the scope of FRS-42, the BCs scope paragraphs are provided in Appendix 3.

Current scope interpretation issues

16. When preparers consider the definitions of *general purpose prospective financial statements* and *general purpose prospective financial information*, together with the BCs, they consider it is unclear at times to what extent different forms of PFI are required to be prepared in full compliance with FRS-42.

17. The definition of *general purpose prospective financial statements* is generally well understood by preparers. The requirements for the preparation of a complete set of prospective financial statements are included within the Standard. However, preparers have highlighted the following interpretation issues in respect to PFI.

    (a) The definition of *general purpose prospective financial information* gives rise to interpretation issues as both definitions in Appendix A of FRS-42 refer to "future orientated financial statements".

    (b) The scope of FRS-42 in paragraph 3, refers to *general purpose prospective financial information;* however, the name of the Standard is *Prospective Financial Statements* and the principles and requirements of the Standard refer mainly to prospective financial statements. This leads to interpretation issues when considering to what extent other forms of PFI are required to be prepared in full compliance with FRS-42.

    (c) The scope of FRS-42 in paragraph 4, includes the presentation of general purpose PFI, which includes, but is not limited to prospective financial statements. The wording "but is not limited to prospective financial statements" leads to interpretation issues when determining to what extent other forms of PFI are required to be prepared in full compliance with FRS-42.

18. In practice, the term *general purpose prospective financial information* is not ordinarily understood to be limited to prospective financial statements or individual reports extracted from a complete set of prospective financial statements, such as a prospective cash flow statement. Preparers consider that the ordinary meaning of PFI includes both individual amounts or information taken or derived from prospective financial statements prepared in accordance with FRS-42; and may also include PFI not taken or derived from a complete set of

prospective financial statements prepared in accordance with FRS-42 (for example, a projection of future sales).

Statutory requirements to prepare PFI in accordance with GAAP

Review of legislation

19. To progress the discussion of practice issue 2, the Board requested that staff complete an analysis of the current statutory requirements to present PFI in accordance with GAAP.

20. The objective of the analysis was to identify any statutory requirements to prepare PFI either in accordance with GAAP, or requirements to prepare PFI with no reference to GAAP.

21. The staff analysis focused on a review of legislation with provisions for the reporting of financial information by the following entity types.

    (a) FMC reporting entities[2] (e.g. issuers of financial products[3] subject to the Financial Markets Conduct Act 2013 (FMCA) and the Financial Markets Conduct Regulations 2014 (FMC Regulations);

    (b) Public sector entities.

    (c) Other entities with statutory requirements to prepare general purpose financial statements in accordance with GAAP.

22. The analysis included a list of known enactments which require the preparation of general purpose financial statements in accordance with GAAP. This legislation was reviewed to widen the scope of our analysis. It is considered unlikely that other enactments without provisions regarding the preparation of general purpose historical financial statements, would include provisions regarding PFI.

23. The full list of enactments reviewed is provided in Appendix 1, staff reviewed these enactments for any reference to:

    (a) "prospective financial information" or "forecast financial information";

    (b) "prospective financial statements" or "forecast financial statements";

    (c) reporting of "projections"; or

    (d) "FRS-42".

[2] Part 7 of the FMCA defines FMC reporting entities. It includes issuers of regulated products, listed issuers, registered banks, licensed insurers, credit unions, building societies etc.

[3] The FMCA uses the concept of "financial product", which is defined by reference to the following four categories: (a) debt securities; (b) equity securities; (c) managed investment products; and (d) derivatives.

Outcomes of staff analysis

24. The analysis confirmed there are broadly two types of entities required by legislation to prepare PFI:

    (a) FMC reporting entities that have issued (or are in the process of issuing) financial products subject to the FMCA and the FMC Regulations; and

    (b) public sector entities.

    The review of legislation applicable to other entities with requirements to prepare historical general purpose financial statements in accordance with GAAP identified no other legislative provisions requiring the reporting of PFI.

<u>FMC reporting entities</u>

25. The FMCA applies to FMC reporting entities. The Financial Reporting Act 2013[4] moved the reporting requirements and related enforcement provisions into sector, industry and entity-specific Acts[5]. Consistent with this model, the reporting requirements for issuers and other financial markets participants moved from the repealed Financial Reporting Act 1993 into the FMCA.

26. Part 7 of the FMCA requires FMC reporting entities to keep proper accounting records, to prepare financial statements, to have those financial statements audited and to lodge those financial statements.

27. The FMC Regulations outline the procedure for making regulated offers[6]. In most (but not all instances) a product disclosure statement (PDS) is required. The various Schedules to the FMC Regulations set out the required content of the PDS for financial products covered by the FMCA. The PDS is required to be lodged on the Register of offers of financial products (the Register). In addition to the PDS, issuers are required to disclose other material information (including where applicable, prospective financial statements) and documents on the Register.

28. The FMC Regulations, via the requirements for the content of a PDS contained in the Schedules, include provisions which require the preparation and disclosure of:

    (a) prospective financial statements prepared in accordance with GAAP; and

    (b) PFI "derived or taken" from prospective financial statements prepared in accordance with GAAP.

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[4] The FRA 2013 and the Financial Reporting (Amendments to other Enactments) Act 2013 came into effect on 1 April 2014. The FRAOEA inserted a new Part 7 into the FMCA which came into effect on the same date.

[5] For example, the financial reporting requirements for Companies, who are not FMC reporting entities, are contained in the Companies Act 1993. Section 4 of the FRA 2013 explains this framework.

[6] Means an offer of financial products to one or more investors where the offer to at least one of those investors requires disclosure under Part 3 of the FMCA (regardless of whether or not an exclusion under Schedule 1 applies to an offer to one or more other investors). Certain exceptions apply.

29. The FMC Regulations include the specific requirement to "prepare prospective financial statements in accordance with FRS-42", and to file these on the Register, when selected PFI (as prescribed by the Schedules) is included in a PDS.

30. The FMC Regulations include requirements to present prospective "amounts or information determined or prepared in accordance with GAAP". Any prospective amount or information is defined as being determined or prepared in accordance with GAAP if:

    (a) it is taken or derived from prospective financial statements that are prepared in accordance with GAAP; or

    (b) the amount or information would have appeared in prospective financial statements prepared in accordance with GAAP if those statements had included that amount or information[7].

    The reference to "would have appeared" in sub-paragraph (b) is applicable to when specific items of PFI (such as prospective management fees[8]) are required to be presented in a PDS and this information is not disclosed separately in the prospective financial statements prepared in accordance with GAAP. In these circumstances, the FMC Regulations still require a complete set of prospective financial statements to be prepared in accordance with FRS-42 and the fee estimate must be based on the information in the prospective financial statements.

31. The Schedules to the FMC Regulations prescribe the information required to be disclosed in the PDS for each type of financial product. Based on our review of all FMC Regulations Schedules the following included references to PFI, prospective financial statements, or other references referred to in paragraph 23:

    (a) Schedule 3 – Equity Securities; and

    (b) Schedule 5 – Managed Investment Products in Other Schemes.

    Schedule 1 *Transitional, savings, and related provisions*, Schedule 2 *Debt Securities* and Schedule 4 *Managed investment products in managed fund* include no provisions regarding prospective financial statements or PFI. NB: Schedule 2 does permit[9] and require[10] the use of pro forma financial information.

32. A summary of the staff analysis of the FMC Regulations is provided in Table 1 below, and further details are provided in Appendix 2.

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7 FMC Regulations, section 7(2)

8 Schedule 5, Clause 35(1)(a)(ii)

9 Schedule 2, Clause 39(1)(h)

10 Schedule 2, Clause 37(5)(b)

Table 1	**Legislative requirement to present PFI in the form of:**		
FMC Regulations	**Prospective financial statements prepared in accordance with GAAP**	**PFI extracted or derived from prospective financial statements prepared in accordance with GAAP**	**Other forms of PFI**
Schedule 3	☑ Complete prospective financial statements are required to be prepared and filed on the Register	☑ PDS is required to disclose selected PFI determined in accordance with GAAP	☑ Pro forma financial information, in the form of other GAAP or non-GAAP PFI measures, may be added or substituted for PFI required to be included in the PDS
Schedule 5	☑ Complete prospective financial statements are required to be prepared and filed on the Register	☑ PDS is required to disclose selected PFI determined in accordance with GAAP	☑ The PDF must (unless exempted) include information about prospective fees either based on GAAP or other information the manager feels is relevant

<u>Public sector entities</u>

33. The staff analysis of enactments applicable to the public sector (as listed in Appendix 1), identified legislative requirements for certain public sector entities to prepare prospective financial statements in accordance with GAAP (often referred to as "forecast financial statements").

34. The review identified that prospective financial information could be included in a Statement of Intent[11]. However, the Local Government legislation requires that any financial information, including (but not limited to) forecast financial information, must be prepared in accordance with GAAP. The review of the public sector legislation did not identify any reference to PFI with no reference to GAAP.

35. In the outreach activities completed there were no scope interpretation issues noted regarding the application of FRS-42 in the public sector. Based on discussions with staff at Audit New Zealand, we understand the scope of FRS-42 as applied in the public sector is generally well understood.

Scope of FRS-42

36. The scope of FRS-42 was last reviewed by the Board before:

(a) the development and issuance of XRB A1 *Application of the Accounting Standards Framework*, which confirmed the objective of the New Zealand Accounting Standards

[11] Schedule 8 'Statements of intent' of the Local Government Act 2002

Framework was to establish accounting standards for those entities that have a statutory obligation to prepare financial statements, or financial reports that comply with GAAP; and

(b) the enactment of the FMC Regulations, which include requirements for PFI (in the form of prospective amounts or information taken or derived from a complete set of prospective financial statements) to be determined or prepared in accordance with GAAP.

37. When considering whether different forms of PFI should be within the scope of FRS-42, staff have considered (a) the NZASB's mandate for developing and issuing accounting standards and (b) the statutory requirements to prepare PFI in accordance with GAAP.

NZASB's mandate for developing and issuing accounting standards

38. The functions of the XRB Board are prescribed by the FRA 2013. Under section 12 (a), the functions of the XRB include the issuing of accounting standards for the purpose of any enactment that requires financial statements to be prepared in accordance with GAAP or non-GAAP standards.

> Financial Reporting Act 2013
>
> 12 The Board has the following functions:
>
> (a) to prepare and, if it thinks fit, issue financial reporting standards for the purpose of any enactment that requires —
>
> (i) financial statements or group financial statements to comply, or be prepared in accordance with generally accepted accounting practice or non-GAAP standards;
>
> (ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards.

39. The XRB has the responsibility and authority to establish GAAP (the what) and the Government has the responsibility and authority to enact legislation which establishes statutory requirements for entities to comply with GAAP (the who). The XRB has responsibility and authority to develop and issue accounting standards for only those entities with a legislative requirement to prepare general purpose financial information (historic or prospective) in accordance with GAAP.

40. The responsibility of the NZASB to issue accounting standards is discussed in paragraph 10 of the *Financial Reporting Strategy Parameters for the NZASB* issued in August 2011:

> *The XRB expects the NZASB to issue accounting standards for all entities required by law to prepare* [general purpose financial reports] *GPFR. The NZASB is not expected to issue accounting standards for other purposes such as special purpose financial reporting.*

41. The NZASB's mandate was reinforced by the development and issuance of XRB A1, which confirms that the NZASB's mandate to prepare and issue financial reporting standards relates

to those instances where financial statements, reports or other information is required to be prepared by legislation.

42. Consideration of this mandate was pivotal to the NZASB's agreement in principle to remove the words 'or chooses to' from the scope of FRS-42 (practice issue 1). It is also important when considering the different forms of PFI that should be within the scope of FRS-42 (practice issue 2).

Statutory requirements to prepare PFI in accordance with GAAP

43. The review of legislation (paragraphs 19–34) confirmed there are no statutory requirements to present different forms of PFI in accordance with GAAP (in addition to statutory requirements to present a complete set of prospective financial statements), except for the provisions within the FMCA and FMC Regulations.

Financial Markets Conduct Regulations 2014

44. The FMC Regulations, via the requirements for the content of a PDS contained in the Schedules, include provisions which require the disclosure of:

    (a) prospective financial statements prepared in accordance with GAAP; and

    (b) PFI "taken or derived" from prospective financial statements prepared in accordance with GAAP.

45. For the purposes of the FMC Regulations, an amount or information is determined in accordance with GAAP or prepared in accordance with GAAP if:

    (a) it is taken or derived from prospective financial statements that are prepared in accordance with GAAP; or

    (b) the amount or information would have appeared in prospective financial statements prepared in accordance with GAAP if those statements had included that amount or information.

46. In the FMC Regulations selected items of prospective amounts or information is only defined as being determined in accordance with GAAP when taken or derived from financial statements prepared in accordance with GAAP (i.e. in full compliance with FRS-42).

47. The FMC Regulations require that where selected prospective amounts or information, which have been determined in accordance with GAAP, are included in a PDS, full prospective financial statements prepared in accordance with FRS-42 are required to be filed on the Register.

48. The FMC Regulations have appropriate safeguards when selected prospective amounts or information are included in a PDS. For example, the PDS must include a statement that full financial statements are available on the offer Register and that if you do not understand the financial information then you can seek advice from a financial adviser or an accountant.

49. The FMC Regulations provide clear requirements for the presentation of pro forma financial statements and information. Where pro forma financial statements or information is presented, the PDS must:

    (a) identify any information derived from prospective financial statements prepared in accordance with GAAP and information that has not been prepared in accordance with GAAP;

    (b) briefly describe the basis on which the pro forma financial information has been prepared;

    (c) refer to where the principal assumptions on which the pro forma financial information is based can be obtained on the Register; and

    (d) for any non-GAAP pro forma PFI presented, where a reconciliation of these numbers to information prepared in accordance with GAAP can be obtained on the offer Register[12].

50. The FMC Regulations require and permit entities to present pro forma financial statements or pro forma financial information in addition to the prospective amounts or information required to be prepared in accordance with GAAP. However, the terms "pro forma financial statements" and "pro forma financial information" are not specifically defined.

51. Based on consideration of paragraph BC11[13] of FRS-42, it seems that pro forma financial information prepared with other types of general purpose prospective financial statements, was intended to fall within the scope of FRS-42. However, the Standard and BCs do not appear to contemplate the presentation of pro forma financial statements by themselves.

52. The FMC Regulations provide appropriate safeguards and requirements for the presentation of pro forma financial statements. Given that pro forma financial statements and information may include non-GAAP PFI, it is appropriate for these requirements be established through the FMC Regulations and not FRS-42.

Entities with statutory requirements to prepare historical GPFR in accordance with GAAP, but no specific statutory requirements to prepare PFI in accordance with GAAP

53. There are some entities who do not have a legislative requirement to prepare and present prospective financial statements or PFI but may elect to do so. For example, a company that is subject to the requirements of the Companies Act 1993 (Companies Act) but is not an FMC reporting entity and therefore not subject to the FMC Regulations.

12 The requirements in (a)-(d) are from Schedule 3, Clause 39(m)(i)-(iv)

13 Refer to Appendix 3 for BC11

54. The Companies Act requires certain companies[14] to prepare financial statements. The financial statements are required to be prepared within five months of the balance date and comply with GAAP. Financial statements for the purposes of the Companies Act, have the same meaning as section 6 of the FRA 2013. Section 6 of the FRA 2013 defines financial statements in relation to an entity as at the balance date or in relation to the accounting period[15] ending at the balance date.

55. For those companies who are not FMC reporting entities, the Companies Act requires the preparation of historical general purpose financial statements and does not require the preparation of prospective financial statements. Further, for the purposes of a company that is not an FMC reporting entity, GAAP would not include FRS-42 because the Standard deals with prospective and not historical financial statements.

Proposed approach to limit the scope of FRS-42

56. Our review of the current legislative framework has established that selected prospective amounts or information is required to be prepared in accordance with GAAP, and GAAP is defined as being taken or derived from prospective financial statements prepared in accordance with FRS-42.

57. Consistent with the XRB's mandate, the proposed approach going forward, is to amend FRS-42 to limit its scope to <u>only</u> those entities with a legislative requirement to prepare prospective financial statements in accordance with GAAP.

58. Under this approach, all references to prospective financial information would be removed and the Standard would only refer to the principles for the preparation of prospective financial statements. The requirements regarding the presentation of selected items of prospective amounts or information by FMC reporting entities in PDSs and other documents will be established through the FMCA and FMC Regulations.

59. To promote best practice, FRS-42 would be amended to encourage entities that do not have a statutory requirement to prepare prospective financial statements in accordance with GAAP (e.g. large companies under the Companies Act who are not FMC reporting entities) to comply

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14 The preparation provisions apply to:
(a) every large company;
(b) every company that is a public entity;
(c) every large overseas company;
(d) every other company with 10 or more shareholders unless the company has opted out of compliance with the provision in accordance with section 207I; or
(e) every other company with fewer than 10 shareholders if the company has opted into compliance with the provision in accordance with section 207K.

15 An accounting period in relation to a company means a year ending on a balance date of the company and, if as a result of the date of registration of the company or a change of the balance date of the company, the period ending on that date is longer or shorter than a year, that longer or shorter period is an accounting period.

with the requirements of FRS-42 when presenting prospective financial statements or the principles of FRS-42 when presenting other forms of PFI.

Outcomes of proposed approach

Different Forms of PFI – in or out of scope of a revised FRS-42 under proposed approach

60. Table 2 provides a summary of the different forms of PFI and considers how these would be treated under the proposed amendments to FRS-42 based on its scope being limited to only those entities that have a legislative requirement to prepare prospective financial statements.

Table 2		
Form of PFI	**Currently within scope of FRS-42**	**Recommendation**
A complete set of prospective financial statements required by legislation	Yes	**In scope** of a revised FRS-42
Individual reports or amounts of PFI taken or derived from a complete set of prospective financial statements prepared in accordance with GAAP[16]	Subject to interpretation	**Not in scope** of a revised FRS-42
PFI not taken or derived from a complete set of prospective financial statements prepared in accordance with GAAP	Subject to interpretation	**Not in scope** of a revised FRS-42
Pro forma prospective financial statements or pro forma financial information	Subject to interpretation	**Not in scope** of a revised FRS-42
PFI published with other reports containing general purpose financial information[17]	Subject to interpretation	**Not in scope** of a revised FRS-42

Entities with no statutory requirement to prepare PFI

61. The proposed amendments to FRS-42 include adding a paragraph to encourage the use of the principles and requirements in FRS-42 as a source of "best practice" when an entity chooses to prepare prospective financial statements or other forms of PFI.

16 Where individual amounts of PFI taken or derived from the complete set of prospective financial statements are required to be disclosed in a PDS under the FMC Regulations, the complete set of prospective financial statements must be filed on the Register.

17 Regulation 64 of the FMC Regulations requires the annual report for an issuer of equity securities to compare prospective financial information with actual results. Entities not subject to the FMC Regulations who choose to publish PFI with other reports containing general purpose financial information would be encouraged to apply the principles of FRS-42.

62. A reporting entity may have no legislative requirement to prepare PFI in accordance with GAAP but may choose to do so. Under the proposed amendments to FRS-42 the reporting entity would be required to make its own determination of whether preparing this PFI in compliance with FRS-42 (or based on the principles of FRS-42) would be appropriate.

63. If an entity chooses to present prospective financial statements and wants to assert compliance with FRS-42 it would be required to fully comply with the requirements of the Standard.

Question for the Board

1. Does the Board agree with the proposal to limit the scope of FRS-42 to only those entities that have a legislative requirement to prepare prospective financial statements?

   Under this approach references to "general purpose prospective financial information" would be removed and the principles and requirements of FRS-42 would be limited to the preparation of "general purpose prospective financial statements".

Consultation with the NZASB's Technical Reference Group (TRG)

64. Staff submitted a draft of this memorandum for consideration at the TRG meeting held on Friday 23 June.

65. The TRG noted that the staff analysis highlighted a "gap" in requirements to comply with FRS-42 for those non-FMC reporting entities, often large companies, who present PFI to shareholders (e.g. in an information memorandum).

66. The TRG explained that compliance with FRS-42 by these types of entities was previously captured by section 36A[18] of the FRA 1993. It was acknowledged that this type of provision does not appear to have been included in the legislative changes that have occurred since the repeal of the FRA 1993.

67. The TRG emphasised that while this matter may be outside the scope of the XRB's mandate it is a "public interest" issue to investors. This is because investment decisions could be affected by a lack of robustness around the preparation of prospective financial statements by companies who are not FMC reporting entities because there is no specific requirement for compliance with FRS-42.

68. As a next step, the TRG requested staff meet with the Financial Markets Authority (FMA) and the Ministry of Business Innovation and Employment (MBIE) to further clarify this matter and agree necessary amendments (as appropriate).

[18] Any statement prepared by, or on behalf of, a reporting entity that contains prospective, summary or interim financial information for the reporting entity must comply with any applicable financial reporting standard (Section 36A, FRA 1993).

Meeting with FMA and MBIE

69. A meeting with MBIE and FMA has been arranged for Thursday 27 July. A verbal update on the outcome of this meeting will be provided at the Board meeting.

Next steps

70. The next steps in this project are to develop proposed amendments to FRS-42 based on comments received from the Board. These amendments will be tabled at a future meeting.

Question for the Board
2. Does the Board agree on the proposed next steps of this project?

Recommendations

71. We recommend that the Board:

    (a) NOTES the discussion on practice issue 2;

    (b) CONSIDERS the analysis of the current legislative requirements to present PFI in accordance with GAAP;

    (c) PROVIDES FEEDBACK on the proposal to limit the scope of FRS-42 to address practice issue 2; and

    (d) AGREES the next steps for this project.

Appendix 1 — Legislation included in staff analysis of the current regulatory environment

1. FMC reporting entities

   - Financial Market Conduct Regulations 2014, issued as a result of the enactment of the Financial Markets Conduct Act 2013 (the FMC Regulations)

2. Public sector entities

   - The Public Finance Act 1989
   - The Crown Entities Act 2004
   - The Local Government Act 2002

3. Other enactments

   - Financial Reporting Act 2013
   - Companies Act 1993
   - Charities Act 2005
   - Partnership Act 1908
   - Limited Partnership Act 2003
   - Retirement Villages Act 2003
   - Friendly Societies and Credit Union Act 1982
   - Gambling Act 2003
   - Industrial and Provident Societies Act 1908
   - Te Ture Whenua Maori Act 1993

Appendix 2

Summary Table – GAAP and PFI References in the Financial Markets Conduct Regulations 2014

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
PART 1 – PDS for Debt Securities	**PART 1 – PDS for Equity Securities**	**PART 1 – PDS for managed investment products in other schemes**
[Name of Issuing Group]'s Financial Information	***[Name of Issuing Group]'s Financial Information***	***[Name of Scheme]'s Financial Information***
<u>Clause 37 – Selected Financial Information and ratios table</u> The PDS must include a table headed *"Selected financial information and ratios"* that contains at a minimum the information set out in clause 37(1) for the issuing group for each of the relevant periods *(Cl.37(1)).*	**<u>Clause 35 - Selected Financial Information (Table 1)</u>** The PDS must include a table headed *"Selected financial information"* that contains, at a minimum the information set out in clause 35(1) for the issuing group for each of the relevant periods *(Cl.35(1)).*	**<u>Clause 28 - Prospective income, expenses and returns</u>** The PDS may provide in a table a summary of the **prospective financial information** relating to the scheme's income and expenses and returns to investors over the expected life of the scheme (or for any shorter period *(Cl.28(1)).*
Subclause (5) applies if – (a) either or both of the following apply: (i) a member of the issuing group acquired a business, or became a subsidiary of the issuer, at any time in the relevant period:		The summary must – (a) include a brief summary of the principal assumptions on which the prospective financial information is based; and
(ii) the PDS contains a statement to the effect that a member of the issuing group intends to acquire equity securities that will result in a body corporate becoming a subsidiary of the issuer; and		(b) refer to where information about those assumptions can be obtained on the offer Register *(Cl.28(2)(a),(b))*.
(b) the information required by subclause (5) in relation to the business, subsidiary or body corporate is material information *(Cl.37(4))*.		If the PDS includes a **financial measure of prospective returns** to investors (whether in section 6 or elsewhere in the PDS), the amounts on which that financial

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
		measure is based **must be prepared in accordance with GAAP.**
If subclause 5 applies … (b) **proforma financial information** relating to the matters in subclause (1) that is prepared as if the business, subsidiary, or body corporate were a part of the issuing group for each of the relevant periods must be substituted for financial information referred to in subclause (1).		
	<u>**Clause 38 – Key investment metrics for the offer (table 3)**</u> This clause applies if: (a) the PDS states or implies that the issuer intends to quote the equity securities, or have the equity securities approved for trading, on a financial product market (whether in New Zealand or elsewhere); and	<u>**Clause 29 – Financial measures for scheme borrowings**</u> If the scheme property has been, or will be, acquired (in whole or in part) using borrowing, and financial information about the borrowing is material information, the PDS must disclose –
	(b) the issuer does not currently have any equity securities quoted, or approved for trading on that market; and	(a) a ***gearing ratio***[19] at each of the following dates:
	(c) the price of, or other consideration for, the equity securities is fixed or the PDS states a (fixed or indicative) range within which that price or consideration may be fixed; and	… (iii) the balance date of each of P+1[20] and P+2[21] (unless **prospective financial information** for that period is not required under clause 30(1)(c)); and

[19] Clause 29(2) sets out the gearing ratio formula = total interest bearing liabilities/total assets (Cl.29(2)).
[20] means the issuing group's accounting period that will immediately follow the most recent period (Clause 1; Schedule 3)
[21] means the issuing group's accounting period that will immediately follow P+1 (Clause 1; Schedule 3)

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
	(d) the equity securities are not co-operative shares *(Cl.38(1))*. The PDS must include a table headed <u>"Key investment metrics for the offer"</u> that contains, at a minimum, the following information for each of P+1 and P+2 :	(b) (ii) an ***interest cover ratio*** for each of the following periods: (i) if the scheme has completed an accounting period, the most recent period:
	(a) dividends per equity security	(ii) P+1 and P+2 (unless prospective financial information is not required under clause 30(1)(c) *(Cl.29(1))*.
	(b) earnings per equity security **determined in accordance with GAAP**	For the purposes of subclause (2),–
	(c) price/earnings per equity security (**where earnings is determined in accordance with GAAP**)	(a) the total interest-bearing liabilities is the total interest bearing liabilities of the scheme at the date referred to in subclause (1)(a) as **determined in accordance with GAAP:**
	(d) implied enterprise value/EBITDA	(b) the total assets is the total assets of the scheme at the date referred to in subclause (1)(a) as **determined in accordance with GAAP …** *(Cl.29(3)(a),(b))*.
	(e) implied dividend yield-cash (being the dividend per equity security divided by its price)	The interest cover ratio for the scheme must be calculated as (EBITDA – unrealised gains) + unrealised losses/interest expense *(Clause 29(4))*.
	(f) implied dividend yield-gross (being the implied dividend yield-cash adjusted for imputation credits, and other tax credits, expected to be attached to the dividend) *(Cl.38(2))*. ….	For the purposes of subclause (4), –

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
	For the purposes of (d) above – EBITDA is net profit after tax plus interest, tax, depreciation and amortisation **as each of those items is determined in accordance with GAAP** *(Cl.(4)(b))*	(a) EBITDA is the net profit after tax plus interest, tax, depreciation, and amortisation (**as each of those items is determined in accordance with GAAP**) for the scheme for the periods referred to in subclause (1)(b):
		(b) unrealised gains, unrealised losses, and interest expense are those amounts for the scheme for the periods referred to in subclause (1)(b) (**as each of those items is determined in accordance with GAAP**) *(Clause 29(5)).*
<u>Clause 39 – Miscellaneous rules relating to financial information</u> The following rules apply to information that is prepared under clause 37 or 38:	**<u>Clause 39 – Miscellaneous rules relating to financial information</u>** The following rules apply to information that is prepared under clauses 35 *[Selected Financial Information – table 1]*, 36 *[Capitalisation – table 2]*, and 38 *[Key investment metrics for the offer – table 3]*.	**<u>Clause 30 – Miscellaneous rules relating to financial information</u>** The following rules apply to information that is prepared under clauses 27 to 29:
… (b) other financial measures and non-financial information may be added to the table if the issuer reasonably considers that the added information is likely to be more useful for investors:	…(b) in table 1 and table 3, – (i) **prospective financial information** must be provided for P+1 and P+2 only in the case of a first regulated offer of the equity securities by the issuer (and that information is not required if any equity securities of the issuer have previously been offered to the public in New Zealand under the Securities Act 1978); and	(b) the PDS must – (i) identify an information derived from financial statements or other information that has not been prepared in accordance with GAAP; and

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
(c) another **GAAP financial measure** may be substituted for EBITDA or debt if the issuer reasonably considers that the other information is likely to be more useful to investors than EBITDA or debt. *(Cl.39(b),(c)).*	(ii) if **prospective financial information** for P+1 and P+2 is not required as a result of subparagraph (b)(i)[above], that information may be included if the issuer thinks fit; and	(ii) refer to where **reconciliations to information prepared in accordance with GAAP** can be obtained on the offer Register *(Cl.39(b))*.
	(iii) **prospective financial information** may also be provided for any subsequent accounting period *(Cl.39(b))*.	(c) the prospective financial information is not required in relation to a period or any part period if –
If there are any factors that would materially affect the comparability or usefulness of the information reflected in a table (for example, changes to accounting policies, business combinations or dispositions), – (i) **pro forma financial information** may be added to a table or substituted for financial information for a period… *(Cl. 39(1)(h)).*		(i) the manager considers, after having made reasonable endeavours to obtain all relevant information, that **prospective financial information** for that period or part period would be likely to deceive or mislead with regard to any particular that is material to the offer of the managed investment products (for example, because it is not practicable to formulate reasonable assumptions on which to base the **prospective financial information**); and
In the case of paragraph (h), the PDS must –		(ii) the Register contains a statement to that effect together with the manager's reasons for the opinion *(Cl.39(c)(i)-(ii))*.
(i) identify any information derived from financial statements or other information that has not been prepared in accordance with GAAP *(Cl.39(i)(i))*; and		

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
(ii) briefly describe the basis on which **pro forma information** has been prepared *(Cl.39(i)(ii))*; and		
(iii) refer to where information on the principal assumptions on which the **pro forma financial information** is based can be obtained on the offer Register *(Cl.39(i)(iii))*; and		
(iv) refer to where reconciliations to information prepared in accordance with GAAP can be obtained on the offer Register *(Cl.39(i)(iv))*.	The **prospective financial information** for table 1 is not required in relation to a period or any part of a period, and the **prospective financial information** in table 3 is not required in relation to a period if:	
	(i) the issuer considers, after having made reasonable endeavours to obtain all relevant information, that **prospective financial information** for that period or part of a period would be likely to deceive or mislead with regard to any particular that is material to the offer of the equity securities (for example, because it is not practicable to formulate reasonable assumptions on which to base the prospective financial information); and	
	(ii) the PDS contains a statement to that effect together with a statement of the issuer's reasons for that opinion *(Cl.39(c))*.	

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
	The PDS must: (i) briefly summarise the principal assumptions on which the **prospective financial information** in the PDS is based; and	
	(ii) refer to where information about those assumptions can be obtained on the offer Register *(Cl.39(d))*.	
	Other financial measures and non-financial information may be added to a table if the issuer reasonably considers that the added information is likely to be more useful for investors *(Clause 39(e)).*	If a PDS includes a **GAAP financial measure** or a non-GAAP financial measure and either of the following applies, the PDS must include a statement to that effect: (a) any information used to calculate the financial measure is derived from financial statements, or group financial statements that have not been audited by a qualified auditor:
	Another GAAP financial measure or non-GAAP financial measure may be substituted for EBITDA or debt if the issuer reasonably considers that the other financial measure is likely to be more useful to investors than EBITDA or debt *(Clause 39(f)).*	(b) any information used to calculate the financial measure is derived from audited financial statements or group financial statements, in respect of which the auditor's report was qualified or referred to a fundamental matter in any respect *(Cl.39(3)(a),(b))*.
	In the case of an offer of co-operative shares, other financial measures of earnings or distributions may be substituted for EBITDA, net profit, or dividends if the issuer reasonably considers that the other financial measures are likely to be more useful to investors *(Clause 39(g)).*	

FMC Regulations 2014	FMC Regulations 2014	FMC Regulations 2014
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
In clause 39 – **determined in accordance with GAAP**, in relation to a measure, means that the measure may be calculated and presented in accordance with GAAP. **GAAP financial measure** means a numerical measure of an issuer's or issuing group's historical or **future financial performance**, financial position, or cash flows that is determined in accordance with GAAP *(Cl.39(6))*.	In the case of clauses 39(e)-(g), the PDS must: (i) identify any information derived from financial statements or other information that has not been prepared in accordance with GAAP; and (ii) refer to where reconciliations to information prepared in accordance with GAAP can be obtained on the offer Register *(Cl.39(i)(i)-(ii))*.	In clause 30– **determined in accordance with GAAP**, in relation to a measure, means that the measure may be calculated and presented in accordance with GAAP. **GAAP financial measure** means a numerical measure of a scheme's historical or **future financial performance**, financial position, or cash flows that is determined in accordance with GAAP *(Cl. 30(6))*.
	Interim financial information using amounts determined in accordance with GAAP may be added to table 1 *(Cl.39(j))*.	
	If there are any factors that would materially affect the comparability or usefulness of the information reflected in a table (for example, changes to accounting policies, business combinations or dispositions), – (i) **pro forma financial information** may be added to a table or substituted for financial information for a period; or	
	(ii) the PDS must include explanatory notes about those factors if those notes are necessary or desirable to explain the effect of the factors on that comparability or usefulness *(Cl.39(l)(i)-(ii))*.	

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
	In the case of the PDS including **pro forma information**, the PDS must: (i) identify any information derived from financial statements or other information that has not been prepared in accordance with GAAP *(Cl.39(m)(i))*; and	
	(ii) briefly describe the basis on which **pro forma information** has been prepared *(Cl.39(m)(ii))*; and	
	(iii) refer to where information about the principal assumptions on which the **pro forma financial information** is based can be obtained on the offer Register *(Cl.39(m)(iii))*; and	
	(iv) refer to where reconciliations to information prepared in accordance with GAAP can be obtained on the offer Register *(Cl. 39(m)(iv)).*	
		<u>Clause 35 – What are the fees?</u> The PDS must, in 1 or more tables, identify and provide an aggregate estimate of – (a) the fees and expenses charged or to be charged, in respect of the scheme, by the manager and its associated persons for – (i) the most recent period; and (ii) each of P+1 and P+2 (unless **prospective financial information** is not required under clause 30(1)(c); and

FMC Regulations 2014	FMC Regulations 2014	FMC Regulations 2014
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
		(b) the fees and expenses charged or to be charged, in respect of the scheme, by other persons for – (i) the most recent period; and (ii) each of P+1 and P+2 (unless **prospective financial information** for that period is not required under clause 30(1)(c) *(Cl.35(4))*.
		The PDS may include information about fees and expenses for subsequent periods *(Cl.35(6))*.
		The estimate must be made by the manager on the basis of – (a) information in the financial statements or **prospective financial statements** (if any) that are contained in the Register entry under clause 49(1)(a) or (b); and
		(b) other information available after the manager has made reasonable endeavours to obtain all relevant information for the purposes of preparing the PDS *(Cl.35(7)(a),(b))*.
	<u>**Clause 53 Financial Information on the Register Entry**</u> The Register entry must contain the following: (1) … (c) If a table prepared under any of clauses 35 to 38 includes prospective financial information, **prospective financial statements** prepared in accordance with FRS-42.	<u>**Clause 49 Financial Information on the Register Entry**</u> The Register entry must contain the following: (1) … (b) **prospective financial statements** prepared in accordance with FRS-42 for the scheme for at least the following periods (if prospective financial information for that period is included under clauses 27 to 30): (i) P+1 (ii) P+2

FMC Regulations 2014	**FMC Regulations 2014**	**FMC Regulations 2014**
SCHEDULE 2 – Debt Securities	**SCHEDULE 3 – Equity Securities**	**SCHEDULE 5 – Managed Investment Products in Other Schemes**
		<u>Clause 59 – Financial condition and performance of the scheme</u> The annual report must include – (a) a comparison between – (i) any **prospective information** about returns on the managed investment products that was included in a disclosure document, the Register entry, or any advertisement for those products; and
		(ii) actual returns on the managed investment products; and
		(b) a comparison between – (i) any **prospective financial information** about the scheme that was included in a disclosure document, the Register entry, or any advertisement for the managed investment products; and
		(ii) actual results *(Cl.59(3)(a)(i)-(ii);(b)(i)-(ii)).*
		Each comparison must be presented in the same form and for the same period as the **prospective information** (if this is reasonably practicable).

Appendix 3 — FRS-42 Basis for Conclusions discussion on scope

Key extracts have been highlighted.

BC9 The Standard is intended to provide guidance for all entities publishing general purpose prospective financial statements. It has been drafted in such a way that it can be applied by profit-oriented and public benefit entities both prior to, and following, the application of New Zealand equivalents to International Financial Reporting Standards (IFRSs). For example, it acknowledges the existence of current legislative requirements governing the preparation of prospective financial statements by public sector entities and uses terminology appropriate for all entities. Following the adoption of IFRSs in New Zealand the FRSB agreed that the format of the Standard should be consistent with recent IFRSs. Paragraphs are numbered sequentially and have equal authority. Paragraphs in bold type state the main principles. Definitions are included in an appendix and are in italics the first time they appear in the Standard.

BC10 The Standard applies to entities that are required, or choose, to present general purpose prospective financial information. Although the regulations or legislation giving rise to the obligation to present general purpose prospective financial information may refer to one or more prospective financial statements, (for example, a prospective cash flow statement), entities applying the Standard are required to present a complete set of prospective financial statements. They are also required to apply the principles in the Standard to any prospective financial information published in conjunction with general purpose prospective financial statements. These requirements reflect the FRSB's resolution to promote best practice in general purpose prospective financial reporting. The FRSB does not consider that the presentation of a single prospective financial statement in the context of general purpose prospective financial reporting is best practice.

BC11 The FRSB noted that pro forma information, based on alternative scenarios, is often included in a prospectus and considered the application of the Standard to such pro forma information. For example, where an acquisition is expected to occur during the period, a prospectus may include both prospective financial statements based on the assumption that the acquisition takes place on the expected date and additional information based on the assumption that the projected acquisition will occur on alternative dates. Where such additional prospective pro forma information is published together with the types of general purpose prospective financial statements outlined in paragraph 4, it would fall within the scope of the Standard. However, the Standard does not apply to:

(a) verbal prospective financial information disclosures or earnings guidance published by a New Zealand Exchange Limited listed issuer;

(b) individual items of prospective financial information, such as sales forecasts published in an annual report; or

(c) historical pro forma statements.

BC13 Prior to issuing ED 103 the FRSB considered whether the scope of the Standard should encompass individual items of prospective financial information published as part of an annual or other report containing general purpose financial information. However, the FRSB noted that it would be difficult to clearly establish the type of information covered by the Standard and considered that such a change would represent a significant change in market practice and would lead to higher compliance costs.

BC14 Some respondents to ED 103 considered that the requirements of the Standard should also apply to items (a) and (b) in paragraph BC 12. One suggestion was that the Standard should require that such prospective financial information be extracted from prospective financial statements prepared in accordance with the Standard. The FRSB considered extending the scope of the Standard to cover prospective financial information extracted from prospective financial statements. The FRSB did not agree that it was appropriate for it to extend the requirements of a financial reporting standard in this way but nevertheless considered that the requirements of the Standard could be applied more widely. For example, the FRSB considered that information extracted from prospective financial statements should be consistent with those prospective financial statements. The FRSB decided that the title of the Standard should be "Prospective Financial Statements" in order to more clearly signal the FRSB's role in developing requirements for financial statements.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Judith Pinny
Subject:	**IPSASB Consultation Paper *Financial Reporting for Heritage in the Public Sector***

Action required[1]

1. The Board is asked to PROVIDE FEEDBACK on the draft comment letter to the IPSASB's Consultation Paper *Financial Reporting for Heritage in the Public Sector* and the proposed outreach on that Consultation Paper.

Background

2. The IPSASB issued a Consultation Paper *Financial Reporting for Heritage in the Public Sector* (CP) in April 2017. Comments are due to the NZASB by 18 August 2017, and to the IPSASB by 30 September 2017.

3. IPSAS 17 *Property, Plant and Equipment* does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity recognises heritage assets, it must apply the disclosure requirements of the Standard and may, but is not required to, apply the measurement requirements of the Standard. This has led to a divergence in practice internationally for the accounting of heritage assets.

4. The Board, when developing PBE IPSAS 17 *Property, Plant and Equipment*, considered that the IPSAS 17 requirements for heritage assets were not appropriate in the New Zealand context. For many years NZ GAAP has required that entities recognise and measure heritage assets in the same way as other items of property, plant and equipment when the asset recognition criteria were met. PBE IPSAS 31 *Intangible Assets* takes a similar approach to PBE IPSAS 17 for heritage assets of an intangible nature.

5. In the PBE IPSAS 17 Basis for Conclusions, the Board noted there are instances where heritage assets are not able to be reliably measured and therefore not recognised in the statement of financial position. The Board agreed that although non-recognition of heritage in such circumstances is appropriate, heritage assets should be recognised when they can be reliably measured.

1 This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Structure of this memo

6. The remainder of this memo is structured as follows:

   (a) summary of proposals in the CP;

   (b) draft comment letter;

   (c) themes from outreach undertaken;

   (d) suggestions for further outreach;

   (e) recommendations; and

   (f) next steps.

Summary of proposals in the CP

7. The CP describes heritage items as items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance.

8. The CP proposes that:

   (a) heritage items' special characteristics do not prevent them from being assets for the purposes of financial reporting;

   (b) heritage items should be recognised in the statement of financial position if they meet the recognition criteria in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB's Conceptual Framework); and

   (c) in many cases, it will be possible to assign a monetary value to heritage assets.

9. It also discusses:

   (a) initial and subsequent measurement of heritage assets;

   (b) whether heritage preservation responsibilities could involve present obligations for entities, which should be recognised as liabilities in the financial statements; and

   (c) presentation[2] of information for heritage in general purpose financial statements.

Draft Comment Letter

10. At the last NZASB meeting, the Board agreed to respond to all the specific matters for comment and preliminary views. Attached is the draft comment letter for the Board's feedback as agenda item 6.3.

[2] The IPSASB's concept of *presentation* includes both information disclosed on the face of the financial statements and information disclosed in the notes.

11. The draft comment letter incorporates comments received from:

    (a) attendees at the three NZASB outreach events;

    (b) two Board members who sent comments by e-mail; and

    (c) one submission letter received from an attendee at the Wellington outreach event.

Themes from outreach undertaken

12. We have held three outreach events in Wellington, Christchurch and Auckland facilitated through Phillipa Tocker, Executive Director of Museums Aotearoa. At these outreach events, we requested feedback on the CP specific matters for comment and welcomed feedback on the challenges constituents faced when accounting for heritage assets. Feedback received provided us with a better understanding of the unique characteristics of heritage assets in a New Zealand context.

13. Across New Zealand there was diversity in the comments received, reflecting the wide range of current practice for the recognition of heritage assets. Entities closely related to central government currently recognise heritage assets on their balance sheet. This group supported the development of a separate accounting standard for heritage and/or guidance, given the unique characteristics of heritage in a New Zealand context. The recognition of heritage assets on the balance sheet was considered important to support the request for preservation funding and to demonstrate the extent of an entity's custodial responsibilities.

14. A number of museum entities do not recognise heritage assets on their balance sheet, and wish to continue doing so. Some of this group have received qualified audit reports. This group wish to retain the *status quo* in the financial reporting of heritage.

15. The art galleries and a small number of museums currently recognise their heritage assets on the balance sheet at fair value. Cost of annual revaluations were often prohibitive, and they sought relief in this area.

16. See the Appendix for the entities consulted with, which included museums, art galleries, Auckland Council and Heritage New Zealand. The Appendix also summarises the reporting entity, sector and tier which the entity is reporting under, and the current measurement basis or bases used for heritage items for financial reporting purposes.

17. The comments received from outreach undertaken, in summary were:

    (a) The initial recognition of heritage assets at a nominal cost of one currency unit (CU) was not supported. This approach would likely be perceived as offensive and culturally insensitive, given the New Zealand view of heritage[3]. However, there was support for exploring other practical measurement approaches that supported bringing heritage assets onto the balance sheet in a cost-effective manner.

[3] However, a Board member noted in their submitted comments that the use of one CU is the standard valuation for zoo animals to prevent trade in them. Trades are by swaps or loans with the recipient zoo paying transfer costs and providing appropriate accommodation.

(b) The unique characteristics of heritage assets in New Zealand is influenced by the Treaty of Waitangi, which is written into many Acts, including those setting up various museums around the country.

(c) The Māori have made a Waitangi Tribunal claim commonly known as the "flora and fauna claim" or the "WAI 262 claim". The WAI 262 claim addressed the ownership and use of Māori knowledge, cultural expressions, indigenous species of flora and fauna, all known as *taonga* (treasures), and inventions and products derived from indigenous flora and fauna and/or utilising Māori knowledge.

(d) Māori *taonga* was often on loan to the museum, and the Māori people either retained ownership, or in some cases, had joint ownership with the museum. Ownership did not best describe the museum's rights over a heritage item: custodianship which covers past and future generations was a better descriptor.

(e) There is particular sensitivity surrounding assigning a financial value to heritage items which are considered "cultural assets"*. He Kōrahi Māori* means ways of working which incorporate a Māori world view. Recording individual financial value to *taonga* invites a comparison of value that may be inconsistent or even offensive in the Māori world view. Prioritising only "the most valuable" items raises further difficulty, because one significant source of value in a Māori world view is the *mana* of the people connected to the artefact in question. Perception of value can depend on one's relationship with that person and is something that will alter with context. Items of high value to one *hapu*[4] will not be significant to another so it becomes difficult to establish a hierarchy or any reliable or meaningful relativity.

(f) When accounting for heritage assets choosing an appropriate unit of account is important, one item may have low value but as part of a collection the value was greater than the sum of the parts. Decisions on units of account differ between museums, and also within a museum over time.

(g) Costs of regular valuation were often seen as unjustifiable as they have negligible operational benefit. Resources are tight, and valuations took funds away from other activities such as education, preservation and upgrading or replacing displays.

(h) The value of heritage item is often driven by the museum's ability to use the item to tell the associated story (i.e. the service potential), and this value will not be considered under a fair value/market value measurement approach.

(i) The importance of significance to a collection rather than a financial valuation. The seminal reference on significance is *Significance 2.0, a guide to assessing the significance of collections,* a publication of the Collections Council of Australia Ltd[5]. This guide promotes the writing of a statement of significance for heritage collection items[6]. This statement of significance is written to summarise the meaning and importance of

4 *Hapu* means a number of extended family groups that form a sub-tribe.

5 https://www.arts.gov.au/sites/g/files/net1761/f/significance-2.0.pdf

6 *Ibid* pp38-41.

an item or collection, and communicate this to users. Significance is divided into primary criteria and comparative criteria which are further sub-divided as follows:

(i) Primary criteria:
- Historic significance
- Scientific or research significance
- Social or spiritual significance

(ii) Comparative criteria
- Provenance
- Rarity or representation
- Condition or completeness
- Interpretive capacity

The resultant statement of significance would usually be a one page summarised pictorial and written statement about a specific heritage item.

Suggestions for further outreach

18. Joe Hanita, XRAP member, previously Director at KPMG and now CFO of Parininihi ki Waitotara in Taranaki, is assisting us with the identification of participants from the Māori sector to consult with in August 2017.

19. Other outreach suggestions include the following.

(a) More local government consultation, possibly with Wellington City Council. An Auckland Council representative attended the Auckland heritage meeting and we understand we will receive a submission from Auckland Council.

(b) Te Puni Kokari[7] — Chief Executive Michelle Hippolite, and Policy Analyst, Horiana Love (previously at the Ministry of Culture and Heritage) are recommended contacts.

(c) The Department of Conservation which owns heritage sites, including National Parks, which collectively amount to 10% of New Zealand's land mass.

(d) The Kauri Museum which would have a view on the exclusion of native trees from the definition of heritage. (They were a late apology at the Auckland heritage meeting.)

20. Staff consider the extent of outreach activities completed and comments received will allow for the preparation of a comment letter that reflects the unique characteristics of heritage in New Zealand. We therefore suggest no further outreach is required.

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[7] Ministry of Maori Affairs.

Recommendations

21. We recommend that the Board:

    (a) PROVIDES FEEDBACK on the draft comment letter in agenda item 6.2; and

    (b) ADVISES if more outreach is required, and which would be the most useful.

Next steps

22. We will conduct any additional outreach and present the comment letter to be finalised at the September Board meeting. This will also include the remaining submission letters we receive.

Attachments

Agenda item 6.2:	Draft comment letter
Agenda item 6.3:	Submission received: New Zealand Police Museum
Agenda item 6.4	IPSASB CP *Financial Reporting for Heritage in the Public Sector – At a Glance* (supporting papers)
Agenda item 6.5:	IPSASB CP *Financial Reporting for Heritage in the Public Sector* (supporting papers)

Appendix: Table of current recognition and measurement of selected heritage collections

To provide the Board with an insight into the current accounting for heritage assets in New Zealand, we have considered the accounting for heritage assets by reporting entities who were represented by participants at our outreach events. In many cases the current accounting illustrates the challenges obtaining reliable measures of heritage assets for financial reporting purposes.

No.	Museum Entities	Heritage assets recognised on balance sheet	Measurement basis for Heritage Assets	Reporting Entity	Comments
1.	Te Papa	Yes – collections	Cost or revaluation except for natural environment collections which are shown at replacement cost. Valuations are done on a 3-yearly cycle. "In the Board's opinion, as the collections tend to have an indefinite life and are generally not of a depreciable nature, depreciation is not applicable."	Crown Entity, accountable to Ministry of Culture and Heritage, and included in the Crown accounts. PBE (PS) entity reporting under Tier 1.	There was comment from respondents that if Te Papa was interested in an item at an auction, the purchases price would immediately go up. Their presence has a very dominant effect on the market for heritage items.
2.	NZ Police Museum	No – value not considered material upon consolidation.	N/A	Operating budget is part of Public Affairs section of NZ Police, a non-public service department, consolidated into Crown accounts.	The Police Museum's collection is not recognised in any way in the NZ Police's financial statements.
3.	Nga Taonga Sound and Vision[8]	No – refer to comments.	Historical cost. Included in property, plant and equipment (PPE).	Charitable Trust and Registered Charity. PBE (NFP) entity reporting under Tier 2 RDR.	No monetary valuation has been made for the donation of sound, vision and documentation material which form part of Ngā Taonga Sound & Vision collection. Ngā Taonga Sound & Vision's collection consists of over 800,000 titles ranging from 30 second

[8] This entity is an amalgamation of NZ Film Archive, Sound Archives Nga Taonga Korero and TVNZ Archive.

No.	Museum Entities	Heritage assets recognised on balance sheet	Measurement basis for Heritage Assets	Reporting Entity	Comments
					television commercials to full length feature films, and includes radio programmes and sound recordings. In most cases Ngā Taonga Sound & Vision acts as a custodian and does not own the rights to commercially exploit the collection.
4.	Canterbury Museum	No – refer to comments	N/A	Charitable trust, Registered Charity and PBE (PS) entity reporting under Tier 2 RDR	Qualified (adverse) audit report because of the departure from PBE IPSAS 17, recognition of museum collection assets. Audit on behalf of the Auditor General. Heritage assets accounting policies in the Museum's 2015/16 accounts: "PBE IPSAS 17 has not been followed because the Board considers that the fair values of the collection items cannot be measured reliably. Usually, gifts to the collection are unique items that have iconic status or are historic and irreplaceable or sacred to particular communities, with no market, so no financial value can be ascribed. The Museum holds in excess of two million individual collection items. To comply with the requirements of PBE IPSAS 17 the value of these items would need to be assessed on an annual basis to identify possible impairment, which is required to be undertaken on an asset by asset basis".
5.	Otago Museum	No – refer to comments	No value model	Special purpose local authority constituted under the Otago Museum Trust Board Act,1996 Registered Charity and	Qualified (adverse) audit report because of departure from PBE IPSAS 17, inappropriate accounting for museum collection assets. "The Museum has not recognised the majority of its collection assets in the

No.	Museum Entities	Heritage assets recognised on balance sheet	Measurement basis for Heritage Assets	Reporting Entity	Comments
				PBE(PS) entity reporting under Tier 2 RDR	statement of financial position, nor the associated depreciation expense in the statement of financial performance." Audit on behalf of the Auditor-General.
6.	Auckland War Memorial Museum	No - Derecognised all collection assets in 2015/16.	Cost model to 2014/15.	Registered Charity PBE (NFP) entity reporting under Tier 1.	Audit on behalf of the Auditor-General. Derecognition because value cannot be measured reliably. Derecognition of assets accepted by auditors.
7.	Museum of Transport and Technology (MOTAT)	Yes – for significant collections	Categories of significant collection assets are revalued by appropriate independent experts on a five-year rolling basis. The other low value assets in the collection have not been included in the financial statements as the Board believes the cost of valuing and reporting these assets outweighs the benefit to the readers of the financial statements.	Registered Charity PBE (PS) entity reporting under Tier 2 RDR Also	All heritage items reported are regularly revalued. "Collection assets are valued based on an estimated market value being the amount for which an asset is likely to be exchanged between a willing buyer and willing seller in an arm's length transaction. The very limited and specialised market for these assets means that, in most instances, there are few transactions on which a value can be reliably based. The recorded values are therefore the best estimates of the valuers based on their knowledge of transactions of similar assets."
8.	NZ Maritime Museum (Auckland)	Yes – exhibitions and other displays	Historic cost	Charitable Trust and Registered Charity PBE (NFP) entity reporting under Tier 2 RDR.	Net book value of PPE is $9m as at 30 June 2016. Have a high number of replica assets (e.g. minature boats), are these heritage assets?

No.	Art Gallery Entities	Heritage assets recognised on balance sheet	Measurement basis for Heritage Assets	Reporting Entity	Comments
1.	Christchurch Art Gallery	Yes	Revaluation	Probably reports to Christchurch City Council-unconfirmed	“Class of assets” requirement means that all art must be revalued annually.
2.	Auckland Art Gallery	Yes	Revaluation	Reports to Regional Facilities Auckland (Council-controlled organisation)	“Class of assets” requirement means that all art must be revalued annually.

No.	Other Entities	Heritage assets recognised on balance sheet	Measurement basis for Heritage Assets	Reporting Entity	Comments
1.	Auckland Council	Yes – Specific cultural and heritage assets	Varied: Specified cultural and heritage in PPE ($150m) are carried at cost and not revalued or depreciated. Works of art ($271m) are on a 3-yearly valuation cycle.	FMC reporting entity reports as a PBE under Tier 1	
2.	Heritage NZ	Yes – Historic Buildings	Most owned properties valued at depreciated replacement cost Antrim House (HQ of Heritage NZ) recorded at market value Land and buildings are revalued 5-yearly	Autonomous Crown Entity, funded via the Ministry of Culture and Heritage Included in Crown accounts PBE reporting entity under Tier 2	Portfolio of 48 historic properties, which are owned, co-owned, leased and historic reserves. Some sites have a hybrid form of ownership e.g. part owned and part leased. Previously Historic Places Trust.

NZ ACCOUNTING STANDARDS BOARD

[Date] 2017

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA
Submitted to: www.ifac.org

Dear John

Consultation Paper *Financial Reporting for Heritage in the Public Sector*

Thank you for the opportunity to comment on the Consultation Paper *Financial Reporting for Heritage in the Public Sector* (CP). The CP has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

To put our response to you in context, there is one significant difference between our current New Zealand standard, PBE IPSAS 17 *Property, Plant and Equipment* and IPSAS 17 *Property, Plant and Equipment*. PBE IPSAS 17 requires that heritage assets which meet the recognition requirements be recognised as property, plant and equipment when they can be reliably measured. PBE IPSAS 31 *Intangible Assets* takes a similar approach to PBE IPSAS 17. This New Zealand requirement has been mandated in our accounting requirements for many years.

When developing PBE IPSAS 17 the New Zealand Accounting Standards Board (NZASB) noted there are instances where heritage assets are not able to be reliably measured and therefore not recognised in the statement of financial position. The NZASB agreed that although non-recognition of heritage in such circumstances is appropriate, heritage assets should be recognised when they can be reliably measured.

We note that, notwithstanding the measurement challenges for heritage items, many New Zealand public benefit entities have managed to establish values for financial reporting purposes under PBE IPSAS 17.

We acknowledge that financial statements have limitations and that valuations used for financial reporting have limitations. Financial statements are not the sole source of information for decision making and accountability. There will be other valuations used for other purposes and a role for additional information about heritage items, possibly in the financial statements, but also in service performance information or other reports. Despite the limitations of financial statements and the measurement of items for financial reporting purposes, this does not stop us from striving for completeness in financial reporting.

We have undertaken outreach on the CP, by facilitating roundtables in Wellington, Auckland and Christchurch. We have also received one submission from a constituent. [Amend this para for final letter]

Overall, we support the proposals in the CP. We recommend that the IPSASB produce non-mandatory general guidance to support the recognition and measurement requirements that already exist in IPSAS 17 and IPSAS 31 for heritage assets that meet the recognition criteria in the Conceptual Framework.

However, our consultation produced a unanimous view, which the NZASB concurs with, that the nominal cost of one currency unit is not an appropriate measurement basis. This approach would not promote consistent measurement practices and would likely be perceived as offensive and culturally insensitive, given the New Zealand view of heritage

[The main points on the CP to be updated once detailed responses have been finalised.]

Our recommendations and responses to the Specific Matters for Comment and Preliminary Views are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Judith Pinny (Judith.pinny@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix: Responses to Specific Questions for Comment and Preliminary Views in the Consultation Paper

1. Specific Matters for Comment – Chapter 1 (following paragraph 1.8)

Do you agree the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

The NZASB agrees with the lists of heritage item characteristics and the areas where these characteristics might have financial reporting consequences.

We note that items with a long or indefinite useful life may not need depreciating. Many objects are entrusted to a museum in perpetuity, their life is "forever".

A comment raised by constituents is that often heritage items held by reporting entities are not considered to be "controlled" or "owned" by the reporting entity. When developing guidance on the accounting for heritage items, constituents would welcome guidance on the accounting for heritage items where the reporting entity has custodian and preservation responsibilities but may not necessarily have "control" or ownership rights.

2. Preliminary View – Chapter 2.1 (following paragraph 2.11)

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

> Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited to, their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The scope of the description of heritage items appears satisfactory, and needs to explicitly note that it is for financial reporting purposes. We note that this is a description of all heritage items, of which those heritage items that can be recognised and measured for financial reporting purposes is a subset.

Heritage New Zealand[1] which has Māori[2] heritage and national historic landmarks within its mandate, includes aesthetic, social, and traditional values within its definition of historical and cultural heritage.[3] One respondent at our roundtable consultation suggested that "social heritage" be added to the definition of heritage items to incorporate the New Zealand significance of some heritage items.

We recommend, the IPSASB consider adding "social" to the definition of heritage items. The reference to "social" reflects a wider scope than cultural features (e.g. historic vehicles are

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1 Heritage New Zealand is the New Zealand Government's expert advisor on historical and cultural heritage.

2 The native people of New Zealand.

3 http://www.heritage.org.nz/resources/-/media/e0dde159aaef4d01b322f9d10d72b6ec.ashx, page 6.

considered to have social importance due to their impact on New Zealand society, but may not necessarily be considered to have cultural importance).

3. Preliminary View – Chapter 2.2 (following paragraph 2.12)

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas or features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The NZASB agrees that natural heritage covers areas and features.

However, the NZASB does not agree that natural heritage should specifically exclude living plants and organisms from the scope of heritage items. Living plants and organisms (specifically animals) could in some instances be recognised as heritage assets when they meet the recognition criteria in the Conceptual Framework.

For example, in New Zealand endangered species are often held in protected areas (within natural heritage sites) and are individually tagged. For these individual protected animals, there could be instances where control can be demonstrated and the recognition criteria satisfied.

Another example provided during outreach events was the native Kauri Trees in New Zealand. The Kauri trees are, in some cases, thousands of years old, and are both rare and significant to New Zealanders, and particularly the Māori people, but are excluded from the scope of the CP. We suggest that the IPSASB's guidance allow entities to acknowledge the heritage value of these excluded items and recommend that there be some disclosure about them possibly in the financial statements or in the service performance information, when the recognition criteria in the Conceptual Framework is not satisfied.

4. Preliminary View – Chapter 3 (following paragraph 3.11)

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

We agree that the special characteristics of heritage items do not prevent them from being considered as assets for financial reporting purposes.

We note that the New Zealand PBE Standards already require recognition and measurement of heritage assets in PBE IPSAS 17 and PBE IPSAS 31. The requirements in PBE IPSAS 17 and PBE IPSAS 31 differ from the IPSASB's current requirements in IPSAS 17 and IPSAS 31.

For many years NZ GAAP has required that entities recognise and measure heritage assets in the same way as other items of property, plant and equipment when the asset recognition criteria are met.

The NZASB notes there are instances where heritage assets are not able to be reliably measured and therefore not recognised in the statement of financial position. The NZASB agreed that although non-recognition of heritage in such circumstances is appropriate, heritage assets should be recognised when they can be reliably measured.

5. Specific Matters for Comment – Chapter 4.1 (following paragraph 4.17)
Do you support initially recognising heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorised as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?
If so, provide your reasons.

The NZASB does not support the recognition of heritage assets at one currency unit. Although this is at first glance a pragmatic solution, we believe that perceptions about ascribing notional values are likely to vary across jurisdictions, and could be regarded as culturally insensitive. Our outreach to the Māori people around Heritage has confirmed that this is the case in New Zealand.

We note that the recognition criteria in the Conceptual Framework require that items be measured in a way that satisfies the qualitative characteristics. Application of a one currency unit nominal cost contravenes the qualitative characteristics of relevance, faithful representation, comparability and verifiability.

A nominal cost approach is also inconsistent with how we account for other assets that an entity receives in exchange for no consideration, such as non-heritage property, plant and equipment which is donated to the entity. IPSAS 17 requires that where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Heritage items are sometimes difficult to value because they are unique, or have no ready market. However, we note that this difficulty is not limited to heritage items; many non-heritage items are also difficult to value.

We consider that when heritage items meet the asset recognition criteria, the measurement requirements at initial recognition should be consistent with the accounting for other assets.

6. Preliminary View – Chapter 4.1 (following paragraph 4.40)
Heritage assets should be recognised in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.
Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The NZASB agrees with this Preliminary View.

Although the cost of valuations can be seen as a barrier to requiring the recognition of heritage assets we note that there are some pragmatic steps that can be taken to manage these costs if they are ongoing under the fair value method (for example a triennial rolling valuation).

Despite supporting the recognition, in the financial statements, of heritage assets that meet the definitions of assets and the recognition criteria, we also acknowledge the limitations of financial statements and the role that additional disclosures or other forms of reporting can have in providing information about such items. For example, the management of heritage items may be reported on in an entity's service performance information.

We acknowledge the unique situation regarding Māori heritage. In particular, the concepts of ownership and asset valuation do not have a parallel in the Māori world-view which makes recognition of Māori heritage problematic for financial accounting purposes.

Kaitiakitanga means guardianship, protection, preservation or sheltering. Traditionally, Māori believe that all life is connected. People are not superior to the natural order; they are part of it. *Kaitiakitanga* grows out of this connection and expresses it in a modern context. *Kaitiakitanga* can apply to valued items. These include family heirlooms such as *korowai* (cloaks), *mere pounamu* (jade clubs) and books about *whakapapa* (genealogy). An item that belongs to a person later becomes the property of all their descendants. It is cared for by an individual *kaitiaki* on behalf of the group. The *kaitiaki* is responsible for bringing the object to important occasions such as funerals, and for holding information about it.

A New Zealand reporting entity which recently derecognised its heritage assets, did so after analysis of its heritage collection and concluded that it could not reliably measure those assets. In addition, derecognition of Māori heritage items removed the tension that had existed between the entity and the Māori people as they were uncomfortable with any value being attributed to Māori heritage. This entity instead made detailed disclosures about its collection in the form of non-financial information.

We note that there are many different forms of guardianship of heritage assets e.g. ownership, co-ownership, lease and hybrid e.g. part-owned and part-leased. An entity would need to consider all its own rights, and the rights of others, in relation to an asset in making recognition decisions, for example, for assets on loan to them.

The recognition of assets is determined by control. Many Māori heritage items are on loan to entities such as museums. Control would still rest with the Māori people in these situations so these items would not be recognised in the financial statements of the entity. Māori heritage represents a large proportion of many collections in New Zealand museums. For example, the largest museum in Auckland has 70% of its Māori collection on loan from the Māori people.

7. Specific Matters for Comment – Chapter 4.2 (following paragraph 4.40):

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognised and/or measured because:

(a) It is not possible to assign a relevant and verifiable monetary value; or;

(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?

If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognised in these situations.

Although the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (paragraph 3.40) states that the IPSASB will make assessments about costs and benefits in setting standards, the Conceptual Framework does not suggest that these assessments would be made by individual entities. In applying standards, entities need to make judgements about the application of requirements in standards to individual items, including consideration of materiality.

There is particular sensitivity surrounding assigning any financial value to cultural assets. *He Kōrahi Māori* means ways of working which incorporate a Māori world view. However, recording individual financial value to *taonga*[4] invites a comparison of value that may be inconsistent or even offensive. Prioritising only "the most valuable" items raises further difficulty, because one significant source of value in a Māori framework is the *mana*[5] of the people connected to the artefact in question. Perception of value can depend on one's relationship with that person and is something that will alter with context. Items of high value to one *hapu*[6] will not be significant to another so it becomes difficult to establish a hierarchy or any reliable or meaningful relativity.

The Auckland Museum Trust Board has derecognised its heritage collection assets of $NZ270 million for the year ended 30 June 2016 and this is explained in the notes to the financial statements as follows:

> *"Heritage collections are inherently difficult to value. The valuation result carries a high margin of error with numerous exceptions and disclaimers. The variability arises from both the necessity to employ sampling methodologies and the persistent subjectivity in estimating value with few market comparisons. Museum's collections are held indefinitely and are not intended to be realised and also there are cultural sensitivities to ascribing monetary value to taonga. In addition, the numerical scale and highly varied nature of the museum's collection, and the lack of an active market for most kinds of items collected, makes the establishment, maintenance and implementation of meaningful valuation processes cost prohibitive.*
>
> *Accordingly, the Museum believes the cost or fair value of its heritage assets and associated future economic benefits or service potential to the Museum cannot be reliably measured.*
>
> *This change in accounting policy provides more reliable information as it eliminates the subjectivity of valuations and prevents the users of the Financial Statements from being misinformed."*

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4 *Taonga* means a treasure in Māori culture.

5 *Mana* means power, prestige or status.

6 *Hapu* means a number of extended family groups that form a sub-tribe.

8. Preliminary View – Chapter 4.2 (following paragraph 4.40):

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

We consider that in some cases it will be possible to assign a monetary value, but "many cases" is overstating the position in reality. The overall problem we are trying to solve is getting more heritage assets onto the balance sheet because assigning values is a barrier for some entities.

We consider that the measurement options in IPSAS 17 are appropriate, although entities might find it helpful if there was additional guidance on the application of the revaluation model to heritage items. For example, in the case of replacement cost of an historic building, is the entity contemplating the replacement of what was already there, or a more modern version more suitable for contemporary needs? Following the 2010/11 Christchurch earthquakes, this remains the situation for the Anglican Church in Christchurch who are still undecided as to how they should rebuild Christchurch Cathedral.

9. Specific Matters for Comment – Chapter 4.3 (following paragraph 4.40)

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

The IPSASB has a range of options available:

(a) amend standard(s);

(b) issue new standard(s)

(c) provide general guidance; or

(d) facilitate the sharing of specific guidance information.

In making this decision, the IPSASB should consider the costs vs. benefits of developing guidance and the difficulty of providing guidance on the wide range of heritage items e.g. museum collections, heritage properties and icons.

We consider that the IPSASB issuing general guidance would be the most appropriate outcome. This could be developed based on approaches applied in countries that do value heritage items. The NZASB would be happy to provide assistance in this regard.

We also recommend that the IPSASB consult the International Valuation Standards Council to ensure that their valuation standards work effectively with the resultant general guidance.

10. Preliminary View – Chapter 5 (following paragraph 5.14):

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

(b) Can be approached in broadly the same way as subsequent measurement for other non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

We have not identified any reason to disagree with the IPSASB's Preliminary View on the subsequent measurement of heritage assets.

11. Specific Matter for Comment – Chapter 5 (following paragraph 5.14)

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.

Valuation costs are often identified as an obstacle to the recognition of heritage assets in financial statements. Entities can decide whether or not to revalue a particular class of assets.

For art galleries, a decision to revalue means that all art will need to be revalued as they are all in the same asset class[7]. Allowing for, say, a triennial rolling valuation would mitigate these costs with all assets having a valuation that is not more than three years old. In contrast, museums tend to hold items across a number of asset classes so the revaluation requirement is not as onerous.

Due to the nature and age of heritage assets, they often have higher than usual maintenance costs. However, we do not see a pressing need for guidance on how to account for such maintenance costs.

12. Preliminary View – Chapter 6 (following paragraph 6.10)

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognise a liability.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Generally, we agree with this Preliminary View, noting that all the facts and circumstances need to be considered.

[7] [Note for Board: this was a comment made by both Christchurch and Auckland Art Galleries.]

13. Preliminary View – Chapter 7 (following paragraph 7.9)

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.

We agree that there is nothing inappropriate in the current disclosures for accounting for heritage assets. Current disclosures are sensible and provide useful information. However, there is a limit to what can be disclosed about heritage assets within the parameters of a set of financial statements. It may be useful for an entity with responsibility for managing heritage assets to provide additional information on its management of heritage assets in its service performance reports.

Judith Pinny

From: CARROLL, Rowan <Rowan.CARROLL@police.govt.nz>
Sent: Sunday, 25 June 2017 2:05 p.m.
To: submissions
Subject: Accounting for Heritage Submission

Tēnā koe I would like to make a submission on Heritage Reporting Standards.
Questions:

1. I agree with the description of Heritage items using the UNESCO definition
2. I believe that plants and organisms SHOULD be included in the definition. As species they deserve the same recognition of value and significance to Aotearoa as our man-made heritage.

6. Kaitiakitanga of taonga tuku iho in museum collections places spiritual guardianship in the hands of iwi. To have a valuation of the taonga in the accounting system of the museum may very well insult the kaitiaki. Consultation around this needs to happen as a priority.

9. I do not believe recognising some heritage items at $NZ1 has any value. However an overarching statement acknowledging significance would be helpful.

13. It is preferable that a seperate Heritage Standard is developed outside of the existing IPSAS standards, given the special status of taonga tuku iwi, the ihi, wehi and wana, wāhi tapu and other heritage sites of significance to Māori.

Noho ora mai rā

Rowan

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Te Whakaute: Me manaaki te tangata, rite tonu ki tāu e pai ai kia meatia e ngā tāngata ki a koe

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	Members of the New Zealand Accounting Standards Board
From:	Tracey Crookston and Vanessa Sealy-Fisher
Subject:	**2017 For-profit Omnibus Amendments**

Action required[1]

1. The Board is requested to:

   (a) APPROVE for issue Exposure Draft NZASB 2017-2 *2017 Omnibus Amendments to NZ IFRS* (ED NZASB 2017-2) and the accompanying Invitation to Comment (ITC) (see agenda item 7.2);

   (b) AGREE the proposed effective dates for the amendments; and

   (c) AGREE that the ED and ITC be open for comment for 60 days.

Background

2. During the normal course of business, we become aware of amendments that are needed to the accounting standards. Many of these amendments are of a minor nature and, rather than issuing a separate exposure draft (ED) for each amendment, it is more effective to issue an omnibus ED.

3. ED NZASB 2017-2 and the ITC contain proposals to amend the accounting standards applicable to Tier 1 and Tier 2 for-profit entities.

4. This agenda item was tabled at the 21 June 2017 NZASB meeting. At that meeting it was agreed to defer consideration of this matter to the August 2017 NZASB meeting.

5. Changes have been made to the agenda papers tabled at the June meeting to:

   (a) restructure the ITC and ED to give more prominence to the proposed amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures*;

   (b) clarify the issue regarding the proposed amendments to NZ IFRS 10 and NZ IAS 28;

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

(c) propose an effective date of annual periods beginning on or after 1 January 2019 for the proposed amendments to NZ IFRS 10 and NZ IAS 28, with earlier application permitted; and

(d) insert Appendix A, which includes two examples illustrating the potential inconsistency between the preparation requirements of the Companies Act 1993 and NZ IFRS 10.

Proposals in ED NZASB 2017–2

6. A summary of the proposed amendments is set out in this memo. These proposals are explained in more detail in the ITC.

7. ED 2017-2 contains the following proposed amendments.

(a) Proposed amendments to NZ IFRS 10 and NZ IAS 28.

(i) The addition of paragraph NZ 4.2 in NZ IFRS 10 to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard (except where the parent is an investment entity).

(ii) The addition of paragraph NZ 17.2 in NZ IAS 28 to require the ultimate New Zealand parent entity to apply the equity method in accounting for interests in associates and joint ventures (except where the parent is an investment entity).

(b) Proposed amendments to other standards.

(i) The deletion of most of the paragraphs in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to NBDTs*[2] of NZ IFRS 7 *Financial Instruments: Disclosures.* These paragraphs are now redundant because of the issuance of NZ IFRS 9 *Financial Instruments.*[3]

(ii) Amendments to NZ IFRS 4 *Insurance Contracts* to:

- align the definition of "separate financial statements" in Appendix C and Appendix D with the amended definition in NZ IAS 27 *Separate Financial Statements*; and
- amend the wording in paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates.

(iii) Amendments to FRS-43 *Summary Financial Statements* to align the titles of the financial statements with the wording in NZ IAS 1 *Presentation of Financial Statements* and to remove wording that is no longer relevant.

(c) Editorial corrections to standards.

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[2] NBDTs – Non-bank deposit takers.

[3] NZ IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

Proposed amendments to NZ IFRS 10 and NZ IAS 28

NZ IFRS 10

8. It has come to our attention that there is a potential inconsistency between:

   (a) the requirements in section 202 of the Companies Act 1993, for a company (to which s.202 applies) to prepare group financial statements in accordance with generally accepted accounting practice (GAAP); and

   (b) NZ IFRS 10 (part of GAAP), which includes an exemption for an intermediate parent entity from presenting consolidated financial statements if the entity meets the criteria specified in paragraph 4(a).

9. Section 202(1)–(2) from the Companies Act 1993 is shown below.

202 Group financial statements must be prepared

(1) Every company or overseas company to which this section applies (**A**) that has, on the balance date of A, 1 or more subsidiaries must ensure that, within 5 months after that balance date, group financial statements that comply with generally accepted accounting practice are—

(a) completed in relation to that group and that balance date; and

(b) dated and signed on behalf of A by 2 directors of A, or, if A has only 1 director, by that director.

(2) Group financial statements are not required under subsection (1) in relation to a balance date if,—

(a) on the balance date, A is a subsidiary of a body corporate (**B**) that is—

(i) incorporated in New Zealand; or

(ii) registered or deemed to be registered under Part 18; and

(b) group financial statements in relation to a group comprising B, A, and all other subsidiaries of B that comply with generally accepted accounting practice are completed in relation to that balance date under this Act or any other enactment; and

(c) A has not opted into compliance with this section as referred to in section 200(1)(e).

10. Paragraphs 4–4B from NZ IFRS 10 are shown below.

NZ IFRS 10 (paragraphs 4 to 4B)

4 An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows:

(a) a parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.

(b) [deleted by IASB]

(c) [deleted by IASB]

RDR4.1 A Tier 2 entity is not required to comply with paragraph 4(a)(iv). In order to qualify for the exemption not to present consolidated financial statements, an entity must still comply with all the other conditions in paragraph 4(a).

4A This NZ IFRS does not apply to post-employment benefit plans or other long-term employee benefit plans to which NZ IAS 19 *Employee Benefits* applies.

4B A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this NZ IFRS, to measure all of its subsidiaries at fair value through profit or loss.

11. The interpretation of the requirements of the Companies Act 1993 and NZ IFRS 10 could result in situations where an ultimate New Zealand parent company that is a subsidiary of an overseas company may determine that it does not need to present consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

12. Appendix A contains two examples illustrating the situation described in paragraph 11 above.

13. In looking at this issue we have noted that AASB 10 *Consolidated Financial Statements* includes an additional Australian-specific paragraph. Notwithstanding the intermediate parent exemption, paragraph Aus4.2 of AASB 10 requires the ultimate Australian entity to present consolidated financial statements unless the ultimate Australian parent applies the investment entities exception to consolidation.

AASB 10 (paragraph Aus4.2)

Aus4.2 Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

14. There is currently no New Zealand-specific paragraph in NZ IFRS 10 equivalent to paragraph Aus4.2 in AASB 10.

15. We have considered two options in relation to this issue. The first, which is set out in the draft ITC and ED, is to limit the exemption in NZ IFRS 10 to an intermediate parent that is not the ultimate New Zealand parent. The second, is to not make any changes to NZ IFRS 10 on the basis that the inconsistency is a legislative issue. We discuss both options in this memo.

<u>Option 1: Remove intermediate parent exemption for an ultimate New Zealand parent</u>

16. We are proposing to add paragraph NZ 4.2 to NZ IFRS 10 to require that, notwithstanding paragraphs 4(a)(i)–(iv) and paragraph RDR 4.1, the ultimate New Zealand parent present consolidated financial statements (except where the investment entity exception from consolidation applies). This would remove the inconsistency with the Companies Act 1993, while continuing to provide relief for intermediate parents in a group, other than the ultimate New Zealand parent. It would also better align NZ IFRS 10 with AASB 10.

17. In considering this option, it is worth thinking about whether there are any issues or inconsistencies between our proposal to prohibit the use of the intermediate parent exemption by the ultimate New Zealand parent, while retaining the investment entity

exception.[4] This is important because some could argue that the concern about the potential inconsistency between NZ GAAP and the Companies Act 1993 could also apply to the investment entity exception from consolidation.

18. We have identified three differences between the exemption for an intermediate parent and the exception from consolidation for investment entities in IFRS 10 *Consolidated Financial Statements*, as outlined in Table 1 below.

Table 1

Intermediate parent exemption	**Investment entity exception**
• Under IFRS the use of this exemption is *optional*.	• Under IFRS a parent that is an investment entity is *required* to account for subsidiaries in a certain way.
• The removal of the intermediate parent exemption for the ultimate New Zealand parent would not affect an entity's ability to assert compliance with IFRS.	• The removal of the investment entity exception would mean an entity could not assert compliance with IFRS.
• The exemption is available to all intermediate parents that meet the criteria in paragraph 4 of IFRS 10.	• The exception for investment entities is narrow in scope. It is available only to entities that meet the definition of an investment entity.

Option 2: No change to NZ IFRS 10

19. The alternative view is that no amendment to NZ IFRS 10 is necessary. The arguments for this alternative view are set out in Table 2.

Table 2

Alternative View – An amendment to NZ IFRS 10 is unnecessary	**Staff Comment**
• The current inconsistency could be regarded as a legislative issue and not a financial reporting standards issue.	• Changing the legislation has significant lead times whereas amendments to NZ IFRS occur on a more timely basis. • If the parent entity exemption is removed from NZ GAAP, entities will still be able to assert compliance with IFRS.
• Limiting the use of the exemption in NZ IFRS 10 could be regarded as inconsistent with the Board's general strategy[5] of not amending the recognition and measurement requirements of IFRS Standards.	• This change is not strictly in accordance with the Board's general strategy of not limiting options, but it seems the most practical outcome in terms of resolving this issue on a timely basis.

[4] A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of NZ IFRS 10 to measure all of its subsidiaries at fair value through profit or loss.

[5] In 2011, the Financial Reporting Standards Board reinstated any options which had previously been removed from NZ IFRS.

Alternative View – An amendment to NZ IFRS 10 is unnecessary	**Staff Comment**
• While there is a difference with the Australian requirements, this has existed for some time.	• It is important to harmonise, to the extent possible, with Australia in the for-profit sector.

<u>IFRS vs NZ IFRS</u>

20. Paragraph 4(a)(iv) of NZ IFRS 10 refers to "financial statements that are available for public use and comply with NZ IFRSs…". We note that the equivalent paragraphs in both IFRS 10 and AASB 10 refer to complying with "IFRS". NZ IFRS 10 therefore imposes a different requirement from IFRS 10 and AASB 10 for qualifying for the intermediate parent exemption.

21. If the Board prefers option 2 above, we would need to consider whether to amend the reference in paragraph 4(a)(iv) of NZ IFRS 10 from "NZ IFRS" to "IFRS". However, if the Board prefers option 1, then the reference to NZ IFRS remains appropriate and amending this reference to IFRS would be unnecessary. This is because the ultimate New Zealand parent would always be required to prepare consolidated financial statements in accordance with NZ IFRS.

<u>Recommend option</u>

22. On balance, we consider that it would be more helpful for constituents to address this issue by amending NZ IFRS 10 (option 1) rather than seeking legislative change and have therefore included the proposed amendment in the draft ED.

<u>NZ IAS 28</u>

23. Paragraph 17 of NZ IAS 28 provides an exemption for an intermediate parent entity from having to apply the equity method to investments in associates and joint ventures. The exemption is the same as that contained in paragraph 4 of NZ IFRS 10, and it also includes the same RDR concession.

24. The equivalent Australian Accounting Standard, AASB 128 *Investments in Associates and Joint Ventures*, includes an overriding paragraph that, notwithstanding the intermediate parent exemption, requires the ultimate Australian parent that is a reporting entity to apply the equity method in accounting for interests in associates and joint ventures unless the ultimate Australian parent applies the investment entities exception to consolidation and instead measures all subsidiaries at fair value through profit or loss.

25. Currently, NZ IAS 28 contains no overriding requirement for the ultimate New Zealand parent to apply the equity method when accounting for interests in associates and joint ventures.

Proposed amendments to NZ IFRS 10 and NZ IAS 28

26. We propose to add a new paragraph to:

    (a) NZ IFRS 10 to require the ultimate New Zealand parent entity to present consolidated financial statements, except where the parent is an investment entity; and

    (b) NZ IAS 28 to require the ultimate New Zealand parent entity to apply the equity method to account for investments in associates and joint ventures, except where the parent is an investment entity.

    This amendment would apply to both Tier 1 and Tier 2 for-profit entities.

27. The new proposed paragraphs are consistent with the equivalent paragraphs in AASB 10 and AASB 128, which require the ultimate Australian parent that is a reporting entity to present consolidated financial statements and apply the equity method to account for investments in associates and joint ventures respectively, except where the parent is an investment entity. The addition of the proposed paragraphs would result in increased harmonisation with Australian Accounting Standards.

28. We have consulted with AASB staff and have been informed that there is no immediate plan to amend or remove the equivalent Australian paragraphs. However, these paragraphs may be considered in the longer term as part of the Australian Reporting Framework project.

Question for the Board

Does the Board agree with option 1, that is, to add a paragraph to NZ IFRS 10 and to add a paragraph to NZ IAS 28?

Proposed amendments to NZ IFRS 7, NZ IFRS 4 and FRS-43

NZ IFRS 7 – Appendix E

29. Although we would prefer to completely withdraw Appendix E of NZ IFRS 7, we have been asked by the Reserve Bank to keep three of the disclosure requirements (as set out in paragraphs E11, E12 and E14). Paragraphs E11 and E12 have no changes. Paragraph E14 has been amended to remove the reference to paragraph 36, which has been deleted by the issuance of NZ IFRS 9.

30. In addition to those paragraphs, the objective of the Appendix (paragraph E1) is amended, the scope (paragraph E2) is kept and the relevant definitions in paragraph E23 are kept.

31. This is an interim measure until the reporting regime for NBDTs is finalised, at which time Appendix E will be withdrawn.

32. The proposed amendments to Appendix E have been discussed with the staff of the Financial Markets Authority, who have no initial objections to the proposals.

33. In this Part, amendments have also been proposed for NZ IFRS 4 and FRS-43. These are set out in further detail in the ITC and ED.

Editorial corrections

NZ IFRS 1

34. The amendment to paragraph B12 of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* to amend the reference to paragraphs D19–D19C is to be included as an editorial correction to IFRS 1 *First-time Adoption of International Financial Reporting Standards* in the next group of IASB editorial corrections.

NZ IAS 26

35. The proposed amendment to NZ IAS 26 replaces the existing reference to the Financial Reporting Act 1993 with the correct reference to the Financial Markets Conduct Act 2013.

NZ IAS 38

36. When NZ IAS 38 *Intangible Assets* was issued in New Zealand the transition requirements and effective date paragraphs in IAS 38 *Intangible Assets* (paragraphs 130–132) were not relevant. These paragraphs were, therefore, shown as deleted in NZ IAS 38 and the effective date paragraphs were numbered from paragraph 132A.

37. The editorial correction proposes to align the paragraph numbering in NZ IAS 38 with that in IAS 38.

38. Other minor amendments are proposed for FRS-44 and NZ IAS 37.

Effective date

39. The proposed effective date for the proposed amendments to NZ IFRS 10 and NZ IAS 28 is annual periods beginning on or after 1 January 2019, with early application permitted.

40. The proposed effective date for all other proposed amendments is annual periods beginning on or after 1 January 2018, with early application permitted.

Comment period

41. We propose a comment period of 60 days.

42. If the ED is published for comment in early August, constituents' comments would be able to be considered at the November Board meeting. If no significant issues are raised, the amending standard could then be finalised before the end of this year.

Recommendations

43. We recommend that the Board:

    (a) APPROVES for issue ED NZASB 2017-2 *2017 Omnibus Amendments to NZ IFRS* and the accompanying Invitation to Comment;

    (b) AGREES the proposed effective dates for the amendments; and

    (c) AGREES a comment period of 60 days.

Attachment

Agenda item 7.2: Invitation to Comment and Exposure Draft NZASB 2017-2 *2017 Omnibus Amendments to NZ IFRS*

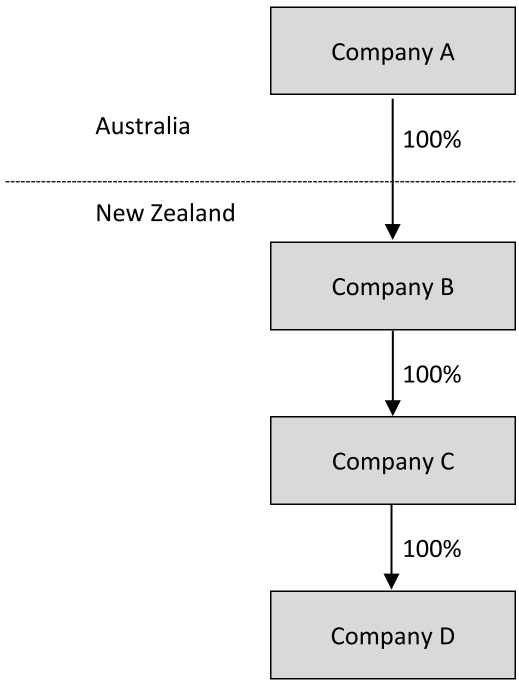
APPENDIX A – NZ IFRS 10 Intermediate parent exemption from consolidation examples

Example 1 – Tier 1 For-profit Entity

The following scenario illustrates a situation where a Tier 1 for-profit entity (Company B) is provided an exemption under GAAP from presenting consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

Statutory reporting preparation requirements

- Company B is a wholly-owned subsidiary of Company A. Company A is incorporated in Australia.
- Company B, a company registered in New Zealand, is a large[6] subsidiary of a company incorporated overseas.
- Company B wholly owns Company C. Company C is a large company registered in New Zealand.
- Company C has one wholly owned subsidiary, Company D. Company D is a registered New Zealand company which is not large.



New Zealand statutory reporting preparation requirements

Company A: Not applicable

Company B: Under s.202(1) of the Companies Act 1993, Company B is required to prepare group financial statements that comply with GAAP.

Company C: None[7]

Company D: None (not large)

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[6] A New Zealand company that is a subsidiary of a company incorporated overseas is "large", if in the two preceding accounting periods, it has assets exceeding $20m or revenue exceeding $10m (s.45(2) Financial Reporting Act 2013).

[7] A large New Zealand company is not required to prepare either parent or group financial statements if (a) the company is a subsidiary of a New Zealand body corporate; (b) group financial statements that comply with NZ GAAP comprising the New Zealand body corporate, New Zealand company and its subsidiaries have been prepared; and (c) the company has one or more subsidiaries (Companies Act 1993).

GAAP requirements

- Company B's parent, Company A, produces group financial statements that are available for public use and assert compliance with NZ IFRS.
- Company B is a for-profit entity that has public accountability[8]. Company B is a Tier 1 for-profit entity and is required to comply with Tier 1 For-profit Accounting Requirements (referred to as NZ IFRS).
- Company B does not have debt or equity instruments that are traded in a public market.
- Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Paragraph 4(a)(i)–(iv) of NZ IFRS 10 provides an exemption from presenting consolidated financial statements. Company B qualifies for the exemption as follows.

NZ IFRS 10 paragraph 4(a)	*Rationale*
4. An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows: (a) a parent need not present consolidated financial statements if it meets all the following conditions:	
(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;	Company B is a wholly-owned subsidiary of Company A.
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);	Company B does not have debt or equity instruments that are traded in a public market.
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and	Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.	Company B's ultimate parent (Company A) produces financial statements that are available for public use and comply with NZ IFRS.

[8] Public accountability is defined in paragraph 9 of XRB A1 *Application of the Accounting Standards Framework*.

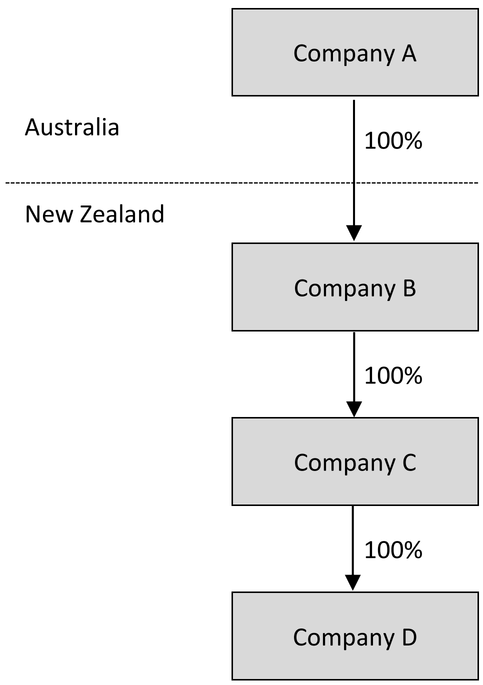
Consequently, Company B would qualify for the exemption in paragraph 4(a) of NZ IFRS 10 from having to present consolidated financial statements, despite having a statutory requirement to do so.

Example 2 – Tier 2 For-profit Entity

The following scenario illustrates a situation where a Tier 2 for-profit entity (Company B) is provided an exemption under GAAP from presenting consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

Statutory reporting preparation requirements

- Company B is a wholly-owned subsidiary of Company A. Company A is incorporated in Australia.
- Company B, a company registered in New Zealand, is a large[9] subsidiary of a company incorporated overseas.
- Company B wholly owns Company C. Company C is a large company registered in New Zealand.
- Company C has one wholly owned subsidiary, Company D. Company D is a registered New Zealand company which is not large.



New Zealand statutory reporting preparation requirements

Company A: Not applicable

Company B: Under s.202(1) of the Companies Act 1993, Company B is required to prepare group financial statements that comply with GAAP.

Company C: None[10]

Company D: None (not large)

9 Refer to footnote 6 in Example 1.

10 Refer to footnote 7 in Example 1.

GAAP requirements

- Company B is a for-profit entity that does not have public accountability[11]. Company B elects to apply Tier 2 For-profit Accounting Requirements (referred to as NZ IFRS RDR).
- Company B does not have debt or equity instruments that are traded in a public market.
- Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Paragraph 4(a)(i)–(iv) of NZ IFRS 10 provides an exemption from presenting consolidated financial statements. Company B qualifies for the exemption as follows.

NZ IFRS 10 paragraph 4(a)	*Rationale*
4. An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows: (a) a parent need not present consolidated financial statements if it meets all the following conditions:	
(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;	Company B is a wholly-owned subsidiary of Company A.
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);	Company B does not have debt or equity instruments that are traded in a public market.
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and	Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.	Not applicable. Company B does not have to meet the criterion in paragraph 4(a)(iv) because this paragraph is identified as an RDR concession.

Consequently, Company B would qualify for the exemption in paragraph 4(a) of NZ IFRS 10 from having to present consolidated financial statements, despite having a statutory requirement to do so.

[11] Refer to footnote 8 in Example 1.

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Exposure Draft NZASB 2017-2

2017 Omnibus Amendments to NZ IFRS for Tier 1 and Tier 2 For-profit Entities

(ED NZASB 2017-2)

Invitation to Comment

[insert date] 2017

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

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Information for Respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising *2017 Omnibus Amendments to NZ IFRS*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **[insert closing date for submissions here]**.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
NZASB	New Zealand Accounting Standards Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
XRB Board	The Board of the External Reporting Board

Questions for Respondents

	Question	Paragraphs
1.	Do you agree with the proposal to add paragraph NZ 4.2 to NZ IFRS 10 *Consolidated Financial Statements* to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard (except where the parent is an investment entity)? If you disagree, please provide reasons.	10–19
2.	Do you agree with the proposal to add paragraph NZ 17.2 to NZ IAS 28 *Investments in Associates and Joint Ventures* to require the ultimate New Zealand parent to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity)? If you disagree, please provide reasons.	20–24
3.	Do you agree with the proposal to amend NZ IFRS 4 *Insurance Contracts* to:	
	(a) align the definition of "separate financial statements" in Appendix C and Appendix D with the amended definition in NZ IAS 27 *Separate Financial Statements*; and	25-26
	(b) amend paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates?	27-30
	If you disagree, please provide reasons.	
4.	Do you agree with the proposal to retain paragraphs E2, E11 and E12, paragraphs E1 and E14 as amended and the definitions in paragraph E23 that are still relevant for Appendix E of NZ IFRS 7 *Financial Instruments: Disclosures*? If you disagree, please provide reasons.	31-34
5.	Do you agree with the proposal to amend FRS-43 *Summary Financial Statements* to align the titles of the financial statements with the titles of the financial statements in NZ IAS 1 *Presentation of Financial Statements* and to remove the irrelevant wording from paragraph 10(d)? If you disagree, please provide reasons.	35–37
6.	Do you agree with the proposed effective date of:	47–49
	(a) annual periods beginning on or after 1 January 2019 for the proposed amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures*, with early adoption permitted; and	
	(b) annual periods beginning on or after 1 January 2018 for all the other amendment, with early adoption permitted?	
	If you disagree, please provide reasons.	
7.	Do you have any other comments on ED NZASB 2017-2?	

1. Introduction

1.1 Background

1. During the normal course of business, matters come to our attention that are not urgent but do require amendments to accounting standards.

2. Rather than issuing an exposure draft (ED) for each amendment, it is more efficient to propose the amendments to accounting standards in an Omnibus ED.

3. In this Omnibus ED, we are proposing amendments to NZ IFRS.

1.2 Purpose of this Invitation to Comment

4. The purpose of this Invitation to Comment and associated Omnibus ED is to seek comments on the proposals to amend NZ IFRS.

5. Some of the amendments are editorial in nature and do not change the requirements in the standards. We are not specifically seeking comments on those editorial corrections but you may comment on them if you so wish.

1.3 Timeline and Next Steps

6. Submissions on ED NZASB 2017-2 are due by **[insert submission due date]**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

7. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise these amendments soon afterwards.

2. Overview of ED NZASB 2017-2

2.1 Summary of the Content

8. ED NZASB 2017-2 *2017 Omnibus Amendments to NZ IFRS* (ED NZASB 2017-2) contains the following proposals.

Amendments to NZ IFRS 10 and NZ IAS 28

(a) The addition of paragraph NZ 4.2 in NZ IFRS 10 *Consolidated Financial Statements* to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard (except where the parent is an investment entity).

(b) The addition of paragraph NZ 17.2 in NZ IAS 28 *Investments in Associates and Joint Ventures* to require the ultimate New Zealand parent entity to apply the equity method in accounting for interests in associates and joint ventures (except where the parent is an investment entity).

Amendments to other standards

(c) Amendments to NZ IFRS 4 *Insurance Contracts* to:

(i) align the definition of "separate financial statements" in Appendix C *Life Insurance Entities* and Appendix D *Financial Reporting of Insurance Activities* with the amended definition in NZ IAS 27 *Separate Financial Statements*; and

(ii) amend the wording in paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates.

(d) The deletion of most of the paragraphs in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to NBDTs*[2] of NZ IFRS 7 *Financial Instruments: Disclosures* that are now redundant because of NZ IFRS 9 *Financial Instruments*.[3]

(e) Amendments to FRS-43 *Summary Financial Statements* to align the titles of the financial statements with the wording in NZ IAS 1 *Presentation of Financial Statements* and to remove wording that is no longer relevant.

Editorial Corrections

(f) Editorial corrections to standards.

9. Comments are not being sought on the editorial corrections.

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[2] NBDTs – Non-bank deposit takers.

[3] NZ IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

2.2 Amendments to NZ IFRS 10 and NZ IAS 28

NZ IFRS 10 *Consolidated Financial Statements*

10. ED NZASB 2017-2 proposes to add new paragraph NZ 4.2 to NZ IFRS 10 to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard. The exception to this is where the ultimate New Zealand parent is required in accordance with paragraph 31[4] to measure all its subsidiaries at fair value through profit or loss.

11. NZ IFRS 10 *Consolidated Financial Statements* establishes the requirements for the presentation of consolidated financial statements. The standard provides an exemption for intermediate parent entities from presenting consolidated financial statements under paragraphs 4(a)(i)–(iv). Further, Tier 2 entities have an RDR concession from having to meet the criterion in paragraph 4(a)(iv).

12. It has come to our attention that there is a potential inconsistency between:

    (a) the requirements in section 202 of the Companies Act 1993, for a company (to which s.202 applies) to prepare group financial statements in accordance with generally accepted accounting practice (GAAP); and

    (b) NZ IFRS 10 (part of GAAP), which includes an exemption for an intermediate parent entity from presenting consolidated financial statements if the entity meets the criteria specified in paragraph 4(a).

13. Section 202(1)–(2) from the Companies Act 1993 is shown below.

202 Group financial statements must be prepared

(1) Every company or overseas company to which this section applies (**A**) that has, on the balance date of A, 1 or more subsidiaries must ensure that, within 5 months after that balance date, group financial statements that comply with generally accepted accounting practice are—

  (a) completed in relation to that group and that balance date; and

  (b) dated and signed on behalf of A by 2 directors of A, or, if A has only 1 director, by that director.

(2) Group financial statements are not required under subsection (1) in relation to a balance date if,—

  (a) on the balance date, A is a subsidiary of a body corporate (**B**) that is—

    (i) incorporated in New Zealand; or

    (ii) registered or deemed to be registered under Part 18; and

  (b) group financial statements in relation to a group comprising B, A, and all other subsidiaries of B that comply with generally accepted accounting practice are completed in relation to that balance date under this Act or any other enactment; and

  (c) A has not opted into compliance with this section as referred to in section 200(1)(e).

[4] Paragraph 31 is the exception from consolidation for investment entities.

14. Paragraphs 4–4B from NZ IFRS 10 are shown below.

NZ IFRS 10 (paragraphs 4 to 4B)

4 An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows:

(a) a parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.

(b) [deleted by IASB]

(c) [deleted by IASB]

RDR4.1 A Tier 2 entity is not required to comply with paragraph 4(a)(iv). In order to qualify for the exemption not to present consolidated financial statements, an entity must still comply with all the other conditions in paragraph 4(a).

4A This NZ IFRS does not apply to post-employment benefit plans or other long-term employee benefit plans to which NZ IAS 19 *Employee Benefits* applies.

4B A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this NZ IFRS, to measure all of its subsidiaries at fair value through profit or loss.

15. This inconsistency could result in situations where the ultimate New Zealand parent company that is a subsidiary of an overseas company may determine that it does not need to present consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

16. Appendix A contains two examples illustrating the situation described in paragraph 15 above.

17. The equivalent Australian Accounting Standard, AASB 10 *Consolidated Financial Statements*, includes an overriding paragraph that, notwithstanding the intermediate parent exemption, requires the ultimate Australian parent that is a reporting entity to present consolidated financial statements that consolidate its investments in subsidiaries in accordance with AASB 10 unless the ultimate Australian parent applies the investment entities exception to consolidation and instead measures all subsidiaries at fair value through profit or loss.

18. Currently, NZ IFRS 10 contains no overriding requirement for the ultimate New Zealand parent to present consolidated financial statements.

19. The proposed paragraph NZ 4.2 is based on the equivalent paragraph in AASB 10 and would result in increased harmonisation with Australian Accounting Standards.

Question for Respondents	
1.	Do you agree with the proposal to add paragraph NZ 4.2 to NZ IFRS 10 *Consolidated Financial Statements* to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard (except where the parent is an investment entity)? If you disagree, please provide reasons.

NZ IAS 28 *Investments in Associates and Joint Ventures*

20. ED NZASB 2017-2 proposes to add new paragraph NZ 17.2 to NZ IAS 28 to require the ultimate New Zealand parent to apply the equity method in accounting for interests in associates and joint ventures.

21. Paragraph 17 of NZ IAS 28 provides an exemption for an intermediate parent entity from having to apply the equity method to investments in associates and joint ventures. The exemption is the same as that contained in paragraph 4 of NZ IFRS 10, and it also includes the same RDR concession.

22. The equivalent Australian Accounting Standard, AASB 128 *Investments in Associates and Joint Ventures*, includes an overriding paragraph that, notwithstanding the intermediate parent exemption, requires the ultimate Australian parent that is a reporting entity to apply the equity method in accounting for interests in associates and joint ventures unless the ultimate Australian parent applies the investment entities exception to consolidation and instead measures all subsidiaries at fair value through profit or loss.

23. Currently, NZ IAS 28 contains no overriding requirement for the ultimate New Zealand parent to apply the equity method when accounting for interests in associates and joint ventures.

24. The proposed paragraph NZ 17.2 is consistent with the proposed paragraph NZ 4.2 to NZ IFRS 10 and is based on the equivalent paragraph in AASB 128. The addition of the proposed paragraph NZ 17.2 would result in increased harmonisation with Australian Accounting Standards.

Question for Respondents	
2.	Do you agree with the proposal to add paragraph NZ 17.2 to NZ IAS 28 *Investments in Associates and Joint Ventures* to require the ultimate New Zealand parent to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity)? If you disagree, please provide reasons.

2.3 Amendments to Other Standards

NZ IFRS 4 *Insurance Contracts*

Definition of separate financial statements

25. ED NZASB 2017-2 proposes to align the definition of "separate financial statements" in Appendices C and D of NZ IFRS 4 with the amended definition in NZ IAS 27 *Separate Financial Statements* (as amended in 2011).

26. The definition of "separate financial statements" in Appendices C and D of NZ IFRS 4 is based on the definition in NZ IAS 27 *Separate Financial Statements* (as amended in 2011). The definition in NZ IAS 27 has subsequently been

amended by *Equity Method in Separate Financial Statements* (Amendments to NZ IAS 27). However, the definition in NZ IFRS 4 has not been updated, hence the need for this amendment.

Definition of subsidiaries, joint ventures and associates

27. ED NZASB 2017-2 proposes to amend the wording in paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates. This will align the wording in paragraph 10.7(a) of Appendix C with the wording in paragraph 15.5(a) of Appendix D.

28. Paragraphs 10.7 and 15.5 of Appendices C and D respectively provide requirements for the designation of investments in subsidiaries, joint ventures and associates by an insurance entity that prepares separate financial statements.

29. Paragraph 10.7(a) of Appendix C refers to subsidiaries, joint ventures and associates as defined by NZ IAS 27. However, NZ IAS 27 does not define the terms subsidiaries, joint ventures and associates.

30. Paragraph 15.5(a) of Appendix D correctly refers to subsidiaries, joint ventures and associates as defined by NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IAS 28 *Investments in Associates and Joint Ventures*.

Question for Respondents

3. Do you agree with the proposal to amend NZ IFRS 4 *Insurance Contracts* to:
    (a) align the definition of "separate financial statements" in Appendix C and D with the amended definition in NZ IAS 27 *Separate Financial Statements*; and
    (b) amend paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates?

    If you disagree, please provide reasons.

NZ IFRS 7 *Financial Instruments: Disclosures*

31. Appendix E of NZ IFRS 7 contains disclosure requirements for non-bank deposit-takers (NBDTs) which are additional to the disclosures in NZ IFRS 7.

32. Some of the paragraphs in Appendix E refer to paragraphs in NZ IFRS 7 that have been deleted because of the issuance of NZ IFRS 9. Other paragraphs of Appendix E are no longer applicable because of the issuance of NZ IFRS 9. Therefore, Appendix E needs to be updated before NZ IFRS 9 becomes effective (for annual periods beginning on or after 1 January 2018).

33. ED NZASB 2017-2 proposes to delete all the paragraphs in Appendix E except for paragraphs E2, E11 and E12 (which are unchanged), paragraphs E1 and E14 (which are amended) and some of the definitions in paragraph E23 that are no longer relevant. The Reserve Bank has requested that these paragraphs be retained as an interim measure until the reporting regime for NBDTs is finalised. Appendix E will be withdrawn once the reporting regime for NBDTs is finalised.

34. ED NZASB 2017-2 also proposes to delete the Basis for Conclusions on Appendix E and the Table of Concordance. The Basis for Conclusions refers to matters that were relevant prior to these proposed amendments. The Table of Concordance provides a comparison of the disclosure requirements in FRS-33 *Disclosure of Information by Financial Institutions*, the New Zealand-specific disclosures in

NZ IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosures in Appendix E.

Question for Respondents
4. Do you agree with the proposal to retain paragraphs E2, E11 and E12, paragraphs E1 and E14 as amended and the definitions in paragraph E23 that are still relevant for Appendix E of NZ IFRS 7 *Financial Instruments: Disclosures*? If you disagree, please provide reasons.

FRS-43 *Summary Financial Statements*

35. ED NZASB 2017-2 proposes to amend FRS-43 to align the titles of the financial statements with the titles of the financial statements in NZ IAS 1 *Presentation of Financial Statements* and to remove words that are no longer relevant.

36. Paragraph 10 of FRS-43 specifies the content of summary financial statements. The titles of the financial statements are not the same as the titles for a complete set of financial statements in NZ IAS 1.

37. In addition, the Accounting Standards Framework requires Tier 2 entities to prepare a statement of cash flows. This statement was not required to be prepared by entities that qualified for differential reporting under the old financial reporting framework. To reflect this concession under differential reporting, paragraph 10(d) requires a summary of the statement of cash flows for the period (if not exempted). The words "(if not exempted)" are no longer relevant and need to be removed.

Question for Respondents
5. Do you agree with the proposal to amend FRS-43 *Summary Financial Statements* to align the titles of the financial statements with the titles of the financial statements in NZ IAS 1 *Presentation of Financial Statements* and to remove the irrelevant wording from paragraph 10(d)? If you disagree, please provide reasons.

2.4 Editorial Corrections

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

38. ED NZASB 2017-2 proposes to amend the reference to paragraphs D19–D19D in paragraph B12 of NZ IFRS 1 to paragraphs D19–D19C.

39. Paragraph D19D of IFRS 1 *First-time Adoption of International Financial Reporting Standards* was added, and subsequently deleted, by versions of IFRS 9 *Financial Instruments* so there is no paragraph D19D in IFRS 1. This means the reference to paragraph D19D is incorrect.

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

40. ED NZASB 2017-2 proposes to change the reference in paragraph NZ 1.5 from "section 4 of the Financial Reporting Act 1993" to "Schedule 3 Schemes under the Financial Markets Conduct Act 2013".

41. Paragraph NZ 1.5 of NZ IAS 26 currently refers to section 4 of the Financial Reporting Act 1993. In line with legislative changes made to the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013, the reference

should now be to "Schedule 3 Schemes under the Financial Markets Conduct Act 2013".

NZ IAS 38 *Intangible Assets*

42. ED NZASB 2017-2 proposes to change the numbering of the paragraphs in NZ IAS 38 so that they are the same as those in IAS 38 *Intangible Assets*.

43. When NZ IAS 38 was issued in New Zealand the transition requirements and effective date paragraphs in IAS 38 (paragraphs 130–132) were not relevant. These paragraphs were, therefore, shown as deleted in NZ IAS 38 and the effective date paragraphs were numbered from paragraph 132A.

FRS-44 *New Zealand Additional Disclosures*

44. ED NZASB 2017-2 proposes to delete the reference to paragraph 6 in paragraph 2A of FRS-44. Paragraph 6 was deleted as part of *Amendments to For-profit Accounting Standards as a Consequence of XRB A1 and Other Amendments* (issued in December 2015).

References to "New Zealand Equivalents to International Financial Reporting Standards" and "New Zealand Equivalents to IFRS" to be changed to "NZ IFRS(s)"

45. We propose to change references to (a) New Zealand equivalents to International Reporting Standards, and (b) New Zealand equivalents to IFRSs to "NZ IFRS(s)" as appropriate. The amendments are proposed for the following standards:

NZ IFRS 4 *Insurance Contracts*	Introduction to Appendix C and D
NZ IFRS 10 *Consolidated Financial Statements*	Paragraph 4(a)(iv)
NZ IAS 12 *Income Taxes*	Paragraphs 62 and 62A
NZ IAS 16 *Property, Plant and Equipment*	Paragraph 6, definition of 'cost'
NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Paragraph 6
NZ IAS 24 *Related Party Disclosures*	Paragraph IN1
NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*	Paragraph 2
NZ IAS 27 *Separate Financial Statements*	Paragraph 16(a)
NZ IAS 28 *Investments in Associates and Joint Ventures*	Paragraph IN1
NZ IAS 34 *Interim Financial Reporting*	Paragraph 1
NZ IAS 38 *Intangible Assets*	Paragraph 8, definition of 'cost'
NZ IAS 40 *Investment Property*	Paragraph 5, definition of 'cost'
NZ IAS 41 *Agriculture*	Paragraphs 3 and 13
FRS-42 *Prospective Financial Statements*	Paragraph 34
FRS-43 *Summary Financial Statements*	Introduction and paragraph 1
FRS-44 *New Zealand Additional Disclosures*	Paragraph 1
NZ IFRIC 17 *Distributions of Non-cash Assets to Owners*	Paragraph 2

NZ SIC-29 *Service Concession Arrangements: Disclosures*	Paragraph 5 (twice)

46. Paragraph 52 of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is amended to read as follows:

> 52 … Instead, an entity recognises gains on expected disposals of assets at the time specified by the <u>Standard</u> ~~New Zealand International Accounting Standard~~ dealing with the assets concerned.

2.5 Effective Date and Other Comments

47. The proposed effective date for the proposed amendments to NZ IFRS 10 and NZ IAS 28 is annual periods beginning on or after 1 January 2019, with early application permitted.

48. The proposed effective date for all the other proposed amendments is annual periods beginning on or after 1 January 2018, with early application permitted.

49. These dates are tentative and would be reviewed prior to issuing any standard.

Questions for Respondents

6. Do you agree with the proposed effective dates of:

   (a) annual periods beginning on or after 1 January 2019 for the proposed amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures*, with early adoption permitted; and

   (b) annual periods beginning on or after 1 January 2018 for all the other amendment, with early adoption permitted?

   If you disagree, please provide reasons.

7. Do you have any other comments on ED NZASB 2017-2?

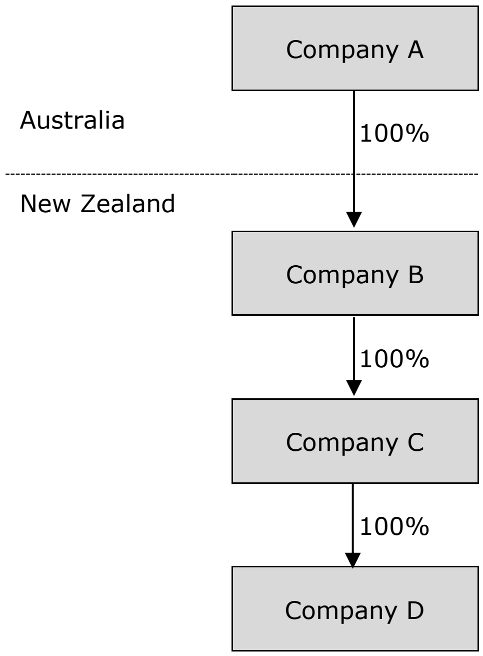
Appendix A – NZ IFRS 10 Intermediate Parent Exemption from Consolidation Examples

Example 1 – Tier 1 For-profit Entity

The following scenario illustrates a situation where a Tier 1 for-profit entity (Company B) is provided an exemption under GAAP from presenting consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

Statutory reporting preparation requirements

- Company B is a wholly-owned subsidiary of Company A. Company A is incorporated in Australia.
- Company B, a company registered in New Zealand, is a large[5] subsidiary of a company incorporated overseas.
- Company B wholly owns Company C. Company C is a large company registered in New Zealand.
- Company C has one wholly owned subsidiary, Company D. Company D is a registered New Zealand company which is not large.



New Zealand statutory reporting preparation requirements

Company A: Not applicable

Company B: Under s.202(1) of the Companies Act 1993, Company B is required to prepare group financial statements that comply with GAAP.

Company C: None[6]

Company D: None (not large)

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[5] A New Zealand company that is a subsidiary of a company incorporated overseas is "large", if in the two preceding accounting periods, it has assets exceeding $20m or revenue exceeding $10m (s.45(2) Financial Reporting Act 2013).

[6] A large New Zealand company is not required to prepare either parent or group financial statements if (a) the company is a subsidiary of a New Zealand body corporate; (b) group financial statements that comply with NZ GAAP comprising the New Zealand body corporate, New Zealand company and its subsidiaries have been prepared; and (c) the company has one or more subsidiaries (Companies Act 1993).

GAAP requirements

- Company B's parent, Company A, produces group financial statements that are available for public use and assert compliance with NZ IFRS.
- Company B is a for-profit entity that has public accountability[7]. Company B is a Tier 1 for-profit entity and is required to comply with Tier 1 For-profit Accounting Requirements (referred to as NZ IFRS).
- Company B does not have debt or equity instruments that are traded in a public market.
- Company B has not filed, nor is it in the process of filing, its financial statements with a with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Paragraph 4(a)(i)–(iv) of NZ IFRS 10 provides an exemption from preparing consolidated financial statements. Company B qualifies for the exemption as follows.

NZ IFRS 10 paragraph 4(a)	*Rationale*
4. An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows: (a) a parent need not present consolidated financial statements if it meets all the following conditions:	
(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;	Company B is a wholly-owned subsidiary of Company A.
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);	Company B does not have debt or equity instruments that are traded in a public market.
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and	Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.	Company B's ultimate parent (Company A) produces financial statements that are available for public use and comply with NZ IFRS.

Consequently, Company B would qualify for the exemption in paragraph 4(a) of NZ IFRS 10 from having to prepare consolidated financial statements, despite having a statutory requirement to do so.

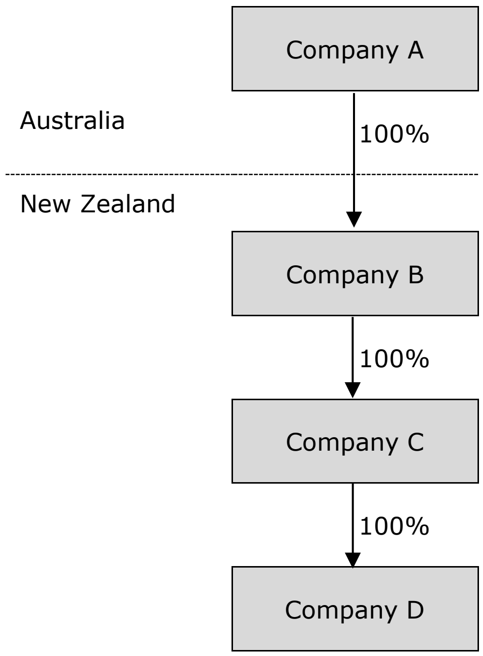
7 Public accountability is defined in paragraph 9 of XRB A1 *Application of the Accounting Standards Framework*.

Example 2 – Tier 2 For-profit Entity

The following scenario illustrates a situation where a Tier 2 for-profit entity (Company B) is provided an exemption under GAAP from presenting consolidated financial statements, despite having a statutory requirement to prepare group financial statements in accordance with GAAP.

Statutory reporting preparation requirements

- Company B is a wholly-owned subsidiary of Company A. Company A is incorporated in Australia.
- Company B, a company registered in New Zealand, is a large[8] subsidiary of a company incorporated overseas.
- Company B wholly owns Company C. Company C is a large company registered in New Zealand.
- Company C has one wholly owned subsidiary, Company D. Company D is a registered New Zealand company which is not large.



New Zealand statutory reporting preparation requirements

Company A: Not applicable

Company B: Under s.202(1) of the Companies Act 1993, Company B is required to prepare group financial statements that comply with GAAP.

Company C: None[9]

Company D: None (not large)

[8] Refer to footnote 6 in Example 1.

[9] Refer to footnote 7 in Example 1.

GAAP requirements

- Company B is a for-profit entity that does not have public accountability[10]. Company B elects to apply Tier 2 For-profit Accounting Requirements (referred to as NZ IFRS RDR).
- Company B does not have debt or equity instruments that are traded in a public market.
- Company B has not filed, nor is it in the process of filing, its financial statements with a with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Paragraph 4(a)(i)–(iv) of NZ IFRS 10 provides an exemption from preparing consolidated financial statements. Company B qualifies for the exemption as follows.

NZ IFRS 10 paragraph 4(a)	*Rationale*
4. An entity that is a parent shall present consolidated financial statements. This NZ IFRS applies to all entities, except as follows: (a) a parent need not present consolidated financial statements if it meets all the following conditions:	
(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;	Company B is a wholly-owned subsidiary of Company A.
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);	Company B does not have debt or equity instruments that are traded in a public market.
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and	Company B has not filed, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
*(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with NZ IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this NZ IFRS.	Not applicable. Company B does not have to meet the criterion in paragraph 4(a)(iv) because this paragraph is identified as an RDR concession.

Consequently, Company B would qualify for the exemption in paragraph 4(a) of NZ IFRS 10 from having to prepare consolidated financial statements, despite having a statutory requirement to do so.

[10] Refer to footnote 8 in Example 1.

EXPOSURE DRAFT

2017 Omnibus Amendments to NZ IFRS

This [draft] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part E.

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

This [draft] Standard has been issued to make minor amendments to NZ IFRS.

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CONTENTS

Part A

Introduction

This [draft] Standard amends NZ IFRS applied by Tier 1 and Tier 2 for-profit entities as follows.

(a) An amendment to NZ IFRS 10 *Consolidated Financial Statements* to require the ultimate New Zealand parent entity to present consolidated financial statements in accordance with the Standard (except where the parent is an investment entity).

(b) An amendment to NZ IAS 28 *Investments in Associates and Joint Ventures* to require the ultimate New Zealand parent entity to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity).

(c) Amendments to NZ IFRS 4 *Insurance Contracts* to*:*

(i) align the definition of "separate financial statements" in Appendix C and Appendix D with the amended definition in NZ IAS 27 *Separate Financial Statements* and;

(ii) amend the wording in paragraph 10.7(a) of Appendix C to correctly refer to the standards that define subsidiaries, joint ventures and associates.

(d) The deletion of most of the paragraphs in Appendix E *New Zealand-specific Additional Disclosure Requirements Applicable to NBDTs*[11] of NZ IFRS 7 *Financial Instruments: Disclosures* that are now redundant because of NZ IFRS 9 *Financial Instruments*.

(e) Amendments to FRS-43 *Summary Financial Statements* to align the titles of the financial statements with the wording in NZ IAS 1 *Presentation of Financial Statements* and to remove wording that is no longer relevant,

(f) Editorial corrections.

[11] NBDTs – Non-bank deposit takers.

Scope

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

Part B: Amendments to NZ IFRS 10 and NZ IAS 28

NZ IFRS 10 *Consolidated Financial Statements*

Paragraphs NZ 4.2 and NZ C1D.1 are added.

Scope

...

NZ 4.2 Notwithstanding paragraphs 4(a)–(iv) and paragraph RDR 4.1, the ultimate New Zealand parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard, except where the ultimate New Zealand parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

Effective date

NZ C1D.1 *2017 Omnibus Amendments to NZ IFRS*, issued in [date], added paragraph NZ 4.2. An entity shall apply that amendment for annual periods beginning on or after [date]. Earlier application is permitted.

NZ IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs NZ 17.2 and NZ 45E.1 are added.

Exemptions from applying the equity method

NZ 17.2 Notwithstanding paragraphs 17(a)–(d) and paragraph RDR 17.1, the ultimate New Zealand parent shall apply the equity method in accounting for interests in associates and joint ventures in accordance with this Standard, except if the ultimate New Zealand parent is required by paragraph 31 of NZ IFRS 10 to measure all of its subsidiaries at fair value through profit or loss.

Effective date and transition

NZ 45E.1 *2017 Omnibus Amendments to NZ IFRS*, issued in [date], added paragraph NZ 17.2. An entity shall apply that amendment for annual periods beginning on or after [date]. Earlier application is permitted.

Part C: Amendments to other standards

NZ IFRS 4 *Insurance Contracts*

Paragraph NZ 41I.1 is added.

Effective date and transition

…

NZ 41I.1 *2017 Omnibus Amendments to NZ IFRS*, issued in [date] amended paragraph 10.7 and the definition of separate financial statements in paragraph 20.1 of Appendix C and the definition of separate financial statements in paragraph 19.1 of Appendix D. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

…

Appendix C

Paragraph 10.7 and the definition of separate financial statements in paragraph 20.1 are amended. New text is underlined and deleted text is struck through.

Separate financial statements

10.7 When preparing *separate financial statements*, those investments in subsidiaries, joint ventures and associates that:

(a) are defined by ~~NZ IAS 27 *Separate Financial Statements*~~ NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IAS 28 *Investments in Associates and Joint Ventures*;

(b) …

Definitions

20.1 In this Appendix:

separate financial statements	~~means~~ are those presented by an entity ~~a parent~~ in which the entity could elect, subject to the requirements in NZ IAS 27 *Separate Financial Statements*, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with NZ IFRS 9 *Financial Instruments*, or using the ~~are accounted for on the basis of the direct~~ equity method as described in NZ IAS 28 *Investments in Associates and Joint Ventures* ~~interest rather than on the basis of the reported results and net assets of the investees~~.

Appendix D

The definition of "separate financial statements" in paragraph 19.1 is amended. New text is underlined and deleted text is struck through.

…

Definitions

19.1 In this Appendix:

separate financial statements	~~means~~ are those presented by an entity ~~a parent~~ in which the entity could elect, subject to the requirements in NZ IAS 27 *Separate Financial Statements*, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with NZ IFRS 9 *Financial Instruments*, or using the ~~are accounted for on the basis of the direct~~ equity method as described in NZ IAS 28 *Investments in Associates and Joint Ventures* ~~interest rather than on the basis of the reported results and net assets of the investees~~.

NZ IFRS 7 *Financial Instruments*

Paragraph NZ 44DD.1 is added.

Effective date and transition

...

NZ 44DD.1 *2017 Omnibus Amendments to NZ IFRS*, issued in [date], amended paragraphs E1 and E14 and deleted paragraphs E2.1–E10, E15– E22, E24 and the definitions of 'financial asset acquired through the enforcement of security', 'other individually impaired asset', 'restructured asset' and '90-day past due asset' in paragraph E23. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

Paragraphs E11 and E12 of Appendix E are kept and paragraphs E1, E2 and E14 are amended. All other paragraphs are deleted. New text is underlined and deleted text is struck through.

Appendix E
New Zealand-Specific Additional Disclosure Requirements Applicable to NBDTs

This appendix is an integral part of the Standard.

Objective

E1 The objective of this appendix is to require an *NBDT* applying this Standard to present disclosures in its financial statements that provide a transparent reporting of its risks due to concentrations of credit exposure and funding, and counterparty risk consistent with New Zealand's regulatory framework for NBDTs.

Scope

E2 This appendix shall be applied by NBDTs as defined in this appendix.

E2.1–E10 [Deleted] ~~Where a deposit taker 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*.~~

~~E2.1~~ ~~Where a deposit taker has early adopted NZ IFRS 9 *Financial Instruments* (2010), all references to NZ IAS 39 *Financial Instruments: Recognition and Measurement* shall be read as including a reference to NZ IFRS 9 *Financial Instruments* (2010).~~

~~Significance of financial instruments for financial position and performance~~

~~Statement of financial position~~

~~Categories of financial assets and financial liabilities~~

~~E3~~ ~~Paragraph 8 of this Standard requires entities to disclose financial assets and financial liabilities by the measurement categories in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. In addition, a NBDT with the following categories of financial assets and financial liabilities shall disclose these categories either in the statement of financial position or in the notes.~~

~~Financial assets~~

~~(a) cash and demand balances with the central bank;~~

~~(b) treasury bills and other bills eligible for rediscounting with the central bank;~~

~~(c) government and other securities held for trading;~~

~~(d) placements with, and loans to and receivables from, other banks;~~

~~(e) other money market placements;~~

~~(f) loans to and receivables from customers;~~

~~(g) other securities;~~

~~Financial liabilities~~

~~(h) deposits from other banks;~~

~~(i) other money market deposits;~~

~~(j) amounts owed to other depositors;~~

~~(k) certificates of deposits;~~

~~(l) promissory notes and other liabilities evidenced by paper; and~~

~~(m) other borrowed funds.~~

~~*Priority of creditors' claims*~~

~~E4~~ ~~For each category of financial liability disclosed in accordance with paragraph E3, a NBDT shall disclose information as to the priority of that class of creditors' claims over the NBDT's assets where the entity liquidates or ceases to trade. If the NBDT is a branch of an overseas incorporated NBDT, the NBDT shall also disclose the rights of each class of New Zealand creditors' claims relative to the classes of creditors of the related overseas incorporated NBDT. In determining the relative rights of each creditor class, a NBDT shall consider any legal, regulatory or other impediments that restrict the rights of each class of creditor.~~

~~Allowance account for credit losses~~

~~E5 Paragraph 16 of this Standard requires that when an entity records the impairment of financial assets in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets), rather than directly reducing the carrying amount of the asset it shall disclose a reconciliation of changes in that account during the period for each class of financial assets. To the extent not already disclosed under paragraph 16 of this Standard, an entity shall also disclose the following components of changes in such accounts:~~

~~(a) the amount of impairment losses, excluding amounts written off, recognised in profit or loss for the period;~~

~~(b) the amount written off and recognised in profit or loss for the period; and~~

~~(c) the amount of reversals of previously recognised impairment losses and recoveries of amounts previously written off, recognised in profit or loss for the period.~~

~~*Allowance accounts for individual impairment*~~

~~E6 To the extent not already disclosed under paragraph 16 of this Standard, an entity shall disclose the components specified in paragraph E5. It shall also, in respect of allowance accounts used to record individual impairments, disclose three aggregated reconciliations of the changes in those allowance accounts, one for each of the following classes of financial assets:~~

~~(a) *restructured assets;*~~

~~(b) *financial assets acquired through the enforcement of security*; and~~

~~(c) *other individually impaired assets.*~~

~~Statement of profit or loss and other comprehensive income~~

~~Items of income~~

~~E7 In addition to disclosing the information required by paragraph 20 of this Standard, NBDTs shall disclose the following subclasses of interest income:~~

~~(a) lending other than on individually impaired assets;~~

~~(b) securities held for trading;~~

~~(c) other securities;~~

~~(d) restructured assets;~~

~~(e) financial assets acquired through the enforcement of security;~~

~~(f) other individually impaired assets; and~~

~~(g) other sources.~~

~~Other disclosures~~

~~Accounting policies~~

~~E8 Paragraph 21 of this Standard 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. Paragraph B5 of this Standard gives examples of measurements bases and accounting policies that would be disclosed in accordance with paragraph 21. A NBDT shall disclose the measurement bases and accounting policies listed in paragraph B5. In addition, a NBDT shall:~~

~~(a) in disclosing how net gains or net losses on each category of financial instrument are determined:~~

~~(i) disclose its accounting policies for determining net gains and losses on trading securities and other securities as separate categories of financial instruments;~~

~~(ii) disclose its accounting policies for recognising and measuring interest income and expense, including disclosures of inter-period allocations of interest income and expense;~~

~~(iii) disclose its accounting policies for recognising and measuring fee income and expenses, distinguishing between yield related and non-yield related items, and policies in relation to inter-period allocations;~~

~~(b) disclose its accounting policies for funds under management and other fiduciary activities; and~~

~~(c) disclose the basis of classification and the accounting policies for recognition and measurement of restructured assets, financial assets acquired through enforcement of security, other individually impaired assets and *90-day past due assets*.~~

~~Trust and fiduciary activities~~

~~E9 The nature and amount of a NBDT's activities relating to managed funds and trust activities, and whether arrangements exist to ensure that such activities are managed independently from its other activities, shall be disclosed. A NBDT shall also disclose the nature and extent of its involvement in custodial activities.~~

~~Disclosures under other standards~~

~~E10 In addition to disclosing the information required by this Standard, NBDTs are also required to disclose information required by other standards such as NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in relation to financial instruments. For example, NZ IAS 1 requires the disclosure of unrecognised contractual commitments. In complying with these standards an entity shall disclose:~~

~~(a) commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the NBDT without the risk of incurring significant penalty or expense;~~

~~(b) direct credit substitutes, including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;~~

~~(c) certain transaction-related contingent liabilities, including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;~~

~~(d) short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security; and~~

~~(e) other commitments, note issuance facilities and revolving underwriting facilities.~~

Nature and extent of risks arising from financial instruments

Quantitative disclosures

Concentration of funding, credit and market exposure

E11 Paragraphs 34(c) and B8 of Appendix B of this Standard require disclosures about concentrations of risk in certain circumstances. In addition to the requirements of paragraphs 34(c) and B8, an NBDT shall disclose concentrations of credit exposure and funding in terms of:

(a) customer, industry or economic sector; and

(b) geographical concentrations, showing, where applicable, the following:

(i) concentrations within New Zealand; and

(ii) concentrations in respect of other countries, showing the amount for each country.

E12 One method of disclosing customer or industry sectors is to use codes adopted for official statistical reporting purposes, such as the Australian and New Zealand Standard Industrial Classification (ANZSIC). NBDTs shall disclose the methods used to identify customer, industry or economic sectors.

Credit risk

~~*New Zealand branches*~~

E13 [Deleted] ~~To the extent not already disclosed under paragraph 34 of this Standard, where the entity reporting is a New Zealand branch of an overseas incorporated entity, the New Zealand branch shall relate the credit~~

~~exposure recorded in the books of the branch to the latest published global equity position of the incorporated entity.~~

Counterparty risk

E14 ~~In addition to the credit risk disclosures required by paragraph 36 of this Standard,~~ A~~a~~n NBDT shall disclose, by class of financial instrument, the number of individual counterparties (not being members of a *group of closely related counterparties*) and groups of closely related counterparties to which the NBDT has a credit exposure (net of allowance for impairment loss) which equals or exceeds 10% of equity. These disclosures shall be presented in successive ranges of 10% of equity, commencing at 10% of equity.

E15–E22 [Deleted] ~~Branches of overseas incorporated banks shall disclose that the *credit exposures to an individual counterparty or a group of closely related counterparties*, do not include exposures to those counterparties if they are booked outside New Zealand.~~

~~*Financial assets that are either past due or impaired*~~

~~E16 Paragraph 37(a) of this Standard requires that an entity disclose an analysis of the age of financial assets that are past due as at the reporting date but are not impaired. In addition to paragraph 37(a), a NBDT shall disclose the carrying amount of past due assets that are 90-day past due assets.~~

~~E17 To the extent not already disclosed under paragraph 37(b) of this Standard, a NBDT shall disclose a reconciliation of each class of financial assets individually determined to be impaired as at the end of the reporting period, showing the following information:~~

~~(a) the carrying amount of the class as at the beginning of the period;~~

~~(b) any allowance for impairment loss, excluding amounts written off, relating to the class;~~

~~(c) additions to impairment allowance relating to the class;~~

~~(d) amounts written off;~~

~~(e) deletions from the class; and~~

~~(f) the carrying amount of the class as at the end of the reporting period.~~

~~E18 In meeting, or in addition to meeting the requirements of paragraphs 37(b) and E17 of this Standard, NBDTs shall disclose the information required by these paragraphs in respect of:~~

~~(a) restructured assets;~~

~~(b) financial assets acquired through the enforcement of security; and~~

~~(c) other individually impaired assets.~~

~~Liquidity risk~~

~~*Maturity profiles of assets and liabilities*~~

~~E19 A NBDT shall disclose:~~

~~(a) a maturity analysis for financial assets that shows the maturities using the same time bands and on the same basis as the maturity analyses of financial liabilities required by paragraphs 39, and B11 to B11E of Appendix B, of this Standard; and~~

~~(b) to the extent not already disclosed under paragraph 39(b), a description of how it uses its financial assets to manage the liquidity risk inherent in the maturity analysis of its financial liabilities. In providing this description a NBDT shall consider the factors set out in paragraph B11E(a)–(f).~~

~~*Expected maturity dates*~~

~~E20 Where a NBDT manages liquidity risk on the basis of expected maturity dates and where the disclosures required by this Standard (including this appendix) do not provide sufficient information for users of the NBDT's financial statements to evaluate the nature and extent of liquidity risk arising from the NBDT's financial instruments, a NBDT shall disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity discloses such expected maturity analyses, it shall explain how it determines~~

~~the remaining expected maturities of those items for which liquidity risk is managed on that basis. If the estimated cash (or other financial asset) outflows included in the quantitative analysis could either:~~

~~(a) occur significantly earlier than indicated in the maturity analysis; or~~

~~(b) be for significantly different amounts from those indicated in the maturity analysis (for example, for a derivative that is expected to be settled net but for which the counterparty has the option to require gross settlement);~~

~~the entity shall state this fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk.~~

~~*Liabilities on demand*~~

~~E21 Paragraph B11 of Appendix B of this Standard explains that, in preparing the maturity analyses for financial liabilities required by paragraphs 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. Due to the nature of a NBDT's business, an "on demand" time band would generally be appropriate in addition to the time bands noted in paragraph B11.~~

~~Market risk~~

~~*Interest rate repricing*~~

~~E22 In addition to the sensitivity analysis presented in accordance with either paragraph 40 or 41 of this Standard, for each class of financial assets and financial liabilities a NBDT shall provide information about its exposure to interest rate risk by disclosing contractual repricing or maturity dates, whichever dates are earlier.~~

Defined terms

E23 For the purposes of this ~~a~~Appendix the following terms are defined.

credit exposures to an individual counterparty or a group of closely related counterparties	means the maximum loss amount that could be incurred under all contracts with that counterparty or group of closely related counterparties in the event of those counterparties failing to discharge their obligations.
~~**financial asset acquired through the enforcement of security**~~	~~means any financial asset which is legally owned as the result of enforcing security. Where a NBDT assumes ownership of a financial asset in settlement of all or part of a debt, that asset is regarded as a financial asset acquired through the enforcement of security. A financial asset acquired through the enforcement of security must be owned outright, and accordingly the definition does not include "mortgagee in possession" assets.~~
group of closely related counterparties	means a group of legal or natural persons, one or more of which is a counterparty, who are related in such a way that: (a) the financial soundness of any one of them may materially affect the financial soundness of the other(s); (b) one has the power to control the other(s); or (c) one has the capacity to exercise significant influence over the other(s). A counterparty is any other party to a contract with the entity reporting.
NBDT	means NBDT as defined in the Non-bank Deposit Takers Act 2013.
~~**other individually impaired asset**~~	~~means a financial asset that is individually determined to be impaired at reporting date in accordance with NZ IAS 39 paragraphs 58 to 62, but which is not a restructured asset, or a financial asset acquired through the enforcement of security.~~

~~**restructured asset**~~	~~Means an impaired asset, for which:~~ ~~(a) the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;~~ ~~(b) the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and~~ ~~(c) the yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or a loss is not otherwise expected to be incurred.~~ ~~Where concessionary terms and conditions on an asset have been formally granted to a customer because of the customer's financial difficulties, and the return on the asset following restructuring is such that a loss is not expected to be incurred, then the asset is to be regarded as a restructured asset.~~ ~~Concessionary terms and conditions granted include formal forgiveness of some principal and interest, or other types of cash flows; a deferral or extension of interest or principal payments; a reduction of interest; and an extension of maturity date. However, a key feature of these assets is that following restructuring, the return under the revised terms and conditions is expected to be equal to, or greater than, the institution's average cost of funds, or that a loss is not otherwise expected to be incurred – if not, the facility must be classified as an other individually impaired asset.~~ ~~If an asset is restructured so that it is expected that the customer will perform on terms which are similar to those for new facilities of similar risk, and no provisions are currently held against the exposure, then no loss is expected to be incurred and accordingly the exposure may be regarded as fully performing.~~
~~**90-day past due asset**~~	~~means a financial asset where the counterparty has failed to operate within contractual payment terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.~~

E24 [Deleted] ~~For the purposes of this appendix, the following terms are defined in NZ IFRS 4 *Insurance Contracts* Appendices C and D or NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans* and are used in this appendix with the meanings specified in NZ IFRS 4 and NZ IAS 26:~~

- ~~general insurer~~
- ~~life insurer~~
- ~~retirement benefit plan.~~

Appendix E
Basis for Conclusions

The Basis for Conclusions is deleted.

[Deleted]~~*This Basis for Conclusions – Appendix E accompanies, but is not part of, NZ IFRS 7 Appendix E.*~~

~~Introduction~~

~~BCE1~~ ~~This Basis for Conclusions summarises the Financial Reporting Standards Board's (FRSB) considerations in reaching its conclusions on the additional disclosures for financial institutions specified in Appendix E to New Zealand Equivalent to IFRS 7 *Financial Instruments: Disclosures* (NZ IFRS 7) in 2006. It sets out the reasons why the FRSB developed these additional disclosures, the approach taken to developing the disclosures and the key decisions made. Individual FRSB members gave greater weight to some factors than to others.~~

~~BCE2~~ ~~The FRSB published its proposals in December 2005 as ED 106 *Proposed additional disclosure requirements for financial institutions applying NZ IFRS 7*. The deadline for comments was 10 March 2006. The FRSB received six responses. After reviewing the responses, the FRSB sought Accounting Standards Review Board (ASRB) approval of Appendix E in September 2006.~~

~~Rationale for additional disclosures~~

~~BCE3~~ ~~In contrast to a number of other jurisdictions, New Zealand's regulatory regime for issuers of securities relies heavily on the public disclosure of financial information. New Zealand's regulatory regime is based on the premise that public disclosure of financial information by financial institutions fosters market discipline and encourages financial institutions to maintain sound risk management systems and practices.~~

~~BCE4~~ ~~Prior to the adoption of New Zealand equivalents to IFRSs, the regulatory disclosure requirements for financial institutions were incorporated in Financial Reporting Standard No 33 *Disclosure of Information by Financial Institutions* (FRS 33). On adoption of New Zealand equivalents to IFRSs, the regulatory disclosure requirements for financial institutions were incorporated in NZ IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* (NZ IAS 30) as additional New Zealand-specific disclosures.~~

~~BCE5The continuation of this approach reflects the view of New Zealand's regulators and accounting standard setters that it is preferable, to the extent practicable, for the detail of financial reporting obligations to be contained in the relevant financial reporting standards. The FRSB had some reservations as to whether including financial institution disclosures in NZ IFRS 7 was appropriate, given that IFRS 7 had been developed by the IASB for general application by entities with financial instruments. After consideration of various factors, the FRSB concluded that, on balance, the inclusion of such additional disclosures was appropriate, for the following reasons.~~

(a) ~~It reduces the range of different disclosure requirements that financial institutions have to meet and reduces compliance costs on financial institutions.~~

~~(b)~~ ~~It makes better use of the available information from the management information systems of financial institutions.~~

~~(c)~~ ~~It ensures that regulators consider the nature of the financial information available and reduces the risk of duplication.~~

~~(d)~~ ~~It enhances the compatibility of regulatory and financial reporting disclosures.~~

~~The FRSB noted that constituents also expressed support for continuing with this approach.~~

~~BCE5AOn 6 August 2010 the Reserve Bank issued its consultation document *Review of Disclosure Requirements for Registered Banks*. One of the matters raised in this consultation document was the need to retain Appendix E. The FRSB acknowledged the view held by some that Appendix E was no longer required and noted the evidence contained in the Reserve Bank's consultation document to support this view. The FRSB considered that it was appropriate to consult with its own constituency on the need to retain Appendix E. The FRSB therefore issued, on 27 September 2010, Exposure Draft 123 Proposed Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*; Removal of Appendix E *New Zealand-specific additional disclosure requirements applicable to financial institutions* (ED 123). The FRSB acknowledged that there may be correlation between those parties responding to the Reserve Bank and those responding to ED 123. Consequently, ED 123 included reference to the Reserve Bank's consultation document.~~

~~BCE5B~~ ~~The Reserve Bank is developing its new regulatory reporting regime in two stages. The first stage focused on Registered Banks and resulted in the issuance of an Order in Council *Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011*. This Order is effective for periods ended 31 March 2011. The second phase due to be completed in late 2011 will apply to non-bank deposit takers.~~

~~BCE5C~~ ~~In response to ED 123 the FRSB received two comment letters. To inform its due process the FRSB also considered the non-confidential comment letters received by the Reserve Bank in response to its consultation document. All respondents who commented to the FRSB and to the Reserve Bank generally agreed that Appendix E was no longer required. Those respondents who supported the full withdrawal of Appendix E commented that:~~

(a) ~~Appendix E overlaps with other requirements;~~

~~(b)~~ ~~of the information required by Appendix E, only a few of the disclosures remain relevant to readers; and~~

~~(c)~~ ~~removing Appendix E would align New Zealand internationally.~~

~~BCE5D~~ ~~In its comment letter to the FRSB the Reserve Bank noted that the withdrawal of Appendix E would create a temporary reporting vacuum for non-bank deposit takers, until such time as the Reserve Bank had introduced~~

~~its new reporting regime for this group. The Reserve Bank requested that the FRSB retain Appendix E for non-bank deposit takers until the new reporting regime for this group had been finalised.~~

~~BCE5E The FRSB acknowledged the views supporting the removal of Appendix E and the request from the Reserve Bank regarding non-bank deposit takers. The FRSB therefore decided to limit the scope of Appendix E to non-bank deposit takers until the Reserve Bank has introduced its new reporting regime for this group. The FRSB also agreed to recommend that Appendix E be withdrawn in its entirety once the regulatory reporting regime for non-bank deposit takers is established by the Reserve Bank.~~

~~BCE5F As a consequence of the decision to limit the scope of Appendix E to non-bank deposit takers, all references to the term 'financial institution' in Appendix E were replaced with the term 'deposit taker' as defined in the Reserve Bank of New Zealand Act 1989. Non-bank deposit takers are subsumed within the definition of deposit taker in that Act.~~

~~BCE6 The FRSB also considered whether it was appropriate for the disclosure requirements in Appendix E to refer to related disclosures in the body of NZ IFRS 7. This cross-referencing was intended to make it easier for entities to identify relevant paragraphs within NZ IFRS 7 and the nature of the additional disclosure required by Appendix E. The FRSB noted concerns that:~~

~~(a) the detailed specification of additional disclosures for financial institutions could lead financial institutions to focus on complying with the mandated disclosures rather than considering which disclosures would best meet the spirit of the disclosure principles in NZ IFRS 7; and~~

~~(b) the disclosures in Appendix E could be regarded as an interpretation of the requirements in NZ IFRS 7.~~

~~On balance the FRSB concluded that including references to related disclosures in the body of NZ IFRS 7 was the most useful approach. In order to address the concerns raised the FRSB took care when drafting the additional disclosure requirements to highlight the primacy of the NZ IFRS 7 requirements, the fact that Appendix E establishes additional disclosure requirements (to the extent that these disclosures have not already been made in accordance with the requirements in the body of NZ IFRS 7) and that the Appendix E disclosures apply solely to financial institutions. The FRSB also noted that the disclosure principles in NZ IFRS 7 will continue to be an overriding requirement for financial institutions complying with NZ IFRS 7.~~

~~General approach~~

~~BCE7 Given the practice of including regulatory disclosure requirements for financial institutions in financial reporting standards, New Zealand's regulatory bodies requested that the FRSB develop additional disclosures for financial institutions to be included in NZ IFRS 7. The FRSB sought industry advice in reviewing the proposed additional disclosures. The FRSB's objectives were to avoid duplicating disclosures in IFRSs and ensure that the disclosures are consistent with the requirements of IFRSs, particularly those of NZ IFRS 7.~~

~~BCE8 The disclosures in Appendix E were based primarily on the New Zealand-specific disclosure requirements previously located in NZ IAS 30 and, prior to that, in FRS-33 (refer to the Table of Concordance). The FRSB made some changes to the New Zealand-specific disclosure requirements in NZ IAS 30 to prevent duplication. For example, many of the disclosures previously required by NZ IAS 30 paragraph 10 are now required by other New Zealand equivalents to IFRSs. Changes were also made to harmonise terminology with IFRSs.~~

~~BCE9 The following paragraphs set out the rationale for the additional disclosures.~~

~~Statement of financial position (paragraphs E3 to E6)~~

~~Categories of financial assets and financial liabilities (paragraph E3)~~

~~BCE10 Paragraph E3 requires that financial institutions disclose an additional breakdown of financial assets and liabilities. The distinction between balances with other financial institutions and those with other parts of the money market and from other depositors provides information on a financial institution's relations with, and dependence on, other financial institutions and the money market.~~

~~Priority of creditors' claims (paragraph E4)~~

~~BCE11 Paragraph E4 requires the disclosure of information on the priority of creditors' claims. This disclosure gives users information on the degree of protection provided to them in the event of a financial institution being liquidated.~~

~~Allowance account for credit losses and allowance accounts for individual impairment (paragraphs E5 and E6)~~

~~BCE12~~ ~~Paragraph 16 of NZ IFRS 7 requires a reconciliation of changes in an allowance account during the period. Paragraph BC26 of IFRS 7 notes that the IASB was informed that analysts and other users find this information useful in assessing the adequacy of the allowance for impairment losses for such entities and when comparing one entity with another. The IASB decided not to specify the components of the reconciliation and noted that this allows entities flexibility in determining the most appropriate format for their needs. In the context of Appendix E, specification of the components of the reconciliation enhances the comparability of information provided by financial institutions.~~

~~Quantitative disclosures (paragraphs E11 to E22)~~

~~Concentration of funding, credit and market exposure (paragraphs E11 and E12)~~

~~BCE13~~ ~~Paragraph 36 of NZ IFRS 7 requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. In addition, paragraph E11 requires the disclosure of information about material concentrations of credit risk in order to better enable users to assess trends in asset quality.~~

~~BCE14~~ ~~Paragraph E11 also requires the disclosure of information about material sources of funding. This information is a useful indication of the potential risks inherent in the realisation of the assets and the funds available to the financial institution.~~

~~Counterparty risk (paragraphs E14 to E15)~~

~~BCE15~~ ~~Paragraph E13 requires banks which are New Zealand branches of an overseas incorporated financial institution to disclose information on their credit exposures in relation to the global equity of the overseas incorporated financial institution. This provides users with information on the global equity of the overseas institution which is generally available to absorb losses arising from credit exposures in the New Zealand branch. Paragraph E14 requires the disclosure of information about counterparties to which the financial institution has a significant credit exposure. This disclosure highlights material credit exposures and the ability of financial institutions to absorb unexpected credit losses.~~

~~Financial assets that are either past due or impaired (paragraphs E16 to E18)~~

~~BCE16~~ ~~Paragraph 37 requires an analysis of financial assets that are past due but not impaired and financial assets that are individually determined to be impaired. Paragraph E16 requires the disclosure of 90-day past due assets and paragraph E17 requires disclosure of a reconciliation of each class of financial assets individually determined to be impaired. These additional disclosures are intended to assist users in assessing asset quality. Disclosure of movements in the balances of past due assets and impaired assets enables users of financial statements to assess trends in asset quality~~.

~~Liquidity risk (paragraphs E19 to E21)~~

~~BCE17~~ ~~Paragraph E19(a) requires the disclosure of a maturity analysis for financial assets on the same basis as the maturity analysis for financial liabilities required by paragraphs 39(a) and (b). The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of a financial institution and its exposure to changes in interest rates and exchange rates. The FRSB noted that some respondents commented on the importance of matching and controlled mismatching of the maturities of assets and liabilities in the management of financial institutions. Paragraph E19(b) also requires a description of how a financial institution uses its financial assets to manage its liquidity risk (to the extent that this information has not already been disclosed under paragraph 39(c)).~~

~~BCE18~~ ~~ED 106 proposed that financial institutions be required to disclose a maturity analysis for financial assets and financial liabilities showing estimated or expected maturities. The disclosure was previously optional under FRS-33 and NZ IAS 30. The majority of respondents objected to making this disclosure mandatory on the grounds of limited information value (particularly given the similarity of the information to that in the interest repricing schedules), cost of preparation and the subjectivity involved in preparing this information. However, other respondents expressed the view that information on expected maturities should be required because where~~

~~actual maturities differ from expected maturities it would be misleading to provide information only in respect of actual maturities.~~

~~BCE19~~ ~~The FRSB considered that both groups of respondents had raised valid issues and sought to address these issues by limiting the circumstances in which financial institutions are required to present an additional maturity analysis of the expected maturity dates of financial liabilities and financial assets. The FRSB agreed that a financial institution should be required to disclose such a maturity analysis only where it manages liquidity risk on the basis of expected maturity dates and where the information is required to provide users of financial statements with sufficient information to evaluate the nature and extent of liquidity risk arising from the financial institution's financial instruments (paragraph E20).~~

~~Interest rate repricing (paragraph E22)~~

~~BCE20~~ ~~Paragraph E22 requires the disclosure of information about exposure to interest rate risk through the disclosure of contractual repricing or maturity dates, whichever dates are earlier. This disclosure indicates the length of time for which interest rates are fixed at present levels and provides a basis for evaluating the interest rate risk to which a financial institution is exposed.~~

~~Effective interest rates~~

~~BCE21~~ ~~The disclosure of effective interest rates was previously required by NZ IAS 32. In developing ED 106 the FRSB noted that the IASB had chosen not to require the disclosure of effective interest rates in IFRS 7. Instead the IASB effectively replaced the interest risk disclosures previously in IAS 32 paragraph 67 with a requirement to disclose a simple sensitivity analysis for each type of market risk (including interest rate risk). The Request for Comment that accompanied ED 106 stated that the FRSB considered that the effective interest rate disclosures are no longer required in an environment where derivatives are recognised in the financial statements and entities provide information on risks arising from financial instruments in accordance with NZ IFRS 7. The FRSB sought respondents' views on the proposal not to require disclosure of effective interest rates. Respondents' views were mixed. One view was that weighted average interest rate information is onerous to prepare and does not add significantly to a reader's understanding of interest rate risk. Those who supported the disclosure of effective interest rates argued that they provide useful information to users in evaluating the interest rate risk or risks and rewards that an entity is exposed to.~~

~~BCE22~~ ~~Further discussions with some respondents demonstrated that they considered effective interest rates to be a headline indicator of credit risk. These respondents expressed the view that the gross interest rate charged by a financial institution will reflect the underlying credit risk of the parties to whom it is lending and that differences in gross interest rates between similar financial institutions would generally indicate differences in their credit risk. Following consideration of the use of effective interest rates by financial commentators in New Zealand the FRSB concluded that there was no compelling reason for requiring the disclosure of effective interest rates in Appendix E. The FRSB considered that the disclosure of credit ratings would be a more appropriate way of providing additional information on the credit risk of financial institutions and agreed to seek constituents' views on this proposal via a separate exposure draft.~~

~~Summary of main changes from the Exposure Draft~~

~~BCE23~~ ~~The main change to the proposals in ED 106 are as follows.~~

- ~~(a)~~ ~~The disclosures have been reordered to more closely follow the order of associated paragraphs in NZ IFRS 7. Subheadings have also been changed to more closely align with the subheadings in NZ IFRS 7.~~
- ~~(b)~~ ~~The fact that some disclosures are required only in respect of assets that are individually determined to be impaired has been clarified.~~
- ~~(c)~~ ~~A requirement has been added for financial institutions to describe how they use their financial assets to manage the liquidity risk inherent in the maturity analysis of their financial liabilities (refer paragraph E19(b) and BCE20).~~
- ~~(d)~~ ~~Financial institutions are required to disclose expected maturity dates of financial liabilities and financial assets only in certain circumstances. The circumstances are where the financial institution manages liquidity risk on the basis of expected maturity dates and where the disclosures required by NZ IFRS 7 do not provide sufficient information for users of the financial institution's financial statements to evaluate the nature and extent of liquidity risk arising from the financial institution's financial instruments (refer paragraph E20 and BCE19).~~

(e) ~~The definition of "other individually impaired assets" has been clarified to highlight that it refers only to assets that are individually determined to be impaired and does not include "financial assets acquired through the enforcement of security". As noted in the definition of "90-day past due assets", "90-day past due assets" and "other individually impaired assets" are mutually exclusive categories.~~

~~(f) The definition of "assets acquired through the enforcement of security" has been changed to limit it to "financial assets acquired through the enforcement of security". This change is consistent with the scope of NZ IFRS 7 and Appendix E.~~

Appendix E
Table of concordance

The Table of Concordance is deleted.

[Deleted]~~*This table accompanies, but is not part of Appendix E.*~~

~~This table shows how the New Zealand-specific requirements in NZ IAS 30 and Appendix E correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.~~

~~**FRS-33**~~	~~**NZ IAS 30**~~ ~~**NZ-specific requirements**~~	~~**Appendix E**~~
~~FRS-33 4.1, 4.2, 4.6, 4.16-4.22, 4.9, 4.26, 4.32, 4.36, 4.38, and 4.40-4.43~~	~~NZ 7.1 – NZ 7.14~~	~~E23~~
~~FRS-33 5.2, 5.4-5.10~~	~~NZ 8.1 – NZ 8.6~~	~~E8~~
~~FRS-33 6.3~~	~~NZ 10.1~~	~~E7~~
~~FRS-33 7.12~~	~~NZ 19.3~~	~~E4~~
~~FRS-33 11.3 and 11.4~~	~~NZ 30.1~~	~~E18, E20~~
~~FRS-33 13.4 and 14.1~~	~~NZ 40.1-40.2~~	~~E10~~
~~FRS-33 13.6~~	~~NZ 41.1~~	~~E11~~
~~FRS-33 13.11~~	~~NZ 41.2~~	~~E12~~
~~FRS-33 13.1~~	~~NZ 41.3~~	~~E15~~
~~FRS-33 13.3~~	~~NZ 41.4~~	~~E13~~
~~FRS-33 10.1~~	~~NZ 49.1~~	~~E5, E14, E16, E17~~
~~FRS-33 10.4~~	~~NZ 49.4~~	~~E16~~

FRS-43 *Summary Financial Statements*

Paragraph 10 is amended (new text is underlined and deleted text is struck through). Paragraph 43E is added.

Components of summary financial statements

…

10. Summary financial statements shall include a summary of the:

(a) …

(b) ~~statement of comprehensive income for the period~~ statement of profit or loss and other comprehensive income for the period;

(c) statement of the changes in equity ~~(or a statement of recognised income and expense)~~ for the period; and

(d) statement of cash flows for the period ~~(if not exempted)~~.

...

Effective date

…

43E *2017 Omnibus Amendments to NZ IFRS*, issued in [date], amended paragraph 10. An entity shall apply those amendments for annual periods beginning on or after [date]. Earlier application is permitted.

Part D: Editorial Corrections

These amendments result from minor editorial changes identified by the NZASB.

New text is underlined and deleted text is struck through.

Standard	Paragraph	Amendment
NZ IFRS 1	B12	The requirements and guidance in paragraphs B10 and B11 do not preclude an entity from being able to use the exemptions described in paragraph D19–D19~~D~~<u>C</u> relating to the designation of previously recognised financial instruments at fair value through profit or loss.
NZ IAS 26	NZ 5.1	Superannuation schemes that are ~~not issuers as defined by section 4 of the Financial Reporting~~ ~~Act 1993~~ <u>approved as Schedule 3 Schemes under the Financial Markets Conduct Act 2013</u> ~~and with membership at the end of the reporting period consisting of one person, or two~~ ~~persons~~ where each member is able to obtain special purpose financial information that meets their needs are not required to comply with this Standard. Superannuation schemes using paragraph NZ 1.5 will not be able to assert compliance with International Financial Reporting Standards.
NZ IAS 38	Numbering changed	~~129–132~~ ~~[Paragraphs 129 to 132 of IAS 38 are not reproduced. The transitional provisions in IAS 38 are not relevant to the adoption of this Standard. Paragraph 132 establishes the effective date of NZ IAS 38].~~ <u>129–130</u> <u>[Deleted]</u> ~~132~~130A <u>This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. …</u> ~~132A~~<u>130B</u> NZ IAS 1 *Presentation of Financial Statements...* ~~132B~~<u>130C</u> NZ IFRS 3 (as revised in 2008) amended paragraphs… ~~132C~~130D Paragraphs 69, 70 and 98 were amended… ~~132D~~<u>130E</u> [Deleted by IASB] ~~132E~~<u>130F</u> NZ IFRS 10 and NZ IFRS 11… ~~132F~~130G NZ IFRS 13, issued in June 2011,... NZ ~~132F.1~~<u>130G.1</u> *Framework: Tier 1 and Tier 2 For-profit Entities*, issued… ~~132G~~<u>130H</u> *Annual Improvements to NZ IFRSs 2012-2012 Cycle*, issued… ~~132H~~<u>130I</u> An entity shall apply the amendment made by *Annual Improvements…* ~~132I~~<u>130J</u> *Clarification of Acceptable Methods of Depreciation and Amortisation…* ~~132J~~130K NZ IFRS 15 *Revenue from Contracts with Customers…* <u>131–132</u> <u>[Deleted]</u> <u>~~132~~</u> ~~This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1~~ ~~*First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*~~ ~~for an annual accounting period beginning on or after 1 January 2005.~~
FRS-44	2A	An entity is required to comply with only paragraphs ~~6~~, 7, 11.1 and 11.2 when preparing condensed interim financial reports.
NZ IAS 37	52	… Instead, an entity recognises gains on expected disposals of assets at the time specified by the <u>Standard</u> ~~New Zealand International Accounting Standard~~ dealing with the assets concerned.

References to "New Zealand Equivalents to International Financial Reporting Standards" and "New Zealand Equivalents to IFRSs" to be changed to "NZ IFRS(s)"

New Zealand equivalents to International Financial Reporting Standards and New Zealand equivalents to IFRSs is changed to NZ IFRS(s), as appropriate, in the following standards:

NZ IFRS 4 *Insurance Contracts*	Introduction to Appendix C and Appendix D
NZ IFRS 10 *Consolidated Financial Statements*	Paragraph 4(a)(iv)
NZ IAS 1 *Presentation of Financial Statements*	Paragraph 2
NZ IAS 12 *Income Taxes*	Paragraphs 62 and 62A
NZ IAS 16 *Property, Plant and Equipment*	Paragraph 6, definition of 'cost'
NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Paragraph 6
NZ IAS 24 *Related Party Disclosures*	Paragraph IN1
NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*	Paragraph 2
NZ IAS 27 *Separate Financial Statements*	Paragraph 16(a)
NZ IAS 28 *Investments in Associates and Joint Ventures*	Paragraph IN1
NZ IAS 34 *Interim Financial Reporting*	Paragraph 1
NZ IAS 38 *Intangible Assets*	Paragraph 8, definition of 'cost'
NZ IAS 40 *Investment Property*	Paragraph 5, definition of 'cost'
NZ IAS 41 *Agriculture*	Paragraphs 3 and 13
FRS-42 *Prospective Financial Statements*	Paragraph 34
FRS-43 *Summary Financial Statements*	Introduction and paragraph 1
FRS-44 *New Zealand Additional Disclosures*	Paragraph 1
NZ IFRIC 17 *Distributions of Non-Cash Assets to Owners*	Paragraph 2
NZ Sic-29 *Service Concession Arrangements: Disclosures*	Paragraph 5 (twice)

Part E: Effective Date

Part B: Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after [date]. Earlier application is permitted.

Part C: Amendments to other standards are effective for annual periods beginning on or after [date]. Earlier application is permitted.

Part D: Editorial corrections are effective for annual periods beginning on or after [date]. Earlier application is permitted.

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Lisa Kelsey and Dave Bassett
Subject:	**IASB Disclosure Initiative—Principles of Disclosure**

Action required[1]

1. The Board is asked to:

   (a) CONSIDER the collation of feedback received from NZASB outreach activities and AGREE to share the feedback collation with IASB staff (agenda item 8.2);

   (b) NOTE the summary of research recently undertaken on alternative performance measures;

   (c) PROVIDE FEEDBACK on the draft comment letter to the IASB on the *Principles of Disclosure* Discussion Paper (the DP) (agenda item 8.3); and

   (d) NOTE the next steps of the project.

Background

2. The IASB issued the DP on 31 March 2017.

3. At its May 2017 meeting, the Board agreed the project timeline (see Appendix A) for conducting outreach activities and developing a comment letter to the IASB.

Structure of this agenda item

4. The remaining sections in this memo are:

   (a) collation of feedback;

   (b) summary of related research;

   (c) draft comment letter to IASB;

   (d) next steps;

   (e) recommendations; and

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

(f) Appendix A: Project timeline

Collation of feedback

5. Agenda item 8.2 contains a collation of feedback received from the NZASB outreach activities. We are asking the Board to consider this feedback and agree to share this collation with IASB staff.

Summary of related research

6. At its May meeting, the Board requested that we review recent research on alternative performance measures undertaken by the XRB and in Australia. We note that this research is likely to be more applicable to the IASB's project on *Primary Financial Statements*[2]. We have included a summary below.

Alternative Performance Measures: A New Zealand user-needs survey

7. The XRB surveyed external users of financial reports between November 2016 and January 2017 to find out whether they find Alternative Performance Measures (APMs) useful. A copy of the survey results has been included in the supporting papers. Agenda item 8.5 includes the summary report and agenda item 8.6 the full report.

8. We note the following points.

- A wide range of views were obtained, covering extreme views both for and against the usefulness of APMs. Views range from a respondent who does "not invest in companies which fail to provide an APM" to another respondent who "takes no notice of APMs". However, notwithstanding the wide range of views, the majority of the respondents provided a clear and consistent message.

- APMs are widely used by, and are considered useful to, the majority of the 87 respondents to the survey, subject to caveats about the disclosure of the APMs and related information. While some respondents were sometimes perplexed by the reasons given by companies for the APMs and/or their adjustments, the majority of respondents, whether non-expert users or expert users, do not in general appear to be confused by the APMs and/or their related information. Instead, most of the respondents appear to be discerning in their use of the APMs and the related information disclosed by companies. Respondents make various comments and suggestions to improve the disclosure of APMs and related information, including the desire for the information to be subject to assurance and having clear definitions for terms like "recurring" and "non-recurring", indicating they understood and recognised the current limitations of APMs.

- Respondents use APMs but they are used as a supplement to, or in conjunction with, GAAP measures: APMs are not usually used by respondents as the primary indicator of company performance on their own.

[2] The IASB's *Primary Financial Statements* Project explores targeted improvements to the structure and content of the primary financial statements, including the use of performance measures.

- Respondents find the disclosure of APMs, including multiple APMs, to be useful for different purposes: however, these were subject to caveats about their use and the appropriateness of the adjustments that companies make in deriving the APMs.
- Respondents consider additional information and explanations accompanying APMs, particularly reconciliations between APMs and GAAP measures, to be useful, "vital" and "essential" to understand the APMs: however, respondents consider companies were either not disclosing, or not explaining clearly, why APMs rather than GAAP measures were useful for assessing company performance.
- Respondents generally understand the purpose and additional information about the APMs: however, they did not necessarily always agree with the choice of the APMs, their purpose, their adjustments or their related explanations.
- Respondents prefer APMs to have clear definitions and conform to standardised definitions: respondents consider companies that make further adjustments to APMs that have a "standard" definition or calculation undermined the comparability of the APMs, and hence their usefulness.
- Respondents appear to use APM cautiously, "with a grain of salt": they question the company's purpose and intentions for disclosing APMs and the adjustments made (especially the tendency for APMs to paint a "rosier" picture than GAAP measures).
- Respondents want APMs and related information to be assured: however, the lack of clarity whether the APM and related information has been subject to assurance made it difficult to determine if the APM and related information were appropriate, neutral, credible and reliable.

The rise and rise of non-GAAP disclosure: a survey of Australian practice and its implications

9. CA ANZ and the Centre for International Finance and Regulation (CIFR) published a monograph[3] providing a detailed survey of Australian firms' use of non-GAAP reporting from 2000 to 2014 inclusive.

10. We note the following points.

    - GAAP income has seemingly been increasingly derived from the change in corresponding balance sheets.
    - The frequency of non-GAAP reporting has risen over time, but so has the likelihood that a reconciliation with the GAAP equivalent will be provided.
    - Although there is evidence that the non-GAAP result exceeds its GAAP equivalent more frequently than otherwise, the difference is not as large as some anecdotes would suggest. However, there is some evidence that the likelihood of a non-GAAP exceeding its GAAP equivalent has increased over time.

[3] A detailed written study of a single specialised subject or an aspect of it.

- Non-GAAP measures have substantially smaller variation from year to year, and there are less extreme annual variations than for GAAP earnings results.
- A strong convergence towards the use of the terms such as ‘underlying profit’ or ‘underlying earnings’ as the main description of non-GAAP earning figures was observed.
- There is also some anecdotal evidence that non-GAAP figures are sometimes used as the basis for determining some part of CEO compensation. The rise in non-GAAP reporting and the use of such metrics in CEO compensation contracts contrasts with the shift from the income statement focus to the balance sheet focus that underlies the evolution of accounting standards, and raises concerns about the design of efficient compensation contracts. It also represents a significant challenge to accounting standard setters and, more broadly, regulators of financial markets.

Draft comment letter to IASB

11. Agenda item 8.3 contains a draft comment letter in bullet point format to the IASB. We are seeking feedback from the Board on the proposed content in the appendix.

12. The appendix is structured by section of the DP and is set out as follows.

    (a) Question(s) for respondents from the DP.

    - We are proposing to provide comments on all questions in the DP.

    (b) Notes for the Board.

    - We have extracted relevant information from the DP for each question to assist the Board in providing feedback on the questions contained in the DP.

    (c) Summary of feedback received.

    - To assist Board members, we have included a summary of feedback received from the various outreach activities undertaken by both the NZASB and the AASB. Feedback was not sought on all questions contained in the DP.
    - A more comprehensive summary of the feedback received at the AASB outreach events can be found here: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Summaries_Principles_of_Disclosure_Roundtables_June_2017.pdf

    (d) Staffs’ preliminary response.

    - We have provided answers to the questions in bullet point format for the Board to consider and provide feedback on.

Next Steps

13. On 3 August 2017, AASB staff will be presenting and seeking feedback from the corporate reporting users' forum (CRUF) on certain aspects of the DP. NZASB staff will also dial into the meeting.

14. The closing date for submissions on the DP to the NZASB is the 18th of August 2017. For the September 2017 meeting, we propose to bring:

    (a) an analysis of these submissions; and

    (b) an updated comment letter (including cover letter) which will incorporate Board feedback from this meeting and, where appropriate, views expressed in submissions.

15. We will seek Board approval of the comment letter at the September meeting, as comments are due to the IASB by 2 October 2017.

Recommendations

16. We recommend that the Board:

    (a) CONSIDER the collation of feedback received from NZASB outreach activities and AGREE to share the feedback collation with IASB staff (agenda item 8.2);

    (b) NOTE the summary of research recently undertaken on alternative performance measures;

    (c) PROVIDE FEEDBACK on the draft comment letter to the IASB on the DP (agenda item 8.3); and

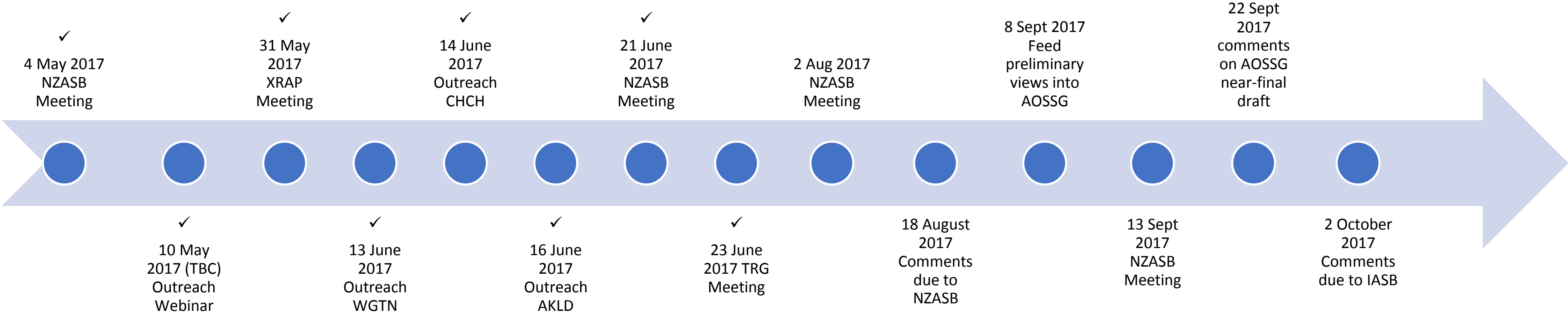
    (d) NOTE the next steps of the project.

Attachments

Agenda item 8.2:	Feedback received from outreach
Agenda item 8.3:	Draft comment letter to the IASB
Agenda item 8.4:	DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (supporting papers)
Agenda item 8.5	*Alternative Performance Measures: A New Zealand user-needs survey*—Summary report (supporting papers)
Agenda item 8.6	*Alternative Performance Measures: A New Zealand user-needs survey*—Full report (supporting papers)

Appendix A: Project timeline

✓ = completed



NZASB Meetings	
Date	**Proposed action required by the Board**
4 May 2017	This meeting will include an education session for the Board on the DP. ✓ We will be asking the Board to agree the proposed timeline and outreach for the project.✓
21 June 2017	There are no agenda papers planned for this meeting. However, staff can provide a verbal update of how the outreach has gone and any main messages that have come from the outreach. ✓
2 August 2017	The Board will be asked to consider a draft comment letter to the IASB. This will include feedback that has been received from the outreach undertaken.
13 Sept 2017	The draft comment letter will be updated for feedback received at the Board's August 2017 meeting and for feedback received from constituents in their submissions. The Board will be asked to approve the final comment letter to the IASB at this meeting.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Lisa Kelsey and Dave Bassett
Subject:	**Feedback received from outreach**

Action required[1]

1. The Board is asked to:

   (a) CONSIDER feedback received from:

      (i) outreach events held in June 2017;

      (ii) members of the Technical Reference Group (TRG)[2]; and

      (iii) members of the External Reporting Advisory Panel (XRAP)[3]; and

   (b) AGREE to share this collation of feedback received with the IASB staff.

Background

2. The IASB issued Discussion Paper DP/2017/1 *Disclosure Initiative — Principles of Disclosure* (the DP) on 31 March 2017. At its May 2017 meeting the Board discussed proposals for outreach in New Zealand on the DP. The Board approved outreach events in Auckland, Wellington and Christchurch to be held in June 2017.

3. The Board discussed, at the May meeting, the relevance of the DP to all entities preparing financial statements in accordance with IFRS Standards, and all users of those financial statements. It also noted the relevance to auditors, regulators and other interested parties that are involved in financial reporting.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

[2] The objective of the Technical Reference Group (TRG) of the New Zealand Accounting Standards Boards (NZASB) is to provide a forum for the NZASB to consult individuals on technical accounting issues, particularly those relating to the practical application and implementation of accounting standards. The TRG consists of up to 9 members experienced in dealing with technical accounting issues encountered by constituents in a range of sectors and tiers of the accounting standards framework.

[3] The External Reporting Advisory Panel (XRAP) provides a forum where the three XRB Boards can consult with individuals and representatives of organisations affected by their work. The XRAP membership reflects a wide cross-section of the financial reporting community: preparers, users and auditors, large companies, small and medium companies, state owned enterprises (SOEs), central government, local government, not-for-profit organisations, and shareholders, directors, chief executives, chief financial officers, advisors.

4. As part of its discussion on the proposed outreach, the Board noted the importance of obtaining feedback from users of financial statements. The Board asked the staff to make targeted efforts to invite users of financial statements, specifically analysts and investors. In response to that request, in addition to the general invitations sent to constituents on the NZASB mailing list, targeted outreach invites were sent to:

   (a) members of the New Zealand Shareholders Association Inc. (1500 members, split across 6 branch locations);

   (b) the participants (83 in total) of the research project commissioned by the XRB and undertaken by Massey University into the *Usefulness of the financial reports produced by for-profit entities operating in New Zealand domestic capital markets*; and

   (c) fund managers and others with investment interests (11 in total).

5. Unfortunately, we were unable to contact the participants (87 in total) of the *Alternative Performance Measures: A New Zealand user-needs survey*, as we had not obtained consent to contact these participants. However, some of these participants received invitations through being on the NZASB mailing list, and/or as participants in the research project in paragraph 4(b) above.

6. At its meeting in May the Board also agreed to seek feedback on the DP from members of the TRG and XRAP.

Structure of this memo

7. The purpose of this memo is to collate the feedback received during the outreach events. The memo also collates feedback received from members of the TRG and XRAP. The structure of this memo is as follows:

   (a) outreach events:

      (i) attendance;

      (ii) presentation by IASB staff;

      (iii) polling questions; and

      (iv) small table discussions.

   (b) TRG feedback; and

   (c) XRAP feedback.

Outreach events

Attendance

8. Table 1 summarises the attendance at each of the outreach events.

Table 1: Summary of attendance				
	Wellington	Christchurch	Auckland	Total
Headcount	31	13	29	73
Less staff and Board members	9	3	5	17
Total attendees	**22**	**10**	**24**	**56**
Total registered	34	12	34	80
No shows	12	2	10	24

Presentation by IASB staff

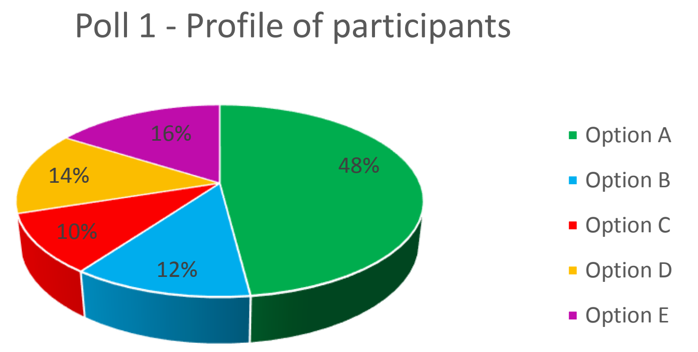
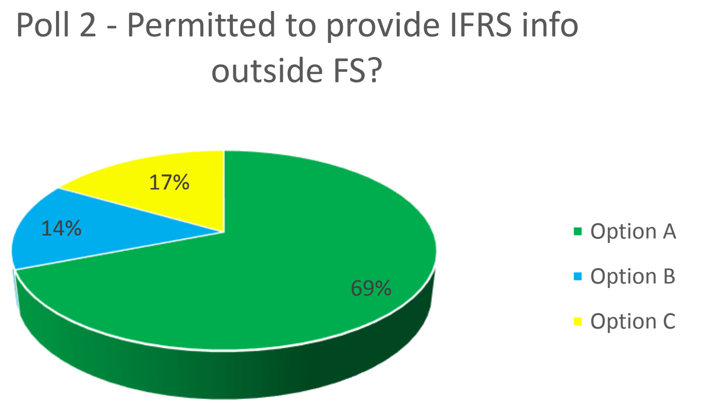
9. There was a 20-minute presentation from IASB staff (Mariela Isern, Senior Technical Manager, and Arjuna Dangalla, Assistant Technical Manager) on the DP with greater focus on sections 4, 5, 6 and 8 – as these were the sections that the polls and/or small table discussions focused on. After the presentation, a short question and answer session was held with the IASB staff. We have collated questions raised by participants and answers provided by IASB staff in Table 2.

Table 2: Questions raised	
Question	Answer from IASB Staff
1. Have you received any feedback from outreach conducted so far on the NZASB Staff's approach? *(Question asked by Dave in absence of one from the floor)*	The IASB staff have found it difficult to engage with stakeholders on section 7 and section 8 of the DP. Some preparers were receptive to the approach. They liked the focus on applying judgement and particularly liked the example given of a bank with PP&E – in the example PP&E was not important to the bank's core business, therefore in relation to PP&E the bank would only disclose Tier 1 disclosures or nothing. Comments have been received that the objectives were still too generic and should be tailored more to the item or transaction.
2. Did the IASB consider digital reporting in the development of the DP? *(Question asked by Dave in absence of one from the floor)*	Digital reporting was not considered per se, however some of the principles in the DP would be equally applicable to digital reports.
3. Did the IASB consider the following issues when defining the "disclosure problem":	Agreed that these are valid concerns and noted that the IASB is aware of the importance of

Table 2: Questions raised	
Question	Answer from IASB Staff
○ Inconsistent disclosures across companies; and ○ Lack of continuity in reporting – for example in year 1 report EPS, Year 2 underlying earnings and year 3 EBIT – changing metrics that are being reported each year. *(Question asked by an investor/user)*	consistency/comparability across years and between companies. The DP covers performance measures including requirements around the fair presentation of these metrics. The principles of effective communication were also highlighted as a potential means to address the concerns raised. It was noted that the concerns are covered in the DP, but just not identified as part of the disclosure problem per se.
4. What is the IPSASB doing in this space? *(Question asked by a preparer)*	The IASB staff had not had any interaction with the IPSASB on this project. It was noted that the IASB has a representative that attends the IPSASB meetings. The IASB has engaged with the International Auditing and Assurance Standards Board and the International Integrated Reporting Council on this project.
5. Has the IASB reached out to users? *(Question asked by an investor/user, who was "tired of looking at 150 page annual reports full of accounting procedures. There needed to be improved reports for users, the reports needed to be easier to digest")*	The IASB has linked into user groups from NSS, for example in Europe and Canada. The IASB has also engaged with its individual user groups, for example CMAC – Capital Markets Advisory Council. It was also noted that any individual user can comment directly to the IASB.
6. Has the IASB considered the disclosures required by securities regulators? The securities regulators have conducted research and come up with compulsory disclosures. The SEC has a list of price sensitive relevant disclosures. *(Question asked by an academic)*	It was acknowledged that this could be a good tool when undertaking the review of disclosure requirements at a standards level, however this was not so relevant to the POD DP.

Polling questions

10. We ran four polls where participants could vote using their mobile devices. Table 3 includes the polls and the results of the polls in graph format (in total from the three locations). We have also included under each poll a summary of some of the discussions and comments that were raised during the polls.

<table>
<tr><td colspan="2">Table 3: Summary of poll results</td></tr>
<tr><td>General
Poll 1 Please indicate which of the following groups best describes you or the organisation you work for.
Option A – A preparer of financial statements
Option B – A user of financial statements (for example, an investor or analyst)
Option C – A regulator (for example, the FMA)
Option D – An auditor
Option E – Other</td><td>
</td></tr>
<tr><td colspan="2">Note: other made up of academics and CA ANZ</td></tr>
<tr><td>Section 4—Location of information
Poll 2 Should entities be permitted to provide IFRS information outside their financial statements, but within the annual report, provided specified criteria are met (for example, the IFRS information is clearly identified and cross-references are provided)?
Option A – Yes
Option B – No
Option C – Other/not sure</td><td>
</td></tr>
<tr><td colspan="2">Note: concerns around potential confusion for users on what is audited and what is not. Concerns with completeness if the financial statements are filed separately.</td></tr>
</table>

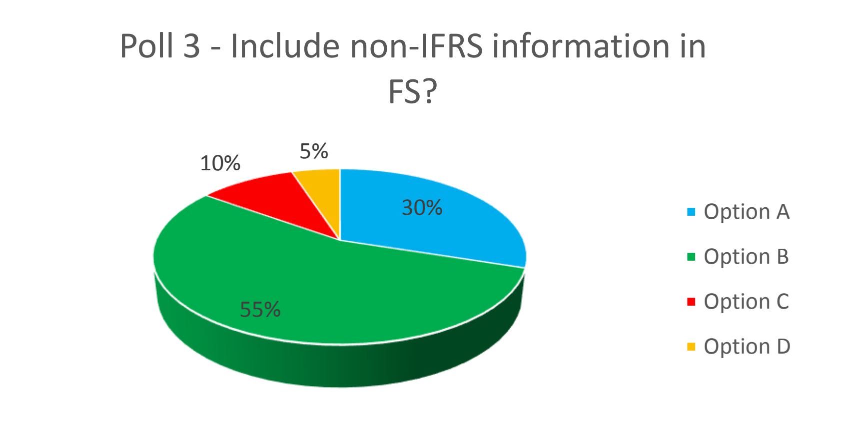
Poll 3 Do you agree that an entity should <u>not</u> be prohibited from including non-IFRS information in its financial statements, provided such information has been identified as 'non-IFRS information'?

Option A – Yes

Option B – Yes, as long as such non-IFRS information is accompanied by an explanation of why it is useful

Option C – No, non-IFRS information should not be included in the financial statements

Option D – Other/not sure



Note: comment that the IASB would need to be very clear on what constitutes non-IFRS information.

Section 5—Use of performance measures in the financial statements

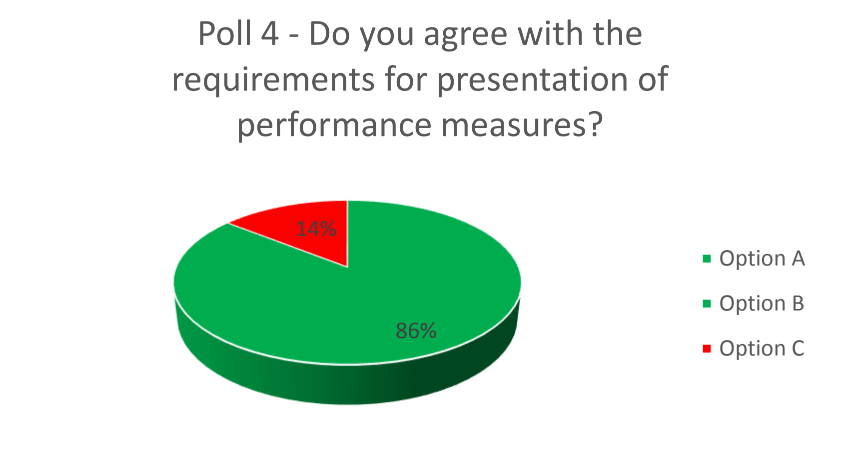
Poll 4 Do you agree that performance measures in the financial statements should be required to be:

- no more prominent than IFRS information;
- reconciled to IFRS measures;
- clearly labelled and relevance explained;
- neutral and consistently measured and presented over time; and
- accompanied by comparatives?

Option A – Yes

Option B – No

Option C – Other/not sure



Note: participants selected option C if they did not agree with all of the points listed. An FMA representative commented that they did have concerns with APMs within the finanical statements.The FMA is very interested in the results of the research "How useful are Alternative Performance Measures (APMs) to external users of company reports?"undertaken by the XRB. Participants commented that APMs are not just to give a favourable view of the entity, but are responding to the needs of users (under the UK Companies Act, entities have to disclose key performance indicators in their strategic report).

Small table discussions

11. The event concluded with small table discussions on questions based on the DP. The tables (where possible) were made up of preparers, users, regulators, auditors and were facilitated by a Board or staff member. There were approximately 6–8 participants per table.

12. In this section, we detail the feedback received. We have organised this section by each discussion question.

Section 6—Disclosure of accounting policies

Q1 Which of the following categories of accounting policies do you think should be disclosed in the financial statements and why?

Category 1 – Only accounting policies used for material items transactions or events where there has been a change in an accounting policy or the entity has had to make judgements/choices, rather than simply apply the standard.

> An example of an accounting policy that might be disclosed under Category 1 is an accounting policy for an asset (that is material to the entity) accounted for under IAS 16 *Property, Plant and Equipment*. An entity has an accounting policy choice under IAS 16 to apply the cost model or revaluation model.
>
> Under Category 1, accounting policies for material items, transactions or events would not be disclosed if the accounting policy was simply a 'standard' IFRS recognition and/or measurement requirement.
>
> Examples of accounting policies that might **not** be disclosed under Category 1 are:
>
> - an accounting policy for business combinations accounted for under IFRS 3 *Business Combinations*
> - an accounting policy for income taxes accounted for under IAS 12 *Income Taxes.*
>
> However, if an entity has to make significant judgements or assumptions in applying these accounting policies it would disclose these policies.

Category 2 – Accounting policies that are not in Category 1, but also relate to items, transactions or events that are material.

Category 3 – Any other accounting policies that are not included in categories 1 and 2, (i.e. accounting policies for non-material items, transactions or events).

13. Feedback received.

- Agreement that improvements are needed to the disclosure of accounting policies in the financial statements generally accounting policies are written poorly and not understandable. It is not useful to make boiler plate disclosures, copy and paste from the standards or repeat information directly from model financial statements.

- Entity specific accounting policies in plain English would be welcomed by users of financial statements. Many unsophisticated users are not familiar with accounting "jargon" and would not understand what terms like "amortised cost" mean.

- Limited resources (time) and risk aversion are driving the current checklist approach. Applying judgement requires time and adds to preparation costs. Some entities still have concerns that they will be questioned by the regulator if they remove disclosures.

- Management need to be brave to reduce disclosures. However, standards need to provide some support for them to do so. Entities still make disclosures that may be confusing/not relevant, to tick the box in a checklist.

- Consensus that immaterial accounting policies (Category 3 accounting policies) should not be disclosed.

- Consensus that Category 1 accounting policies should always be disclosed – important for users to know if judgement is applied in the application of an accounting policy or if a choice is made.

- The key judgements applied in material accounting policies were seen as being important to users and should be highlighted, maybe by placing them upfront in a separate sub-section. Users want to know the areas where a set of financial statements are prepared on a different basis to assist with comparability with other entities.

- Some participants felt that it was sufficient that only Category 1 accounting policies are disclosed as this would cut the clutter from financial statements.

- There were various views expressed about the inclusion of Category 2 accounting policies. Most of the tables did not reach a consensus on whether Category 2 accounting policies should always be disclosed. Some participants felt that all material accounting policies are important to understand the financial statements and therefore should be disclosed. Other participants said the inclusion of Category 2 accounting policies in the financial statements would depend the entity's users (institutional investors versus mum and dad investors) and whether they are likely to be familiar with the requirements in IFRS Standards.

- The inclusion of Category 2 accounting policies could also depend on whether the entity operated in a specialist industry, such as oil and gas, and how familiar users would be with the accounting requirements in that industry.

- The suggestion was made that Category 2 accounting policies could be placed on the entity's website, which could be updated annually.

- At one table discussion focused on whether there was a need for the categories as suggested by the IASB and whether this was just another way of saying apply materiality. Some expressed concerns that the categories will cause confusion.

- Some participants felt strongly that the financial statements should be understandable as a standalone document and therefore should include all accounting policies related to material items, transactions or events.

- Another suggestion was summarised accounting policies in the financial statements with more detail to be found on the entity's website.

- A few of the participants mentioned they have moved immaterial accounting policies to the back of the financial statements into a separate appendix. This was seen by the participants as an intermediary step to removing these altogether.

- Focus disclosures on what is "core" to the business for example, if PP&E is not core, no need to have detailed disclosures.

- There was support for locating the accounting policies with the note on the underlying numbers, rather than having the accounting policies located in a separate section at the beginning of the notes.

- The IASB needs to think outside the paper version of financial statements as some entities are now producing digital interactive annual reports.

Section 8—New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem'.

The NZASB staff have developed an approach to drafting disclosure requirement in IFRS Standards. The main features of the NZASB staff's approach are:

- an overall disclosure objective for each standard, and more specific disclosure sub-objectives;
- the division of disclosure requirements into two tiers:
  - summary information (tier 1): required, subject to materiality; and
  - additional information (tier 2): the entity considers whether disclosure is needed;
- more emphasis on the need to apply judgement when deciding how and what to disclose; and
- use of less prescriptive wording in disclosure requirements.

Q2 Do you think that the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards would encourage more effective disclosures? Why or why not?

14. We note that many participants were unlikely to have read section 8 of the DP that describes the NZASB staff's approach to drafting disclosure requirements, and that their feedback was based on the summary above and any additional comments made by the table facilitator.

15. Feedback received.

- This approach makes sense: it is a good way of thinking about disclosures and provides a good framework to develop and apply disclosures.

- Broad agreement that the emphasis on the need to apply judgment is a good thing.

- Likes the discipline that this will impose on the standard setter when drafting disclosure requirements.

- General agreement that having a disclosure objective would be beneficial. This would take the emphasis away from individual line item disclosures and hopefully reduce a checklist type approach.

- Like the focus on what disclosures are important to users.

- There is a risk of lack of comparability with other entities under this approach.

- There was a concern that an unintended consequence of the two-tier approach could be that entities effectively only disclose the summary or tier 1 disclosures. The additional information (tier 2 disclosures) could be pre-judged as not important, which will not always be the case. It will need to be made clear that often the tier 2 information is useful and required for material or complex transactions.

- It may be difficult for the standard setter to distinguish between summary and additional information – the preparer should make this determination based on their understanding of the transaction.

- Statements such as “shall” and “must” disclose should be reduced/removed. The disclosure objective is important and management should have more scope to decide how this is met. Preparers still interpret the word “shall” as “the disclosure is required, irrespective of materiality”. Support for using the word “consider”, as this allows the entity to apply judgement and document why a disclosure is not relevant and therefore not disclosed (have the conversation with the auditors).

- Some preparers questioned whether a significant change was needed to the drafting of disclosure requirements. They commented that the amendments to IAS 1 in December 2014[4] were a useful clarification, and that they would still have gone ahead and reduced disclosures, with or without this amendment.

- In the ideal world principle-based disclosures are preferred. However, in reality a checklist or tick box approach to disclosures would be easier and faster to apply, both by preparers and auditors. Concerns around the additional resources (cost and time) needed to apply judgement at both a preparer and auditor level. Larger companies are better resourced to apply judgement, smaller companies prefer rules.

- One preparer was looking forward to the issue of the materiality practice statement by the IASB, noting that materiality is subjective: what is a material event for the user? Another preparer highlighted the importance of the nature of the item as much as its size when considering materiality.

- IASB needs to focus on making financial statements more understandable.

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[4] *Disclosure Initiative* (Amendments to IAS 1), amendment to paragraph 31 “Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements…”

Section 5—Use of performance measures in the financial statements

Users of the financial statements have told the IASB that separate presentation or disclosure of in the statement(s) of financial performance is helpful in making forecasts about future cash flows.

Q3 Do you agree that the IASB should develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items? Why or why not?

16. Feedback received.

- Most participants felt that this was the return of "extraordinary items" (back to the future!).
- General agreement that unusual or infrequently occurring items should not be separately presented or disclosed on the face of the financial statements.
- Introduces another element of judgement and inconsistency into the preparation of financial statements, therefore the concept was not supported.
- "Unusual" or "infrequently occurring items" should not be defined and required by IFRS. Entities can present these outside the financial statements but need to reconcile back to IFRS/GAAP numbers.
- These items are deducted by entities when calculating APMs such as underlying profits and adjusted profits. Concerns that adjustments are made for expenses but not revenue i.e. cherry-picking. Concerns also around inconsistency with adjustments made in calculating APMs year-on-year.
- What is considered unusual or infrequent is entity and industry specific. It would be hard for the standard setter to define these terms. Use the principle of fair presentation.
- Rather than focusing on terms used, establish requirements for full explanation and consistency around the use of these terms.
- Information about unusual or infrequently occurring items is useful for investors and analysts.
- In today's world the pace of change is accelerating – what is now unusual, could become frequently occurring in the future.

Section 5—Use of performance measures in the financial statements

Q4 Should the IASB prohibit the use of terms such as non-recurring, special or one-off to describe unusual and infrequently occurring items? Why or why not?

17. Feedback received.

- General consensus was that these terms should not be used because one can never really say an item is one-off with any degree of certainty. Participants favoured providing an explanation of the item rather than using a term such as non-recurring.

- If want to show underlying profit do so in the notes and reconcile back to the IFRS number, have this year and last year, don't change how the measure is calculated from year to year – don't mislead investors by having underlying profit on the primary financial statements.

- These terms could be interpreted similar to extraordinary items which are currently prohibited under IAS 1.

  87 **An entity shall not present any items of income or expense as extraordinary items, in the statement(s) presenting profit or loss and other comprehensive income or in the notes.**

- Investors/users felt these terms were used too often by directors when referring to items as one-off.

- Some felt that prohibition would be ineffective (come up with other terms) and unhelpful. May prohibit in IFRS Standards but they would still appear in APMs.

Section 1—Overview of the 'disclosure problem' and the objective of this project
Q5 Are there any other issues that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

18. Question 5 was quite a broad question and some of the issues that participants identified may well be covered by related projects of the IASB (for example, the *Primary Financial Statements* project). However, table facilitators were encouraged to let the discussion flow to see if any common themes came through.

19. Feedback received.

    - A lack of comparability between entities within the same industry and comparability for the same entity year-on-year, were also identified as contributing to the disclosure problem. Users/investors want comparability and consistency.

    - Include and define EBIT and EBITDA in the primary financial statements.

    - One of the themes that came through in these discussions was whether the IASB was thinking widely enough in terms of electronic disclosures and the use of website information. The examples seemed to be based on references from the financial statements to the annual report. However, preparers are starting to think and consider much wider options than this.

    - Views were expressed that the increased complexity in recognition and measurement in the recently issued IFRS Standards (for example, IFRS 9, IFRS 15, IFRS 16) leads to more disclosures in the financial statements. How is the theme of "better communication" met if the IASB is issuing standards with more complex measurement and recognition requirements and, hence, more disclosures?

    - Digital reporting was raised as an issue and whether standard setters are ready for this in the future. XBRL has been in the background for years.

- Digital reporting and integrated reporting are important developments that should be considered.
- The overall objective of the POD should be giving the preparer the confidence to apply judgement when selecting disclosures. Therefore, instead of developing more standards/rules, broad principles and guidance is required.
- Behavioural change is needed by all stakeholders – preparers, auditors and regulators. In New Zealand, constituents feel that this change is underway.
- Focus on disclosures meeting the needs of users.
- Investors often look to the newspapers for information on their shares as it is easy to understand. Investors only want to know: profit, dividend, what the company is planning going forward and comments on the environment the entity is operating in.
- The DP contains important messages. The IASB is on the right track – require more relevant information in the financial statements. Users want relevant information.
- Want more information about the future, for example market scans, risks. Want forward looking risk-based cash flows.
- Link with APM and remuneration (Executive performance-based pay (e.g. bonuses) are often based on meeting APM targets, so management has an incentive to modify the APM each year to ensure the target is met).
- FMA ran streamlining campaign – "clear, concise and effective" – there has been improvements in the last couple of years regarding disclosures in the financial statements. A participant suggested that the FMA highlight those entities that are doing a good job.

TRG feedback

20. The following has been extracted from Agenda item 12.6 from this meeting Update on TRG meeting 23 June 2017.

Principles of disclosure

15. TRG members discussed the July 2017 Accounting Standards Advisory Forum (ASAF) meeting paper Discussion Paper *Principles of Disclosure* (the DP). The meeting paper provided an overview of the outreach activities carried out to date by the International Accounting Standards Board (IASB) and comments received on the DP to date.

16. TRG members had the following comments on the DP.

    (a) Section 2 – Principles of effective communication: Agreed with the principles and advised that these principles should be issued as non-mandatory guidance. They are conceptual principles and should not be mandatory as there will be tension between them.

(b) Section 3 – Roles of the primary financial statements and the notes: A TRG member felt that the IASB needed to take more time to clarify the purpose of financial statements. Another TRG member commented that it was unfortunate that the objective of the financial statements sits in the *Conceptual Framework*, which is not part of the standards. TRG members agreed with the IASB view that the face of the financial statements is more prominent than the notes.

(c) Section 4 – Location of information:

(i) *Cross-referencing to IFRS information outside the financial statements*: TRG members were concerned about the difficulty of identifying what information has been audited and what hasn't been audited. It was, however, noted that IFRS Standards already allow some cross-referencing to information outside the financial statements.

(ii) *Non-IFRS information within the financial statements*: There were mixed views regarding this matter. One concern was how to distinguish between non-IFRS information and IFRS information. It was noted that non-IFRS information is currently included in the financial statements. Non-IFRS information would need to be clearly labelled as unaudited if this is the case. It was noted that non-IFRS information can be audited without it being included in the financial statements.

One TRG member would be concerned if non-IFRS information was not allowed to be included in the financial statements because entities sometimes have a legislative requirement to include such information in the financial statements. It was noted that this information is mostly audited.

(d) Section 5 – Use of performance measure in the financial statements:

(i) *Develop definitions of, and requirements for, the presentation of unusual and infrequently occurring items*: The lack of a definition causes issues but what is unusual or infrequently occurring depends on the facts and circumstances of the entity. Entities adjust for these items currently so if they are brought back into generally accepted accounting practice (GAAP), there would be some level of control. One TRG member wanted disclosure in the relevant category or item rather than separate presentation on the face of the financial statements. It was noted that if the item is material, separate disclosure is required under NZ IAS 1 *Presentation of Financial Statements*. One TRG member note that separate presentation would only make sense when expenses were presented by nature as unusual and infrequent relate to the nature of the expense.

(ii) *Requirements for performance measures*: TRG members noted that the proposed requirements for the fair presentation of performance measures were very similar to the guidance recently put out for consultation by the FMA.

TRG members agreed that APMs should always be reconciled back to an IFRS number.

(e) Section 6 – Disclosure of accounting policies: There was a strong view that material accounting policies should always be disclosed as cannot assume that all users of financial statements are familiar with IFRS Standards. The DP does not cover the different means of delivery, which could include, for example, a hyperlink to a website for the accounting policies.

(f) Section 7 – Centralised disclosure objectives:

(i) *Develop centralised disclosure objectives*: Agreement that this is a good idea.

(j) *Location of disclosure objectives and requirements within a single standard, or set of standards*? There was acknowledgement of the pros and cons of both approaches. A preference was expressed for disclosures to be by topic (the current approach). It was noted by one TRG member that having disclosures in a single standard would impose a good discipline on the standard setters and would result in the elimination of duplication of disclosures.

(g) Section 8 – NZASB staff's approach to drafting disclosure requirements for IFRS Standards: Based on feedback received to date, the most controversial aspect is the two tiers of disclosures. However, applying materiality under current requirements should result in a similar outcome. From an accounting perspective, this is a good idea, but not so good from an audit perspective due to the additional time and resources involved. A TRG member commented it was great to see something from staff of the NZ standard setter in an international document produced by the IASB.

(h) Other: Many entities still treat the preparation of financial statements as a compliance exercise which is left until the last minute. Non-listed companies just want to roll over the previous year's financial statements to keep audit costs down. One TRG member commented that whilst agreeing with streamlining financial statements, why not just produce summary financial statements to give an overview.

XRAP feedback

21. The following has been extracted from Agenda item 12.4 from the NZASB June 2017 meeting Update on XRAP meeting May 2017.

Disclosure Initiative–Principles of Disclosure

17. Under item 4 of the XRAP agenda, Kimberley Crook (NZASB Chair) presented a paper on the recently issued IASB Discussion Paper DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (the DP). The paper focused on Section 8—*New Zealand Accounting Standards Board Staff's Approach to Drafting Disclosure Requirements in IFRS Standards* (NZASB Staff's approach*)* of the DP.

18. Kimberley noted that over time many financial statements had become increasingly long and unhelpful (containing lots of detailed notes – "disclosure overload"). She commented that the FMA had held a discussion forum in late 2014 on this very issue. Kimberley also noted that NZ companies were well ahead of the rest of the world, with many NZ companies undertaking a revamp of their disclosures ("streamlining disclosures") to improve the communication effectiveness of their financial statements. Kimberley then moved on to discuss the role of the standard setter in addressing the disclosure overload problem and the approach to drafting disclosure requirements proposed by the NZASB Staff.

19. XRAP members provided very positive and supportive comments on the NZASB Staff's approach. They agreed that entities need to use their judgement when deciding what information to disclose in the financial statements and the most effective way to organise and communicate it. However, there were concerns raised regarding the two tiers of disclosures contained in the NZASB Staff's approach, with some members worried that the increased flexibility will lead to useful disclosures being cut out and the trade-off will be a lack of consistency and comparability between entities.

20. XRAP members also felt that there was a need for clear guidance to assist with applying judgement in making disclosures.

21. One of the members expressed a concern that the approach and the discussion paper in general still considers the financial statements as a physical product. The member suggested that it was time to re-conceptualise and start thinking in the digital world. Kimberley noted that while the discussion paper did not reference digital reporting, many of the principles in the discussion paper were applicable to digital reports

Recommendations

22. We recommend that the Board:

    (a) CONSIDER feedback received from:

        (i) outreach events held in June 2017;

        (ii) members of the Technical Reference Group (TRG); and

        (iii) members of the External Reporting Advisory Panel (XRAP); and

    (b) AGREE to share this collation of feedback received with the IASB staff.

Appendix to Principles of Disclosure Discussion Paper comment letter to IASB

Section 1—Overview of the "disclosure problem" and the objective of this project

Question 1
Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes. (a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem? (b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Notes to the Board – disclosure problem

1. *The IASB has identified three main concerns about information disclosed in general purpose financial statements (collectively referred to as the* ***disclosure problem****). These concerns are:*

    (a) not enough relevant information;

    (b) irrelevant information; and

    (c) ineffective communication of the information provided. [para 1.5]

2. *The IASB has identified the main causes of the disclosure problem as:*

    (a) difficulties in applying judgement when deciding what information to disclose in the financial statements and the most effective way to organise and communicate it;

    (b) behavioural issues – some entities, auditors and regulators approach financial statements primarily as compliance documents, rather than as a means of communication with users of the financial statements;

    (c) lack of guidance on the content and structure of the financial statements;

    (d) the absence of clear disclosure objectives in IFRS Standards;

    (e) long lists of prescriptive disclosure requirements. [Summary of para 1.7-1.8]

3. *The IASB agrees that a set of disclosure principles could help address the disclosure problem by:*

    (a) help entities apply better judgement about disclosures and communicate information more effectively;

    (b) improve the effectiveness of disclosures for the primary users of financial statements; and

    (c) help the IASB improve disclosure requirements in IFRS Standards. [para 1.9]

Summary of feedback received

- No specific feedback was sought on question 1(a) or (b).

Staff's preliminary response

Question 1(a)

- Agree with the description of the "disclosure problem" and its causes in the Discussion Paper (the DP).
- The IASB's description of the disclosure problem and its causes are largely consistent with the findings from the Financial Markets Authority's[1] (FMA) discussion forum held in September 2014.
- The FMA produced a summary of the main findings from the forum: *Quality Financial Reporting – How to Improve Financial Statements*[2] (FMA report). These findings are as follows.
  - Some financial statements contain content that is not relevant or material, potentially obscuring the information that is important.
  - Financial statements that are not clear, concise and effective have an adverse impact on the effective communication channels between entities and their users.
  - The application of the concept of materiality in practice is seen by many as a major cause of disclosure overload. This may be due to a failure to use managements' professional judgement when considering materiality.
  - The reasons for disclosure overload are linked to the behavioural patterns of financial statement stakeholders (preparers, directors, auditors, standard setters and regulators).

Question 1(b)

- Agree that the development of disclosure principles in a general disclosure standard would help towards addressing the disclosure problem.
- We believe that behavioural issues in applying judgement may play a greater role in contributing to the disclosure problem, rather than existing requirements.
  - In recent years, New Zealand entities have taken steps to improve the disclosure effectiveness of their financial statements. This included re-ordering disclosures, providing more entity-specific disclosures, avoiding boilerplate language and removing disclosures considered irrelevant or immaterial.
  - Such "streamlining" of financial statements was achieved under the existing requirements in IFRS Standards.

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[1] The FMA is one of three main regulators in New Zealand. The FMA regulates capital markets and financial services in New Zealand.

[2] https://fma.govt.nz/assets/Reports/141101-Quality-Financial-Reporting-How-To-Improve-Financial-Statements2014.pdf

- o There are a number of different stakeholders (including regulators and auditors) who have a role to play in improving financial statement disclosure.

- The development of disclosure principles and guidance would help to encourage a positive change in behaviour by giving preparers confidence to apply judgement in deciding what information to disclose and how to disclose information effectively.

Question 2
Sections 2–7 discuss specific disclosure issues that have been identified by the IASB and provide the IASB's preliminary views on how to address these issues. Are there any other disclosure issues that the IASB has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

Notes to the Board – other disclosure issues

4. *The Principles of Disclosure Project is likely to result either in amendments to IAS 1* Presentation of Financial Statements *or in the creation of a new general disclosure standard to build on and replace the parts of IAS 1 that cover disclosures in the financial statements. The project might also result in the development of some non-mandatory guidance. [para 1.13]*

Summary of feedback received

NZ outreach events

- A lack of comparability between entities within same industry and comparability for the same entity year-on-year contributes to disclosure problem. [Staff consider that this disclosure issue has been identified in the DP, see paragraph 2.4(f) of Section 2—*Principles of effective communication*]

- Questioned whether the IASB is thinking wide enough in terms of electronic/digital reporting.

- Complexity in recently issued IFRS Standards (for example, IFRS 9, IFRS 15, IFRS 16) leading to increased disclosures.

- Time pressure and a lack of resources has lead preparers and auditors to a "checklist approach". [Staff consider that this disclosure issue has been identified in the DP, see paragraph 1.7 of Section 1]

TRG

- Financial statements are still treated as a compliance exercise, not a communication tool. [Staff consider that this disclosure issue has been identified in the DP, see paragraph 1.7 of Section 1]

- One TRG member commented that whilst agreeing with streamlining financial statements, why not just produce summary financial statements to give an overview.

XRAP

- The IASB needs to consider to how financial information will be consumed by users in the future – Interactive digital reports.

Staff's preliminary response

Materiality

- The FMA report[3] identified that materiality is well-established as a concept in relation to recognition and measurement, but not so much when it comes to disclosures. This signals a need for specific guidance on making judgements on materiality in relation to disclosures.
  - We consider that the IASB's *Definition of Materiality* and *Materiality Practice Statement* projects will help support changes in stakeholder behaviour towards materiality in relation to disclosures.
  - However, we believe that the IASB needs to consider the POD project together with the materiality projects to give greater visibility/prominence to materiality as part of improving communication effectiveness.

Digital reporting

- The rise of digital reporting and interactive financial statements may present other opportunities to address the "disclosure problem".
  - Feedback received from New Zealand constituents supports our view that the IASB needs to give more consideration to how financial information will be consumed by users in the future.
  - At a minimum, the IASB should seek to further explore/develop disclosure principles for financial statements made available in digital format.

Summary financial statements

- We have heard that the preparation of summary financial statements as a supplement to the full financial statements might be a useful means of addressing part of the disclosure problem.
  - The IASB could explore the use of (and development of requirements for) summary financial statements or other summary formats for users who do not require all the information in financial statements.
  - Currently in New Zealand, FRS-43 *Summary Financial Statements* specifies the accounting practice and minimum disclosure requirements for summary financial statements of entities which are reporting in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

[3] See footnote 2.

Section 2—Principles of effective communication

Question 3
The IASB's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The IASB has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance. The IASB is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22. (a) Do you agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not? (b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why? (c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance? (d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not? If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

Notes to the Board – principles of effective communication

5. *The IASB's preliminary view is that it should develop a set of principles to help entities communicate information more effectively in the financial statements. The IASB's preliminary view is also that these principles should consist of the following seven principles in (a)–(g). The information provided should be:*

    (a) *entity-specific, since information tailored to an entity's own circumstances is more useful than generic, "boilerplate" language or information that is readily available outside the financial statements;*

    (b) *described as simply and directly as possible without a loss of material information and without unnecessarily increasing the length of the financial statements;*

    (c) *organised in a way that highlights important matters—this includes providing disclosures in an appropriate order and emphasising the important matters within them;*

    (d) *linked when relevant to other information in the financial statements or to other parts of the annual report (see Section 4 Location of information) to highlight relationships between pieces of information and improve navigation through the financial statements;*

    (e) *not duplicated unnecessarily in different parts of the financial statements or the annual report;*

(f) *provided in a way that optimises comparability among entities and across reporting periods without compromising the usefulness of the information; and*

(g) *provided in a format that is appropriate for that type of information—for example, lists can be used to break up long narrative text, and tables may be preferable for data-intensive information, such as reconciliations, maturity analysis etc.*

The IASB observes that an entity might need to make a trade-off between some of these principles when preparing its financial statements. For example, while tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand, it might reduce comparability and consistency between entities and periods. The IASB recommends that an entity use judgement when applying these principles in order to maximise the usefulness of the information for users of the financial statements. [para 2.6]

6. *The principles listed in paragraphs 2.6(a)–(f) were included in the Discussion Paper:* A Review of the Conceptual Framework for Financial Reporting *(the* Conceptual Framework *Discussion Paper). Many respondents to the* Conceptual Framework *Discussion Paper agreed with including them in the revised* Conceptual Framework. *However, some respondents suggested that some or all of those principles would be better placed in a Standard. The IASB observes that some of those principles focus more on the preparation of financial statements than on underlying concepts. Accordingly, while developing the* Conceptual Framework *Exposure Draft, the IASB proposed including in the revised* Conceptual Framework *only communication principles that also describe the underlying concepts (entity-specific information and duplication of information principles). [para 2.7]*

7. *The IASB has not yet formed a preliminary view on whether the principles of effective communication should be described in non-mandatory guidance or prescribed in a general disclosure standard. [para 2.12]*

8. *Non-mandatory guidance could be:*

(a) *in the form of illustrative examples or implementation guidance that accompany, but do not form part of, the general disclosure standard;*

(b) *in the form of a Practice Statement that does not accompany a specific Standard; or*

(c) *provided as separate educational material, for example, made available on the IFRS Foundation's website.*

Non-mandatory guidance in (a) and (b) would be included in Part B of the IFRS Bound Volume and subject to full due process. Educational material in (c) would be subject to due process of a more limited nature. [summary of para 2.13]

9. *The IASB's preliminary view is that use of formatting should be included as one of the principles of effective communication (see paragraph 2.6(g)) and that it should develop more detailed guidance on using formatting in the financial statements. The guidance would cover types of formats, when one particular format is more appropriate than another, and*

illustrative examples. The guidance would be more suitable in non-mandatory guidance than in a general disclosure standard. [summary of para 2.20-2.23]

Summary of feedback received

TRG

- Agree with principles of effective communication.
- Agree that the principles should be described in non-mandatory guidance as they are conceptual principles and should not be mandatory as there could be tension between some of the principles.

Staff's preliminary response

Question 3(a)

- Agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements.
- While the principles are in many aspects common sense, we believe that it is beneficial for the IASB to clearly identify communication principles to assist entities when preparing financial statements.
- We believe that communication principles will help to:

  (i) provide preparers with useful guidance; and

  (ii) encourage preparers to apply judgement

  to improve the communication effectiveness of their financial statements.
- Support the development of principles, rather than specific requirements.

Question 3(b)

- Agree with the listed principles of effective communication.
- The principles are broadly consistent with the principles, identified by the FMA, to improve disclosure and deliver a clear reporting and communication tool.[4] The following principles were identified by the FMA.
  - Disclose entity-specific information
  - Apply the communication approach to the financial statements
  - Consider order and format
  - Disclose only relevant information

[4] See footnote 2.

- Ensure clear and concise disclosures written in plain English
- Focus on disclosing information that reflects the current reporting period
- Focus on the substance of the transaction
- Consider level of information for material transactions
- Consider what accounting policies are significant

- We believe that the *Conceptual Framework's* fundamental qualitative characteristics of *relevance* and materiality (an entity-specific aspect of *relevance*) play a central role in improving communication effectiveness.
  - Recommend that the IASB include a discussion of *relevance* and materiality to accompany the principles of effective communication.
- Feedback received from some Asian-Oceanian Standard-Setters Group (AOSSG) members during the AOSSG 2016 Annual Conference held in Wellington, New Zealand, proposed that the principles could be combined/condensed into 4 or 5 principles.
  - We believe that the seven principles currently listed are appropriate, and have concerns that combining certain principles could reduce the overall helpfulness of the principles for preparers.

Question 3(c)

- We think that principles of effective communication should be issued as non-mandatory guidance.
  - An entity may need to make a trade-off between some of the principles of effective communication, e.g. entity-specific information vs comparable information.
  - Potential difficulties in auditing and enforcing the principles have been raised by New Zealand constituents.
- Principles should be included in guidance that accompanies, but will not form part of, a general disclosure standard, rather than as a practice statement or educational material.
  - This would have the benefits of: (i) having greater visibility than other forms of non-mandatory guidance such as a practice statement or educational material; and (ii) being subject to the IASB's full due process.
- We believe the IASB should consider whether there are any unintended consequences from the proposals in the *Conceptual Framework* Exposure Draft to include two of the principles of effective communication (entity-specific information and duplication of information) in the *Conceptual Framework* and whether these principles will have greater prominence.

Question 3(d)

- We support the development of non-mandatory guidance on the use of formatting in the financial statements.
  - Whilst the DP acknowledges digital reporting, the proposed guidance on the use of formatting could go further in providing formatting guidance for digital reports.
- We think that such formatting guidance should accompany the principles of effective communication, in the form of illustrative examples or implementation guidance that accompany, but do not form part of, the general disclosure standard.

Section 3—Roles of the primary financial statements and the notes

Question 4
The IASB's preliminary views are that a general disclosure standard should: • specify that the "primary financial statements" are the statements of financial position, financial performance, changes in equity and cash flows; • describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24; • describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and • include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft, as described in paragraph 3.7. In addition, the IASB's preliminary views are that: • it should not prescribe the meaning of "present" as presented in the primary financial statements and the meaning of "disclose" as disclosed in the notes; and • if it uses the terms "present" and "disclose" when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either "in the primary financial statements" or "in the notes". Do you agree with the IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Notes to the Board – roles of the primary financial statements and the notes

10. The IASB's preliminary view is that the role of the primary financial statements is to provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses, which is useful for:

(a) obtaining an overview of the entity's assets, liabilities, equity, income and expenses;

(b) making comparisons between entities and reporting periods; and

(c) identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes. [para 3.22]

11. The role of the primary financial statements has been derived from the objective of financial statements in the Conceptual Framework *Exposure Draft. This objective does not refer to providing information about cash flows because cash flows are not identified as separate elements of financial statements in the* Conceptual Framework *Exposure Draft (see explanation in paragraphs BC4.106–BC4.110 and paragraph BC7.8(b) of the Basis for Conclusions accompanying the* Conceptual Framework *Exposure Draft) [Assets are elements and cash is a type of asset]. However, information about cash and cash flows is important to users of financial statements and therefore the IASB recommends that the statement of cash flows, which is identified as a required statement under IAS 1, should be identified as one of the primary financial statements. [Para 3.23]*

12. *In addition to clarifying the role of the primary financial statements, the IASB's preliminary view is that it would be helpful to set out the implications of that role as follows:*

    (a) *information in the primary financial statements is more prominent than information in the notes;*

    (b) *it is presumed that each primary financial statement will be included in a complete set of financial statements;*

    (c) *all line items in a primary financial statement are depicted in words and by a monetary amount, and are included in the totals for that statement;*

    (d) *all recognised elements are included in the totals in the primary financial statements; and*

    (e) *a decision on whether to present information as a separate line item in the primary financial statements is made after considering the role of the primary financial statements. If information is not shown as a line item in the primary financial statements because it is aggregated there with other information, it might need to be disclosed separately in the notes. [para 3.24]*

13. *Several standard-setters have issued publications that consider the role and content of the notes. Having considered this work and its own outreach and research, the IASB observes that stakeholders seem to share the common view that one role of the notes is to provide further explanation of information provided in the primary financial statements. Examples of such further explanatory information include:*

    (a) *disaggregation and reconciliations of line items in the primary financial statements;*

    (b) *descriptions of the nature of the items included in the primary financial statements; and*

    (c) *information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements. [Para 3.26]*

14. *In addition, the IASB observes that stakeholders seem to share the common view that the notes supplement information in the primary financial statements by including additional information necessary to satisfy the objective of financial statements. Examples of such supplementary information include:*

    (a) *information about the nature and extent of an entity's unrecognised elements; and*

    (b) *information about an entity's exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements. [Para 3.27]*

15. *The IASB's preliminary view is that the role of the notes is to:*

    (a) *provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and*

(b) *supplement the primary financial statements with other information that is necessary to meet the objective of financial statements. [Para 3.28]*

16. *The* Conceptual Framework *Exposure Draft proposes clarifying that the notes include information about (This list is a summary of paragraphs 7.3–7.7 of the* Conceptual Framework *Exposure Draft):*

  (a) *the nature of both recognised and unrecognised elements and about the risks arising from them;*

  (b) *the methods, assumptions and judgements, and changes in those methods, assumptions and judgements, that affect the amounts presented or disclosed;*

  (c) *transactions and events that have occurred after the end of the reporting period if such information is necessary to meet the objective of financial statements described in paragraph 3.2;*

  (d) *forward-looking information about likely or possible future transactions and events, only if it provides relevant information about an entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised) or income and expenses for the period; and*

  (e) *comparative information about preceding periods. [Para 3.7]*

17. *Paragraph 3.4 of the* Conceptual Framework *Exposure Draft proposes the following description of the objective of financial statements:*

  …to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

  Paragraph 9 of IAS 1 states that "The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it". The IASB will consider whether to align the objective of financial statements in IAS 1 with the forthcoming revised Conceptual Framework *if it amends or replaces IAS 1 as part of this project. [Para 3.2 and footnote 19]*

Summary of Feedback

TRG

- Agree with the view that information in the primary financial statements is more prominent than information in the notes.
- A TRG member felt that the IASB needed to take more time to clarify the purpose of the financial statements.

Australian outreach events

- Participants generally agreed with the IASB's definition of primary financial statements. However, participants felt it should be a rebuttable presumption for instances where the defined primary financial statements are not relevant, for example, a statement of movements in members' benefits would be considered more relevant for Managed Investment Schemes.

Staff's preliminary response

Specify that the "primary financial statements" are the statements of financial position, financial performance, changes in equity and cash flows

- While our preference would be for the IASB and the International Public Sector Board (IPSASB) to align terms, we do not have concerns with the use of the term "primary financial statements".
    - The IPSASB uses the term "face of the financial statements" in its *Conceptual Framework*.
- Agree with the view that the "primary financial statements" are the statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flows.

Describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24

<u>*Role*</u>

- Agree that a general disclosure standard should describe the roles of the different components of the financial statements and how those roles meet the objective of financial statements.
    - However, we believe that further work is needed to ensure that the description of the role of the primary financial statements and the description of the role of the notes together meet the objective of financial statements.
    - The IASB's preliminary views is that the statement of cash flows is one of the primary financial statements yet the role of the primary financial statements does not reference obtaining an overview of the entity's cash flows.
    - "assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources" from the objective of financial statements has not been reflected in the role of the "primary financial statements".

<u>*Implications*</u>

- Agree with implications of the role of the primary financial statements.
    - Feedback received from New Zealand constituents is that many readers pay more attention to the primary financial statements than to the rest of the financial

statements, which supports the IASB's preliminary view that information in the "primary financial statements" is more prominent than information in the notes.

- We suggest that the IASB acknowledge materiality in paragraph 3.24(e) as also playing a role when deciding whether to present information as a separate line item in the primary financial statements.

Describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27

- Agree that the role of the notes of the financial statements should be included in a general disclosure standard with further explanatory and supplementary information.
- We echo comments made in the EFRAG *Preliminary response to the questions in the IASB Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure* that the statement of cash flows and the statement of changes in equity also provide forms of reconciliation and therefore this cannot be seen as a discriminating factor when describing in the role of the notes.
    - We recommend that the IASB consider amending 3.28(a) as follows.

      The role of the notes is to:

      (a) provide further information necessary to disaggregate~~, reconcile~~ and explain the items recognised in the primary financial statements; and

      (b) …

Include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the Conceptual Framework *Exposure Draft, as described in paragraph 3.7*

- We do not have any concerns with the proposed paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft being included a general disclosure standard.

It should not prescribe the meaning of "present" as presented in the primary financial statements and the meaning of "disclose" as disclosed in the notes. If it uses the terms "present" and "disclose" when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either "in the primary financial statements" or "in the notes".

- We support the IASB's proposal to specify the intended location if it uses the terms "present" or "disclose". We believe that specifying the intended location is more important than defining the terms "present" and "disclose". We also believe that this will help to address confusion regarding the location of information when "present" and "disclose" are used.
    - However, we have concerns that more prescriptive wording could have the unintended consequence of being misinterpreted as a requirement that is not subject to materiality. This concern could be addressed by giving greater emphasis to materiality when

drafting disclosure requirements, for example, by including "subject to materiality" in the drafting of disclosure requirements.

- While we do not believe that the IASB should formally prescribe a meaning for "present" and "disclose", we do think the terms should be used consistently where possible.
  - We note that the IPSASB in its *Conceptual Framework* uses the term "display" for the face of the financial statements and "disclose" for the notes of the financial statements.

Section 4—Location of information

Question 5
The IASB's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c). (a) Do you agree with the IASB's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why? (b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

Notes to the Board – cross-referencing to IFRS information outside the financial statements

18. The IASB's preliminary view is that a general disclosure standard should include a principle that information necessary to comply with IFRS Standards can be provided outside the financial statements if such information meets the following requirements:

(a) it is provided within the entity's annual report;

(b) its location outside the financial statements makes the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented; and

(c) it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements. [Para 4.9]

19. The IASB suggests the following ways that entities could identify clearly the information necessary to comply with IFRS Standards that has been provided outside the financial statements to meet the requirements in paragraph 15(c) above:

(a) provide in the financial statements a list of any information that forms part of the financial statements and is incorporated in them by cross-reference, together with its statement of compliance with IFRS Standards;

(b) clearly identify the cross-referenced information as information necessary to comply with IFRS Standards and that forms part of the financial statements;

(c) ensure the cross-reference in the financial statements clearly identifies and describes the information that it relates to; and

(d) ensure that the cross-referenced information remains available over time as part of the annual report. [Para 4.24]

20. *Some IFRS Standards (for example, paragraph 21B of IFRS 7* Financial Instruments: Disclosures *and paragraph 31 of IFRS 14* Regulatory Deferral Accounts*) permit an entity to provide specific information required by standards outside the financial statements, provided that:*

    (a) the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report; and

    (b) this other statement is available to users of the financial statements on the same terms as the financial statements and at the same time. [Para 4.3]

21. *Two IFRS Standards contain requirements about cross-referencing that differ from those set out in paragraph 4.3:*

    (a) when an entity is a first-time adopter of IFRS Standards, its first interim financial report can incorporate specified information by cross-reference to another published document (paragraph 32(b) of IFRS 1 First-time Adoption of International Financial Reporting Standards*); and*

    (b) if an entity participates in a defined benefit plan that shares risks between entities under common control, it can incorporate specified information about the plan by cross-reference to disclosures in another group entity's financial statements—if that group entity's financial statements are available to users of the financial statements on the same terms and at the same time, or earlier (paragraph 150 of IAS 19 Employee Benefits*). [Para 4.4]*

22. *In October 2015, the NZAuASB issued Amendments to International Standards on Auditing (New Zealand): Addressing Disclosures in the Audit of Financial Statements. This was issued as a result of changes made by the International Auditing and Assurance Standards Board (IAASB) to the International Standards on Auditing to reflect the amendments made to address disclosures in the audit of financial statements.*

    Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross- reference to information in another document, such as a management report or a risk report. "Incorporated therein by cross-reference" means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements.

Summary of feedback received

NZ outreach events

- Most participants agreed that cross-referencing should be allowed.
- Concerns expressed around confusion for users on what is audited and what is not.

- Concerns with completeness of financial statements if they are filed separately to the annual report.

TRG

- Concerns about the difficulty of identifying what information has been audited and what hasn't been audited.

XRAP

- Need to look at how information is being consumed, there has been a rise in interactive reports where the user can click on links to get to information – makes identifying the boundaries of the financial statements and the distinction between what is audited and what is not difficult.

Australian outreach events

- Cross-referencing should be permitted as it is useful, alleviating duplication.
- Mixed response on whether cross-referencing should be restricted to the Annual report (in whatever form it takes – online included).
- More clarity needed on what constitutes an "Annual Report".
- IASB requirements should be principle based rather than being too prescriptive.
- Cross-referenced IFRS information must be identifiable, auditable and traceable.

AASB Disclosure Initiative Project Advisory Panel

- General agreement that the IASB should permit cross-referencing as long as it is identifiable, traceable (i.e. accessible) and auditable, and on face value limited to commonly used documents (such as an Annual Report).
- Consideration of innovation and technological advancements (i.e. limiting to Annual Report not contemporary enough).
- Concerns with information scattered in many places, confusion for users, broaden scope of audit of GPFR.
- Concerns with overuse or misuse of cross-reference.

Staff's preliminary response

Question 5(a)

- Agree that a general disclosure standard should include a general principle that an entity can disclose information necessary to comply with IFRS Standards outside of the financial statements provided certain requirements are met.
  - Permitting cross-referencing to IFRS information outside the financial statements would help to reduce duplication of information within the annual report.
  - International Standards on Auditing recognise that explanatory or descriptive information may be included in the financial statements by cross-reference to information in another document, and that information will form part of the financial statements.
- We partly agree with the requirement expressed in paragraph 4.9(b) that cross-referencing to IFRS information outside the financial statements should be permitted only if the financial statements remain understandable and the information is faithfully represented.
  - This requirement will help address concerns raised that cross-referencing could be overused or misused.
  - However, we do not agree with the requirement that "the location of the information makes the annual report as a whole more understandable". We consider that the understandability of the annual report as a whole is outside of the IASB's mandate.
- We do not agree with the requirement expressed in paragraph 4.9(a) that limits cross-referencing to within the annual report.
  - The IASB needs to consider how information is expected to be consumed in the future. In our view, cross-referencing needs to be permitted on a wider basis than the annual report, in order to future proof any cross-referencing requirements with the continued advancements in digital reporting and the rise of interactive reports (where the boundaries of the annual report and financial statements can become unclear).
  - We note that section 6—*Disclosure of Accounting Policies* of the DP considers cross-referencing certain accounting policies to an entity's website.
  - We believe that it would be more appropriate to broaden the requirement in paragraph 4.9(a) to permit cross-referencing where IFRS information outside of the financial statements is available on the same terms, at the same time and continues to be available as long as the financial statements.

- Agree with the requirement expressed in paragraph 4.9(c) that cross-referenced information needs to be clearly identified and should be incorporated in the financial statements by means of a cross-reference to that information that is made in the financial statements.
    - It is vital that cross-referenced information is required to be clearly identified. We further recommend the IASB consider requiring that cross-referenced information outside the financial statements must also be clearly identifiable as being audited or not.

Question 5(b)

- We have heard that there are situations where entities have provided information required by IFRS 8 *Operating Segments* and IAS 24 *Related Party Disclosures* outside of the financial statements but within the annual report.
    - However, we have not found the use of cross-referencing to IFRS information outside of the financial statements to be extensive in New Zealand.
- Where statutory or regulatory disclosures are required in the annual report and overlap with the disclosure requirements in IFRS Standards, to avoid duplication, it is not uncommon for entities to make these disclosures once as part of the financial statements.
- We have not identified any examples of specific scenarios where we think an entity should be prohibited from providing information necessary to comply with IFRS Standards outside the financial statements, provided such information meets certain requirements, as discussed under question 5(a) above.
- We are not aware of any statutory or regulatory requirements in New Zealand that would restrict an entity from providing information necessary to comply with IFRS Standards outside the financial statements.

Question 6
The IASB's preliminary view is that a general disclosure standard: • should not prohibit an entity from including information in its financial statements that it has identified as "non-IFRS information", or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but • should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c). Do you agree with the IASB's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

Notes to the Board – non-IFRS within the financial statements

23. *The IASB observes that there are three categories of information in financial statements:*
    (a) *Category A—information specifically required by IFRS Standards;*
    (b) *Category B—additional information necessary to comply with IFRS Standards (IAS 1 – a fair presentation requires an entity to provide additional disclosures when compliance*

with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance); and

(c) Category C—additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards and some non-financial information. [para 4.33]

24. *The IASB observes that an entity might identify information in the financial statements as non-IFRS information, or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards (i.e. that the entity has identified as Category C). The IASB also observes that such a distinction could be helpful for users of financial statements if an entity does include Category C information. The IASB's preliminary view is that, if an entity identifies information in this way, a general disclosure standard should require the entity:*

    (a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;
    (b) to provide a list of such information, together with the statement of compliance with IFRS Standards; and
    (c) to explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (i.e. it must be relevant and faithfully represented).

    The IASB suggests that additional information provided in accordance with the requirements of IAS 1 (ie Category B information) should not be identified by an entity in this way. [para 4.38]

25. *If information identified as non-IFRS information also fits the description of a performance measure given in the DP, the discussion in Section 5 Use of performance measures in the financial statements will also apply.*

Summary of feedback received

NZ outreach events

- Majority of participants agreed with including non-IFRS information as long as clearly identified as such. Some also wanted the non-IFRS information accompanied by an explanation of why it is useful.
- However, need to be clear about what constitutes non-IFRS information.

TRG

- Unaudited "Non-IFRS information" would need to be clearly labelled as unaudited.
- Difficult to distinguish between IFRS and non-IFRS information.
- Would be concerned if non-IFRS information is not allowed in the financial statements. Local government legislative requirements, for example, remuneration information in financial

statements usually consistent with GAAP. This is mostly audited and included in the financial statements.

Australian outreach events

- Most participants agreed that non-IFRS information should be permitted as long as accompanied by a reconciliation to IFRS.
- Most questioned having an "explanation of why it is useful", would like amended to include an objective of why the entity is making the non-IFRS disclosure, including how/why the non-IFRS information satisfies the objective.
- Participants agreed list of non-IFRS information together with the statement of compliance wasn't practical or necessary.
- Participants generally agreed that the only "non-IFRS" measures that should be included on the "Face" of the financial statements should be the ones that can be sub-totalled/"pulled" directly from information on the Face. All other non-IFRS information should be in the notes, accompanied by clear labelling and reconciliation to IFRS

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- General agreement that non-IFRS information should be permitted as long as appropriately labelled and accompanied by reconciliation to IFRS.
- Bringing non-IFRS information into the financial statements may lead to the perception that something was missing from IFRS requirements.
- General consensus that only audited information should be permitted within the financial statements.

Staff's preliminary response

- Agree with the IASB's preliminary view that a general disclosures standard should not prohibit an entity from including information in its financial statements that it has identified as "non-IFRS information" to distinguish it from information necessary to comply with IFRS Standards.
    - Prohibiting "non-IFRS information" from being disclosed in the financial statements could:
        - be challenging to operationalise and could result in useful information being omitted because of the potential difficulty in differentiating between IFRS information in Category B and "non-IFRS information" in Category C;
        - have an unintended consequence on the ability for entities to assert compliance with IFRS in jurisdictions like New Zealand that have adopted IFRS Standards, but may also have additional disclosure requirements, which could be considered "non-IFRS information"; and

  - prevent New Zealand entities from including statutory or regulatory disclosures as part of their audited financial statements.

- Partly agree that a general disclosure standard should require “non-IFRS information” to be identified clearly as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited.
  - However, note concerns about potential difficulty in differentiating between IFRS information in Category B and “non-IFRS information” in Category C, and therefore, recommend that the IASB seek to clarify information that should be labelled as “non-IFRS information”
  - We think that the IASB should consider requiring “information that is not specifically required by IFRS Standards <u>and</u> is prepared on a different basis to IFRS Standards” to be identified clearly.
- We do not agree with the requirements in (i) paragraph 4.38(b) to disclose a list of “non-IFRS information” included in the financial statements to be made with the statement of compliance with IFRS; and (ii) paragraph 4.38(c) requiring an explanation for why the “non-IFRS information” is useful and has been included in the financial statements.
  - These disclosure requirements have the potential to increase the clutter in the financial statements.
- We note the overlap between “non-IFRS information” and performance measures discussed in Section 5. When drafting a general disclosure standard it will be important for the IASB to make clear that if information identified as “non-IFRS information” also fits the description of a performance measure, any requirements relating to performance measures would also apply.

Question 7
The IASB did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements. Do you think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Notes to the Board – non-IFRS within the FS

26. *The IASB observes that it might want to consider additional restrictions applicable to information that is inconsistent with IFRS Standards—for example, because it is measured on a different basis. The following examples illustrate possible scenarios of when an entity might decide to, or be required to, provide additional information about pension plans that are measured on a different basis from IFRS Standards:*

    (a) *an entity might decide, or be required, to provide additional information about its pension plans that is not measured in accordance with IAS 19, for example, measured on* *the basis of how the local pensions regulator calculates the entity's pension obligation; or*

(b) an entity might provide additional information because it does not agree with some of the requirements in IAS 19, or because it wants to include information about the IAS 19 liability determined using an alternative valuation technique or assumptions that are not consistent with requirements in IFRS Standards.

27. There might be a range of views about the acceptability of including these types of additional information in the financial statements, including about whether that information is inconsistent with IFRS Standards. The IASB is seeking feedback on whether to prohibit or restrict the inclusion in the financial statements of any types of information.

Summary of feedback received

Australian outreach events

- Participants generally were of the view that only information that cannot be reconciled to IFRS should be prohibited.

Staff's preliminary response

- We do not think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements as this could prevent an entity from telling its story.

Section 5—Use of performance measures in the financial statements

Question 8

The IASB's preliminary views are that it should:
• clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
  • the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
  • the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
• develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.
(a) Do you agree with the IASB's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?
(b) Should the IASB prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?
(c) Are there any other issues or requirements that the IASB should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?
The feedback on Question 8 will be considered as part of the IASB's Primary Financial Statements project.

Notes to the Board – subtotals and unusual or infrequently occurring

28. *The IASB will consider in its Primary Financial Statements project whether to define some performance measures commonly presented as line items and subtotals in the statement of financial performance, for example operating profit, EBIT and EBITDA. Stakeholders want the IASB to require performance measures to be calculated consistently over time and among entities. [para 5.18]*

29. *The IASB has limited its discussion to two issues in the DP.*

    (a) *When presentation of EBIT and/or EBITDA in the statement(s) of financial performance can be considered a fair presentation in accordance with IFRS Standards; and*

    (b) *Whether to provide guidance on the presentation of unusual and infrequently occurring items. [para 5.18]*

    Extract from IAS 1:

    85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

    85A When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

    (a) be comprised of line items made up of amounts recognised and measured in accordance with NZ IFRS;

(b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

(c) be consistent from period to period, in accordance with paragraph 45; and

(d) not be displayed with more prominence than the subtotals and totals required in NZ IFRS for the statement(s) presenting profit or loss and other comprehensive income.

85B An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in NZ IFRS for such statement(s).

30. Users of the financial statements have told the IASB that separate presentation or disclosure of unusual or infrequently occurring items is helpful in making forecasts about future cash flows. Consequently, the IASB's preliminary view is that it should allow entities to present such items separately. However, to respond to concerns that entities are presenting unusual or infrequently occurring items inappropriately and/or inconsistently, the IASB is also of the preliminary view that a general disclosure standard should explain when and how items can be presented in the statement(s) of financial performance as unusual and/or infrequently occurring. [para 5.25]

31. The DP does not define the terms "unusual" and "infrequently occurring". However, the following definitions developed by IASB and FASB staff as part of the Financial Statement Presentation project would be used as a starting point:

Unusual: Highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which the entity operates.

Infrequently occurring: Not reasonably expected to recur in the foreseeable future given the environment in which an entity operates. [para 5.24]

Summary of feedback received

NZ Outreach Events

Develop definitions of, and requirements for, the presentation of unusual and infrequently occurring items:

- Most participants felt that this was the return of "extraordinary items" (back to the future!).
- General agreement that unusual or infrequently occurring items should not be separately presented or disclosed on the face of the financial statements.
- "Unusual" or "infrequently occurring items" should not be defined and required by IFRS Standards. Entities can present these outside the financial statements but need to reconcile back to IFRS/GAAP numbers.
- Rather than focusing on terms used, establish a requirement for full explanation and consistency around the use of these terms.

Prohibit use of terms such as non-recurring, special or one-off to describe unusual or infrequently occurring?

- General consensus was that these terms should not be used: one can never really say an item is one-off with any degree of certainty. Participants favoured providing an explanation of the item rather than using a term such as non-recurring.
- If want to show underlying profit, do so in the note and reconcile back to IFRS number, have this year and last year, don't change how measure is calculated from year to year – don't mislead investors by having underlying profit on the primary financial statements.
- Prohibition would be ineffective.

TRG

Develop definitions of, and requirements for, the presentation of unusual and infrequently occurring items:

- The lack of definitions causes issues but what is unusual or infrequently occurring depends on the facts and circumstances of the entity
- Entities adjust for these items currently so if they are brought back into GAAP, there would be some level of control
- One TRG member wanted disclosure in the relevant category or item rather than separate presentation on the face of the financial statements. It was noted that if the item is material, separate disclosure is required under NZ IAS 1 *Presentation of Financial Statements*.
- One TRG member noted that separate presentation would only make sense when expenses were presented by nature as unusual and infrequent relate to the nature of the expense

Australian outreach events

Develop definitions of, and requirements for, the presentation of unusual and infrequently occurring items:

- Participants were not supportive of the IASB defining unusual or infrequently occurring items.
- Participants generally expressed the view that entities should explain how measures have been determined, rather than by reference to a label such as "unusual", "infrequent", "recurring", "non-recurring" (i.e. hiding behind a label).
- For noting: it was generally agreed that should the IASB proceed in trying to define, and have requirements for, the presentation of unusually or infrequently occurring items, that principles-based definitions/requirements should be developed. In addition, if these items are adjusted/ separately disclosed on the statement of financial performance, they should also be consistently adjusted/separately disclosed on the statement of cash flows.

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Develop definitions of, and requirements for, the presentation of unusual and infrequently occurring items:

- Generally, no support for definitions and requirements for the presentation of unusual or infrequently occurring items.

Staff's preliminary response

Presentation of EBIT and EBITDA

- We do not believe it is necessary for the IASB to clarify when the presentation of EBIT and EBITDA provides a fair presentation. We believe the current requirements in paragraph 85A of IAS 1 ("…subtotals are comprised of line items…") are sufficient to ensure entities do not provide subtotals that disrupt the analysis of expenses. We would not expect an entity to provide an EBITDA subtotal when an entity uses the function of expense approach.

- An entity may disclose EBITDA adjacent to the statement(s) of financial performance when the function of expenses method is used. If an entity did this we note that it would be subject to the requirements proposed in the DP for the fair presentation of performance measures.

Presentation of unusual or infrequently occurring items

- We do not agree the IASB should develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items. We believe it is entity and industry specific as to what is considered unusual or infrequent and it would be difficult for the IASB to define these terms. Use the principle of fair presentation.

- We acknowledge information on unusual or infrequently occurring items is useful to users of financial statements (where they are genuinely unusual or infrequently occurring items). We suggest that the IASB, rather than focusing on the terms used, should establish principles for the fair presentation of these items. These principles could include requiring a full explanation of why the item is considered unusual or infrequently occurring and that entities need to ensure consistency around the use of these terms.

Question 9
The IASB's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34. Do you agree with the IASB's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Notes to the Board – fair presentation of performance measures

32. *For the purposes of the DP, the term "performance measure" refers to any summary financial measure of an entity's financial performance, financial position or cash flows. [summary of para 5.2].*

33. *The requirements listed in paragraph 32 below apply to <u>all performance measures</u> in the financial statements.*

34. *The IASB's preliminary view is that these requirements should require a performance measure to be:*

    (a) *displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS Standards;*

    (b) *reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated;*

    (c) *accompanied by an explanation in the notes to the financial statements of:*

        (i) *how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;*

        (ii) *why the adjustments to the most directly comparable measure specified in IFRS Standards in (b) have been made;*

        (iii) *if the reconciliation in (b) is not possible, why not; and*

        (iv) *any other information necessary to aid understanding of the measure (ie the information should provide a complete depiction – such an explanation would mean that entities would have to provide their rationale for making adjustments as well as a list of all adjustments).*

    (d) *neutral, free from error and clearly labelled so it is not misleading;*

    (e) *accompanied by comparative information for all prior periods presented in the financial statements;*

    (f) *classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1 – Paragraph 45 of IAS 1 requires an entity to retain the presentation and classification of items from one period to the next unless another presentation or classification would be more appropriate, having regard to the criteria in IAS 8, or if an IFRS Standard requires a change in presentation; and*

    (g) *presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited. [summary of para 5.34]*

Summary of feedback received

NZ Outreach Events

- Majority of participants agreed with the proposed requirements.
- Regulator concerned with APMs within financial statements.

TRG

- Sounds very similar to FMA guidance.
- Agreement that always should be able to reconcile APMs back to an IFRS number.

Australian outreach events

- Most participants agreed that performance measures can be useful and the IASB's proposed requirements, which are largely consistent with regulatory requirements, appear reasonable.
- Participants generally agreed that the only performance measures that should be on the face should be ones that can be sub-totalled/"pulled" directly from information on the face.
- All other performance measures should be in the notes, accompanied by clear labelling and reconciliation to IFRS Standards.

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- General agreement that performance measures can be useful and the IASB's requirements, which are largely consistent with requirements in RG230 Disclosing non-IFRS financial information, appear reasonable. As such, there was support for the approach suggested by the IASB.
- It was noted that whilst it was appropriate to allow entities to have flexibility to report performance measures that best tell their story, too much flexibility can lead to inconsistency and impair comparability between entities.
- It was also suggested that having non-IFRS performance measures within the financial statements (especially the face) under the current framework was not supported. However, if there was an accounting standard for performance measures, then that would be different

Staff's preliminary response

- We note the XRB undertook a survey to better understand how APMs are viewed and whether they are effective in meeting the needs of users of financial reports in New Zealand.[5] Results of the survey were published by the XRB in July 2017, and we have attached to this submission a copy of both the summary of the survey and the full report. The survey supports the views expressed by the IASB in the DP that most users have said that performance measures presented in, or disclosed adjacent to, the primary financial statements, are useful if they are fairly presented.
- One of the requirements in paragraph 5.34 of the DP is that a performance measure should be reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated. However, paragraph 5.34 then goes on to say that if the reconciliation is not possible, the notes must contain an explanation of why not. We do not agree with paragraph 5.34(c)(ii), we

[5] https://www.xrb.govt.nz/dmsdocument/2317

think that if the reconciliation cannot be done, then the performance measure should not be presented in the financial statements.

- We have concerns that the definition of "performance measure" in paragraph 5.2 of the DP is too broad. As currently defined this would capture measures defined in IFRS Standards, and line items (including total and sub-totals) presented on the face of the statement of financial position, statement(s) of financial performance, statement of changes in equity or statement or cash flows that are not specifically defined by IFRS Standards. This broad definition could inadvertently lead to more disclosures in the financial statements.

- We note that the FMA (NZ Regulator) has recently published updated guidance on disclosing non-GAAP financial information outside of the financial statements.[6] The principles in the guidance are very similar to those requirements proposed in the DP for the fair presentation of performance measures.

- In table 1 below we have provided a comparison of the requirements from the FMA guidance published on the 14 July 2017 on "Disclosing non-GAAP financial information" with the proposed requirements for the presentation of performance measures contained in the DP. Note that the FMA guidance is directed at non-GAAP financial information disclosed outside the financial statements.

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[6] https://fma.govt.nz/assets/Guidance/_versions/3406/120901-guidance-note-disclosing-non-gaap-financial-information.2.pdf

Table 1: Comparison of the Guidance on presenting non-GAAP financial information issued by the FMA versus requirements for all performance measures in the financial statements as proposed in the DP.	
DP [ref paragraph 5.34]	**FMA** **Footnotes shown in []**
The IASB's preliminary view is that these requirements should require a performance measure to be:	Principle is in bold and the explanation follows
	Defining the non-GAAP financial information *Definition* Entities should define non-GAAP financial information and support it with a clear explanation of the basis of calculation.
	Defining the non-GAAP financial information *Clear labelling* Entities should clearly label non-GAAP financial information in a way that distinguishes it from GAAP financial information. The term or label should accurately describe and reflect the non-GAAP financial information. For example, it is not appropriate to label a measure as EBITDA if it excludes items which are not interest, tax, depreciation or amortisation. The term or label should not cause confusion with GAAP information.
	Defining the non-GAAP financial information *Use of non-GAAP financial information* Entities should make a statement that the non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. You should also disclose whether the non-GAAP financial information has been subject to audit or review [we do not consider non-GAAP financial information to have been subject to audit or review merely by virtue of the adjustment or component being taken from audited or reviewed financial statements].
(a) displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS Standards;	**Prominence** Entities should not present non-GAAP financial information with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information.
	Prominence When presenting non-GAAP financial information, entities should not in any way confuse or obscure presentation of GAAP financial information.

(b) reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated;	**Reconciliation** Entities should provide a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information. [An entity may disclose a reconciliation in each document where non-GAAP financial information is disclosed, or, make a direct reference to where this information is available. If an entity provides the reconciliation by reference, the reconciliation must be easily and readily accessible].
	Reconciliation If reconciling items that are components of GAAP financial information, entities should identify them in the financial statements.
	Reconciliation If you cannot extract a reconciling item directly from the financial statements, you should show how the number is calculated in the accompanying notes.
	Reconciliation If presenting comparative non-GAAP financial information for a previous period, entities should provide reconciliation to the corresponding GAAP financial information for that previous period.
(c) accompanied by an explanation in the notes to the financial statements of:	
(i) how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;	**Defining the non-GAAP financial information** *Use of non-GAAP financial information* Entities should clearly explain the reasons for presenting the non-GAAP financial information, including why the information is useful to investors and how it is used internally by management. [Note for for-profit FMC reporting entities: NZ IFRS 8 *Operating Segments* requires disclosure of profit or loss for segments based on the measure reported internally to management. This may be different to the profit calculated in accordance with statutory financial reporting requirements. In most cases, we expect that any non-GAAP profit information disclosed will not differ from the segment reporting disclosures in the financial statements. If the non-GAAP profit information is disclosed and if differs from the segment reporting disclosures in the financial statements, an explanation should be included justifying this difference. No explanation is required if the differences comprise only normal inter-segment eliminations or corporate expense allocations].
(ii) why the adjustments to the most directly comparable measure specified in IFRS Standards in (b) have been made;	See above
(iii) if the reconciliation in (b) is not possible, why not; and	

(iv) any other information necessary to aid understanding of the measure (i.e. the information should provide a complete depiction), [Footnote: Such an explanation would mean that entities would have to provide their rationale for making adjustments as well as a list of all adjustments]	**Reconciliation** Entities should itemise and explain each significant adjustment separately.
(d) neutral, free from error and clearly labelled so it is not misleading	**Unbiased** Non-GAAP financial information should be unbiased. Entities should not use it to avoid presenting adverse information to the market or to over-emphasise favourable information.
(e) accompanied by comparative information for all prior periods presented in the financial statements	**Consistency** When presented, entities should also provide non-GAAP financial information for comparative periods.
(f) classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1; and [footnote: Paragraph 45 of IAS 1 requires an entity to retain the presentation and classification of items from one period to the next unless another presentation or classification would be more appropriate, having regard to the criteria in IAS 8, or if an IFRS Standard requires a change in presentation]	**Consistency** If an entity chooses to present non-GAAP financial information, a consistent approach should be adopted from period to period.
	Consistency If there has been a change in approach from the previous period, and explanation about the nature of the changes, entities should provide the reasons for the change, and the financial impact of the change.
(g) presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited.	**Defining the non-GAAP financial information** *Use of non-GAAP financial information* You should also disclose whether the non-GAAP financial information has been subject to audit or review.

- Based on the comparison in table 1 above, we note the following.
  - The principle from the FMA guidance on "Defining the non-GAAP financial information" is relevant to the discussion in section 4 of the DP on non-IFRS information in the financial statements. Clearly identifying such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited are part of the proposed requirements in that section.
  - We suggest the IASB consider including the following principles/explanations from the FMA guidance.
    - When presenting performance measures, entities should not in any way confuse or obscure presentation of line items, subtotals and totals in the primary financial statements required by IFRS Standards; and
    - When requiring an explanation of how the performance measure provides relevant information add the following examples: why the information is useful to investors and how it is used internally by management.

Section 6—Disclosure of accounting policies

Question 10

The IASB's preliminary views are that:
• a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
• the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
    • the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
    • the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.
(a) Do you agree with the IASB's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?
(b) Do you agree with the IASB's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?
If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Notes to the Board – disclosure of accounting policies

35. *The IASB's preliminary view is that accounting policies should be considered significant, and therefore be disclosed in accordance with paragraph 117 of IAS 1 if their disclosure is necessary for the primary users of the financial statements to understand the information in the financial statements. During its discussions, the IASB identified three categories of accounting policies. [para 6.11]*

36. *Category 1—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:*

    (a) *those that have changed during a reporting period because the entity either was required to or chose to change the policies;*

    (b) *those chosen from alternatives allowed in IFRS Standards, for example, the option to measure investment property at either cost or fair value;*

    (c) *those developed in accordance with IAS 8* Accounting Policies, Changes in Accounting Estimates and Errors *in the absence of an IFRS Standard that specifically applies; and*

(d) *those for which an entity is required to make significant judgements and/or assumptions as described in paragraphs 122 and 125 of IAS 1 in applying the accounting policy. These accounting policies are not necessarily the same as the accounting policies that require a significant number of accounting estimates (as defined in IAS 8) to be used in applying the accounting policy.*

The IASB's preliminary view is that Category 1 accounting policies should be disclosed. [para 6.12]

37. *Category 2—accounting policies that are not in Category 1, but also relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature. The IASB's preliminary view is that disclosure of these accounting policies is necessary because the related information is material and the primary users of financial statements are not expected to be IFRS experts (Paragraph 2.35 of the* Conceptual Framework *Exposure Draft states that "Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently"). If Category 2 accounting policies are not disclosed, users of the financial statements who are unfamiliar with IFRS requirements would need to consult IFRS Standards in order to understand the financial statements. For example, measurement of a deferred tax liability for prepaid expenses in accordance with IAS 12* Income Taxes *would not typically be a Category 1 accounting policy for most entities. Therefore, the accounting policy for deferred tax liabilities would be a Category 2 accounting policy if the entity has a material deferred tax liability for prepaid expenses. [para 6.13]*

38. *Category 3—any other accounting policies used by an entity in preparing the financial statements and not included in Categories 1 or 2. These relate to items, transactions or events that are not material to the financial statements. The IASB's preliminary view is that disclosing such accounting policies is unnecessary for the primary users to understand information in the financial statements. [para 6.14]*

39. *Accounting policies that are not used by an entity in preparing the financial statements should not be disclosed because such disclosures offer no benefit to users and can make the financial statements more difficult to understand. [para 6.15]*

40. *Having considered the three categories in paragraphs 6.12-6.14, the IASB's preliminary view is that a general disclosure standard should:*

    (a) *explain the objective of providing accounting policy disclosures to help entities better understand which accounting policies to disclose, and why. The objective of disclosing accounting policies in the financial statements is to provide an entity-specific description of accounting policies that:*

        (i) *have been applied by the entity in preparing its financial statements; and*

        (ii) *are necessary for an understanding of the financial statements.*

(b) *describe the three categories of accounting policies and clarify that the entity is required to disclose only those policies necessary for an understanding of the financial statements (ie Categories 1 and 2).*

(c) *explain that an entity is not required to disclose Category 3 accounting policies. In addition, entities should not allow disclosure of any Category 3 accounting policies to obscure material information or to make the financial statements more difficult to understand. [para 6.16]*

Summary of feedback received

NZ outreach events

- Agree improvements needed to the disclosure of accounting policies.
- Entity-specific information in plain English would be welcomed by users of financial statements.
- Is there a need for categories, or is this just another way of saying apply materiality?
- Agree that Category 1 accounting policies should always be disclosed – important for users to know if judgement applied in application of the accounting policy or a choice is made.
- Mixed views on the disclosure of Category 2 accounting policies.
- Consensus that immaterial accounting policies (Category 3 accounting policies) should not be disclosed.
- Highlight key judgements maybe by placing them upfront in a separate section.
- The suggestion was made that Category 2 accounting policies could be placed on the entity's website.

TRG

- Agree that Category 1 accounting policies should always be disclosed.
- Non-accountants who are not familiar with IFRS Standards would need the Category 2 accounting policies. Suggested that these accounting policies could be summarised at the back of the notes.
- Strong view that Category 2 accounting policies should always be disclosed.
- The DP does not cover the different means of delivery, which could include, for example, a hyperlink to a website for the accounting policies.

Australian outreach events

- Most participants supported having all material accounting policies disclosed.

- Category 2 accounting policies may be cross-referenced to an "accounting policy" note on the entity's website (similar to approach taken by entities with respect to risk and governance frameworks).

Staff's preliminary response

Question 10(a)

- Improvements are needed to the disclosure of accounting policies in the financial statements.
  - Often accounting policies are written poorly, boilerplate (not-entity specific) language is used and irrelevant/immaterial information is disclosed.
- Agree that the disclosure of accounting policies in Category 3 (immaterial accounting policies) should not be required.
- Agree that the disclosure of accounting policies in Category 1 (material accounting policies where the entity has made a choice between alternatives or applied significant judgements/assumptions) should be required in the financial statements.
- Received mixed views from New Zealand constituents as to whether disclosure of accounting policies in Category 2 should be required.
  - Those that support only requiring disclosure of accounting policies in Category 1 observed that users are interested in understanding where/how accounting policies differ between entities, rather than "standard" IFRS requirements.
  - Those that support disclosure of accounting policies in both Category 1 and Category 2 believe disclosure of all material accounting policies is necessary for the financial statements to be understandable as a standalone document by users who are not familiar with the requirements of IFRS Standards.
- We are concerned that the need for entities to distinguish between accounting policies in Category 1 and Category 2 could create unnecessary confusion and/or complexity.
- We believe that the disclosure of all material accounting policies should be required (both Category 1 and Category 2) and that many of the disclosure concerns regarding accounting policies could be addressed through improved application of materiality by preparers.
  - Recommend that the IASB focus on adding more prominence to the need for preparers to apply materiality when disclosing accounting policies.
  - While we acknowledge the forthcoming IASB *Materiality Practice Statement* will provide guidance for preparers in applying materiality, we recommend that the IASB consider amendments to IAS 1 to require the disclosure of <u>material</u> accounting policies, as opposed to <u>significant</u> accounting policies. We believe that this would remove confusion regarding the meaning of significant and would place greater emphasis on the application of materiality when making accounting policy disclosures.

- We do not believe that the distinction between disclosures of accounting policies in Category 1 and Category 2 is entirely redundant.
  - It may be beneficial for an entity to make such a distinction in its financial statements, for example an entity may wish to group its accounting policy disclosures by such categories in its financial statements, and potentially cross-reference accounting policies in Category 2. Some New Zealand constituents support permitting cross-referencing of accounting policies in Category 2 to the company website. While we acknowledge that such groupings could be helpful to users, we do not believe that grouping accounting policies by category should be mandatory.

Notes to the Board – location of accounting policies

41. The IASB's preliminary view is that it should provide guidance that:

(a) sets out alternatives for where accounting policies could be disclosed; and

(b) explains that entities should disclose information about significant judgements and assumptions adjacent to the disclosures about the related accounting policies, unless the entity judges that another way of organising them is more appropriate because it improves the understandability of the financial statements.

The IASB has not yet formed a preliminary view about whether to include this guidance in a general disclosure standard or in non-mandatory guidance (or in a combination of both). [para 6.21]

Summary of feedback received

NZ outreach events

- Support for locating the accounting policies with the note on the underlying numbers, rather than having the accounting policies located in a separate section at beginning of the notes.
- The IASB needs to think outside the paper version of financial statements as some entities are now producing digital interactive reports.

Staff's preliminary response

Question 10(b)

- We do not believe that additional guidance is needed regarding the location of accounting policies.
  - We believe that paragraphs 113-114 of IAS 1 contain sufficient guidance regarding the ordering and grouping of the notes.

113	**An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any**

related information in the notes.

114 Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

(i) statement of compliance with IFRSs (see paragraph 16);

(ii) significant accounting policies applied (see paragraph 117);

(i) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(ii) other disclosures, including:

(1) contingent liabilities (see NZ IAS 37) and unrecognised contractual commitments, and

(2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see NZ IFRS 7).

- We do not agree with the IASB's preliminary view that significant judgements and assumptions should be disclosed adjacent to the related accounting policies.
  - We have heard that some users of financial statements prefer information about significant judgements and assumptions to be located in a separate section at the front of the notes.
  - Therefore, we do not think that the IASB should restrict an entity from providing disclosures of significant judgements and assumptions in a format that may better reflect the needs of its users.

Section 7—Centralised disclosure objectives

Question 11
The IASB's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes. Centralised disclosure objectives could be used by the IASB as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements. Do you agree that the IASB should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

Notes to the Board – centralised disclosure objectives

42. Centralised disclosure objectives could be used as an underlying basis (or framework) for developing and organising disclosure objectives and requirements in Standards that are better linked to the objective of financial statements and the role of the notes. They would also:

(a) provide a transparent basis for the IASB to develop new disclosure objectives and requirements or to review existing ones, which would promote consistency across disclosure objectives and requirements in Standards;

(b) help the IASB to develop more focused disclosure requirements in Standards, each one designed to help to address the centralised disclosure objectives;

(c) help entities understand the basis for disclosure objectives and requirements in Standards and judge what information users need; and

(d) encourage all stakeholders to make disclosure decisions on the basis of disclosure objectives that focus on the needs of the users of the financial statements, rather than to use disclosure requirements as a checklist. [Paragraph 7.10]

43. The IASB's preliminary view is that centralised disclosure objectives should be developed and included in an IFRS Standard rather than, for example, solely in a guide used by the IASB for drafting Standards. This would:

(a) make the objectives authoritative and more visible;

(b) ensure that the centralised disclosure objectives are considered for transactions that are not addressed specifically by disclosure objectives in individual standards; and

(c) help entities identify what additional information to include in the financial statements beyond that prescribed by specific IFRS Standards in order to comply with the requirements in IAS 1 Presentation of Financial Statements *about additional information. [Paragraph 7.11]*

Summary of feedback received

TRG

- *Agreement the IASB should develop centralised disclosure objectives.*

Australian outreach events

- *Confusion about what the IASB wanted from this section – was it to help themselves as standard setters or to help preparers?*
- *Preparers should take a top down approach to consider what is material and significant.*
- *IASB to continue to provide minimum disclosure subject to materiality to provide entities with some direction towards satisfying disclosure objectives.*

Staff's preliminary response

- Agree the IASB should develop centralised disclosure objectives (for the reasons given by the IASB in paragraph 7.10 of the DP).

Question 12
The IASB has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards: • focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or • focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B). (a) Which of these methods do you support, and why? (b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section. Methods A and B are in the early stages of development and have not been discussed in detail by the IASB. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Notes to the Board – methods to develop centralised disclosure objectives

44. Under Method A, the first step in developing centralised disclosure objectives would be to identify what types of information are useful to the primary users of the financial statements about an entity's assets, liabilities, equity, income and expenses. The IASB discussed, but did not form any preliminary views about, the following list of types of information that could be used as the basis for developing centralised disclosure objectives.

Information about:

(a) the reporting entity, for example, information about the entity's activities;

(b) methods, assumptions and judgements, for example, information about an entity's significant accounting policies;

(c) items included in the primary financial statements, for example, further disaggregation of line items;

(d) unrecognised items, for example, information about their nature and effect;

(e) risks and other uncertainties, for example, information about hedging and other forms of risk mitigation;

(f) management's stewardship, for example, information about management compensation and other transactions with management; and

(g) events after the end of the reporting period, for example, information about their nature and effect.

To illustrate, an example of a centralised disclosure objective that could be used for (e) might be:

> Disclose information about risks and other uncertainties to help users to understand and evaluate how risks and other uncertainties might affect the entity's financial position, financial performance and cash flows.

[Summary of paragraphs 7.15 and 7.17]

45. *Method B would develop centralised disclosure objectives to address information about the following activities of an entity with the aim of providing information that helps users of financial statements assess both prospects for future net cash inflows and management's stewardship*

(a) its operating and investing activities, including information about operating capacity, operating segments, and business combinations.

(b) its financing activities, including information about liquidity and solvency, capital structure and capital management.

(c) discontinued operations; and

(d) taxation.

[Paragraph 7.25]

46. *The IASB has not discussed the development or application of Methods A and B, or other methods, in detail. The description of the methods is therefore intended to generate discussion about how centralised disclosure objectives might be developed, rather than to provide a*

comprehensive explanation about how these methods would be applied by the IASB. [Paragraph 7.14]

Summary of feedback received

Australian outreach events

- *Most participants agreed key issues underlying disclosures are behavioural. Therefore, uncertainty how any of the methods proposed by IASB would help.*
- *IASB should not specify method A or method B – both should be allowed.*

Staff's preliminary response

- We do not consider that Method B has been sufficiently developed to allow us to make an informed decision regarding which method we support.
- While we acknowledge that the IASB will need to identify an appropriate method to develop centralised disclosures objectives, we do not believe that the IASB should restrict an entity from grouping information in the notes to one particular method. We believe that such a restriction could limit an entity's ability to tell its story.

Question 13
Do you think that the IASB should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

Notes to the Board – location of disclosure objectives and requirements

47. The IASB has not discussed in detail, at this stage, the possibility of locating all disclosure objectives and requirements in IFRS Standards within a single Standard or set of Standards for disclosures. Such a Standard could also incorporate the principles of disclosure discussed in the IASB DP. The IASB might revisit the possibility of a single Standard for disclosures after it has considered the feedback received on this Discussion Paper. [Paragraph 7.38]

Summary of feedback received

TRG

- Acknowledged the pros and cons of both options, preference expressed for disclosures to be by standard.
- Having disclosures in one standard would be a discipline on the standard setters – eliminate duplication of disclosures.

Australian outreach events

- Participants generally preferred "grouping" of disclosure requirements like AASB 7 *Financial Instruments: Disclosures* and AASB 12 *Disclosure of interests in Other Entities*.

Staff's preliminary response

- We do not support locating all disclosure objectives and requirements in a single IFRS Standard.
  - We acknowledge the advantages of locating all disclosure objectives and requirements in a single IFRS Standard, for example, it would encourage more discipline in how the IASB sets disclosure requirements, because all disclosure requirements would be considered in relation to each other, instead of the focus being on an individual standard.
  - However, we do not believe that the benefits of locating all disclosure objectives and requirements in a single IFRS Standard exceed the benefits of locating disclosure objectives and requirements with the related recognition and measurement requirements.
  - We believe that locating disclosure objectives and requirements with the related recognition and measurement requirements provides relevant context to disclosures which can assist the IASB in developing disclosures requirements and preparers in applying judgements around disclosures.
- While we are not in support of locating all disclosure objectives and requirements in a single IFRS Standard, we believe that in some situations, it may be appropriate/useful to group disclosures by related topic, for example, the approach taken with IFRS 12 *Disclosure of Interests in Other Entities* as identified in the DP or IFRS 7 *Financial Instruments: Disclosures*.

Section 8—New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

The feedback on Questions 14–15 will inform the IASB's Standards-level Review of Disclosures project (see paragraph 1.16(c)).

Question 14
This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards. (a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)? (b) Do you think that the development of such an approach would encourage more effective disclosures? (c) Do you think the IASB should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not? Note that the IASB is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the IASB is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Notes to the Board – NZASB staff's approach to drafting disclosure requirements

48. *The main features of the NZASB staff's approach are:*

(a) *the inclusion of disclosure objectives, comprising an overall disclosure objective for each Standard and more specific disclosure subobjectives for each type of information required to meet that overall disclosure objective;*

(b) *the division of disclosure requirements into two tiers, with the amount of information to be disclosed depending on the relative importance of an item or transaction to the reporting entity and the extent of judgement required in accounting for the item or transaction. The two tiers are:*

(i) *summary information, intended to provide users with an overall picture of the effect of the item or transaction. All entities would be required to disclose this information, subject only to materiality considerations (tier 1 disclosures); and*

(ii) *additional information, which an entity would consider disclosing if that information is necessary to meet the overall disclosure objective in the Standard (tier 2 disclosures).*

(c) *greater emphasis on the need to exercise judgement when deciding how and what to disclose to meet the disclosure objectives; and*

(d) less prescriptive wording in disclosure requirements.

[Paragraph 8.2]

Summary of feedback received

NZ Outreach Events

- Provides a good framework to develop and apply disclosures.
- General agreement that having disclosure objectives is beneficial.
- Agreement with emphasis on use of judgement.
- General agreement with using less prescriptive language.
- Concerns around the two tiers of disclosure requirements.

TRG

- Agreement should support approach.
- Noted that applying materiality under current requirements should result in similar outcome.

XRAP

- Supportive of approach, agreed entities need to use their judgement when deciding what information to disclose.
- Concerns that the two tiers may result in lack of consistency and comparability.
- Guidance needed to assist entities applying judgement to disclosures.

Staff's preliminary response

Question 14(a)

Overall

- Overall, we support the development of a unified and consistent approach to drafting disclosure requirements in IFRS Standards, which emphasises the application of judgement.

Disclosure objectives

- We support the development of disclosure objectives and subobjectives when drafting disclosure requirements in IFRS Standards.
    - The inclusion of objectives and subobjectives which explain why users need particular types of information will: (i) help preparers better understand the objective of a disclosure requirement and assist in applying judgement when deciding what information to disclose; and (ii) impose a greater level of discipline on the IASB when drafting disclosure requirements.

- We have received feedback from New Zealand constituents that in order for disclosure objectives and subobjectives to be useful they cannot be drafted in generic terms.

Tiers of disclosure requirements

- We support having two tiers of disclosure requirements.
    - Firstly, the two-tier approach provides a balance between ensuring a level of comparability between entities (through tier 1 disclosure requirements) and providing the flexibility for entities to apply judgement to determine relevant information to disclose (through tier 2 disclosure requirements).
    - Secondly, we believe that the two-tier approach, compared with the current drafting of disclosure requirements, better encourages preparers to exercise judgements about materiality when making disclosures.
- We acknowledge the following concerns raised by New Zealand constituents with the two-tier approach.
    - It may be difficult for the IASB to distinguish between summary and additional information, therefore making the approach difficult to operationalise.
    - Some felt that having two tiers of disclosure requirements was unnecessary, as they considered the proper application of materiality to one set of disclosures requirement could result in a similar outcome.
    - The two-tier approach requires more time and effort to apply than a more prescriptive disclosure approach.
    - The two-tier approach allows entities too much flexibility and will lead to a loss in comparability between entities.

Emphasis on need to exercise judgement

- We strongly support the inclusion of paragraphs to emphasise the use of judgement.
    - We consider behavioural issues in applying judgement to be a significant contributor to the disclosure problem. We believe that emphasising the use of judgement through the inclusion of such paragraphs will help to encourage preparers to apply judgement.
    - Our preference would be for these paragraphs to be included in each standard that contains disclosure requirements, rather than just in a general disclosure standard. While this will result in repetition we believe that the benefit of greater visibility will exceed the cost of repetition.

<u>Less prescriptive language</u>

- We support the use of less prescriptive language when drafting disclosure requirements.
  - o We have received feedback from New Zealand constituents that the use of "shall' is interpreted by some stakeholders as implying that materiality does not apply.
  - o We believe that the use of less prescriptive language would help dispel this misunderstanding and lead to less irrelevant disclosures being made in the financial statements.

Question 14(b)

- As noted in our response in Section 1, we consider that behavioural issues in applying judgement may play a greater role in contributing to the disclosure problem, rather than existing requirements.
- We think that the development of the NZASB staff's approach would encourage more effective disclosures as a result of:

  (a) drafting disclosure requirements that are more focused on the information needs of users through the development of disclosure objectives and subobjectives; and

  (b) encouraging preparers to apply judgement through the use of less prescriptive wording and the inclusion of paragraphs emphasising the use of judgement.

  We also believe that this approach will help drive a positive change in behaviour from wider stakeholders, which will give preparers greater confidence to exercise judgement.

Question 14(c)

- We think that the IASB should consider the NZASB staff's approach in its Standards-level Review of Disclosures project, for the reasons identified in our response to question 14(a) and (b) above.

Question 15
Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the "disclosure problem", as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4). Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives. Do you think the way the IASB currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

Notes to the Board – drafting of disclosures in IFRS Standards

49. Entities need to use judgement when deciding what information to disclose in their financial statements and the most effective way to organise and communicate that information. The IASB has received feedback that the main difficulties in applying judgement are behavioural). The IASB has also received feedback that IFRS Standards might discourage use of judgement in the following ways:

(a) some standards lack clear disclosure objectives, making the purpose of some disclosure requirements unclear. This makes it difficult for entities to apply judgement and decide what information to disclose.

(b) some disclosure requirements use overly prescriptive language, for example, "shall disclose" and "at a minimum". This wording might give the impression that the specific disclosures must be provided, regardless of whether the information is material, and might be seen to encourage a checklist approach to preparing the financial statements.

[Paragraph 8.4]

Staff's preliminary response

Question 15

- We think that the way the IASB currently drafts disclosure requirements in IFRS Standards has contributed to the disclosure problem.
    - As noted by the IASB in the DP and discussed in our response to question 14, we consider the lack of clear disclosure objectives and the use of prescriptive language as contributing factors to the disclosure problem.
- [Does the Board want us to identify specific examples of where drafting in standards could be improved? If yes, does the Board have any examples in mind?]

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Vanessa Sealy-Fisher and Tim Austin
Subject:	**For-profit RDR**

Action required[1]

1. This agenda item provides a high-level summary of the feedback received on all of the questions in the Invitation to Comment which accompanied ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* (ED NZASB 2017-1). The focus at this meeting is on Questions 1–3 and 5–8, which deal with the proposed RDR-decision-making framework, the Board's approaches to the disclosure of accounting policies and the inclusion of paragraphs which contain guidance or cross-references, and the method of identifying RDR.

2. A detailed analysis of the responses to the individual disclosures and concessions proposed (Question 4) and a proposed effective date (Question 9) will be tabled at a future meeting for consideration.

3. The Board is asked to:

   (a) NOTE the high-level summary of the feedback received on ED NZASB 2017-1 and AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (AASB ED 277);

   (b) DECIDE whether to progress this project and, if so, AGREE the next steps for working jointly with the Australian Accounting Standards Board (AASB) and

   (c) AGREE that no further action is required regarding Questions 5–8 in the Invitation to Comment.

Background

4. The Board issued ED NZASB 2017-1 and its accompanying Invitation to Comment (ITC) in January 2017. Comments were due by 29 May 2017. The Board received eight submissions.

5. The EDs proposed a joint AASB/NZASB Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand and, as a consequence, amendments to the current disclosure requirements for Tier 2 for-profit entities.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

6. Feedback on the proposals in ED NZASB 2017-1 was sought from the Technical Reference Group (TRG) at its February meeting. The matters raised by members of the TRG have been included in the submissions received from TRG members.

7. Although a webinar was presented before the May Board meeting, no feedback on the proposals was received during that webinar.

8. The AASB issued AASB ED 277 in January 2017. Comments were due by 26 May 2017. The AASB received 14 submissions. The AASB also conducted three roundtables and presented a webinar.

9. In this memo, ED NZASB 2017-1 and AASB ED 277 are referred to as "the EDs" when comments apply to both documents.

Structure of this memo

10. The remainder of this memo is set out as follows:
    (a) submissions received;
    (b) overview of the feedback received;
    (c) a summary of responses by question;
    (d) next steps; and
    (e) recommendations.

Submissions received

11. Submissions on ED NZASB 2017-1 have been received from the following respondents.

	Respondent	Role
NZR1	BDO New Zealand	Professional Services Firm
NZR2	CA ANZ	Professional Body
NZR3	EY New Zealand	Professional Services Firm
NZR4	Audit New Zealand (in consultation with OAG);	Public Sector Auditor
NZR5	Audit New Zealand – Tax Director	Public Sector Auditor
NZR6	CPA Australia	Professional Body
NZR7	KPMG New Zealand	Professional Services Firm
NZR8	Financial Markets Authority (FMA)	Regulator

12. Submissions on AASB ED 277 have been received from the following respondents.

	Respondent	Role
AR1	John Church	Not-for-Profit consultant
AR2	Heads of Treasuries Accounting and Reporting Advisory Committee	Public Sector Advisory Committee
AR3	Keith Reilly	Not-for-Profit consultant

	Respondent	Role
AR4	Australian Charities and Not-for-Profit Commission	Not-for-Profit Private Sector Regulator
AR5	PWC	Professional services firm
AR6	CA ANZ	Professional Body
AR7	Australasian Council of Auditors-General	Public Sector Advisory Committee
AR8	BDO Australia	Professional services firm
AR9	CPA Australia	Professional Body
AR10	Australian Institute of Company Directors	Professional Body
AR11	Grant Thornton	Professional Services Firm
AR12	The Institute of Public Accountants	Professional Body
AR13	EY	Professional services firm
AR14	KPMG	Professional services firm

13. The New Zealand submissions are included at agenda items 9.3.1–9.3.8 in the supporting documents. Responses, collated by question, are set out in agenda item 9.2 in the supporting documents.

14. The Australian submissions are available on the AASB website at http://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx?id=2061.

15. The NZASB received eight comment letters and the AASB received 14 comment letters. Two respondents, NZR2/AR6 (Chartered Accountants Australia and New Zealand) and NZR6/AR9 (CPA Australia) responded identically to the questions relevant for both Boards. Respondent NZR3/AR13 (EY) responded identically to AASB question 7/NZASB question 4, which sought feedback on the detailed disclosure requirements and disclosure concessions in Australian Accounting Standards/NZ IFRS, and consistently on all the other questions relevant for both Boards.

16. NZR5 (Audit New Zealand Tax Director) responded only to the proposals in NZ IAS 12 *Income Taxes*. NZR6/AR9 expressed general support for Questions 2–10 rather than responding to those questions. NZR8 (FMA) expressed general comfort with the overall policy framework and key disclosure areas, in particular the disclosures around solvency and liquidity and related party disclosures.

Overview of the feedback received

17. This memo provides a high-level overview of the comments received from respondents. Some comments have been paraphrased or combined. In order to gain a full understanding of respondents' comments it is necessary to read the complete submissions.

18. The responses to the EDs indicate support for the proposed Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand. However, several respondents provided suggestions for improving the RDR framework and requests have also

been made for the Boards to reconsider the outcome of the application of the RDR framework to the disclosures in Australian Accounting Standards/NZ IFRS.

19. Some respondents disagreed with the proposed RDR framework, mainly on the basis that there were no significant reductions to the disclosures currently required under RDR.

Summary of responses by question

> **NZASB Question 1/AASB Question 1**
>
> Do you agree with the overarching principles on which the proposed RDR decision-making framework is based (that is, user needs and cost-benefit)? If you disagree, please explain why.

20. Six NZ respondents and 13 Australian respondents answered this question. We have classified the responses as:[2]

	New Zealand		Australia	
Agree	(NZR1, NZR2, NZR3, NZR4, NZR6 and NZR7)	6	AR2–AR14	13
No response	(NZR5 and NZR8)	2	AR1	1

21. Most respondents agree with the overarching principles on which the proposed RDR decision-making framework (RDR framework) is based (that is, user needs and cost-benefit). Some respondents sought further explanation and clarification on those overarching principles.

22. Comments from respondents included the following.

(a) Recommendations that the framework explain the definition of financial statement users that was used in developing and applying the framework (NZR4) and "user needs" is further elaborated upon (including the users of charity financial reports) (NZR6, AR4 and AR9) and includes requirements for transparency and good governance (AR12).

(b) Some guidance or examples to illustrate or explain the type of factors that will be considered when assessing 'cost-benefit' and 'user needs' would be useful (NZR7).

(c) Benefits needs to be clearly defined as a benefit to a preparer through reduced cost which may be a detriment to a user through reduced information, and vice versa (AR4).

(d) The decision on RDR concessions are determined at an overall level but materiality is entity specific. We suggest that there is clarification of how the RDR framework interacts with the assessment of materiality at the entity level (that is, notwithstanding the disclosure concessions, preparers of financial statements are still responsible to ensure the financial statements include disclosures necessary for users to understand

[2] There is judgment involved in classifying a response as "Agree" or "Partially agree". The classifications that we have applied are shown in agenda item 9.2.

the impact of material/significant transactions and events on the financial position and performance of the entity) (NZR7).

23. We note that the Conceptual Framework identifies potential investors, lenders and other creditors as the primary users of financial statements (paragraph OB5) and discusses the cost constraint on useful financial reporting (paragraphs QC35–QC39). Paragraphs BC44–BC47 of the Basis for Conclusions on the IFRS for SMEs Standard also discusses user needs and cost-benefit considerations.

NZASB Question 2/AASB Question 2
Do you agree with the two Key Disclosure Areas identified as being essential to meet user needs? If you disagree with either Key Disclosure Area (including any of the specific disclosures about transactions and other events significant or material to understanding the entity's operations as represented by the financial statements), please explain which one(s) you disagree with and why?

24. Six NZ respondents and 13 Australian respondents answered this question. We have classified the responses as:

	New Zealand		**Australia**	
Agree	(NZR1, NZR3 and NZR6)	3	(AR3, AR5, AR9, AR11, AR13, and AR14)	6
Partially agree	(NZR2, NZR4 and NZR7)	3	(AR2, AR4, AR6 and AR7)	4
Disagree	-	-	(AR8, AR10 and AR12)	3
No response	(NZR5 and NZR8)	2	(AR1)	1

25. Most respondents agree or partially agree, with the Key Disclosure Areas identified in the proposed RDR Framework. However, many respondents suggested modifications to the structuring of the KDAs.

26. Three New Zealand respondents encouraged the Board to develop a similar framework for Tier 2 public benefit entities (PBEs) (NZR1, NZR3 and NZR4). In light of these comments, we have included feedback from Australian respondents who are involved with public sector and private sector not-for-profit entities.

27. Comments from respondents included the following.

    (a) The specific areas of disclosure identified for the latter KDA encompass those disclosures related to significant or material transactions or events that are likely to be most useful to users of the financial statements of Tier 2 entities (NZR3/AR13).

    (b) The use of the rebuttable presumptions is an appropriate way of operationalising the RDR decision-making framework but the assessment of cost versus benefits, and therefore determining when the presumptions are rebutted, will inevitably involve a degree of judgement (NZR3/AR13).

(c) Several respondents provided suggestions for restructuring the KDAs, which included (i) having three KDAs, comprising the first KDA and splitting the second KDA into general disclosures and specific disclosures, (ii) removing some of the specified disclosures because they are effectively covered by another disclosure (NZR1, NZR2, AR6 and AR8), and (iii) including the framework under which the financial statements are prepared and structure of the group explicitly within the KDAs (AR2).

(d) The requirements of the Disclosure Initiative should be linked into the discussion. If the requirements of the Disclosure Initiative are not addressed in this section of the Framework, users may find it difficult to determine when a particular issue that falls within the areas of (b)(v)–(vii) could be considered not material for disclosure purposes (NZR1).

(e) The wording "current liquidity and solvency" may put too much focus on short-term information and exclude appropriate focus on longer term financial viability. Recommend that the KDA be renamed along the lines of "liquidity, solvency and ongoing financial viability of the entity" (NZR4).

(f) AR4 expressed concern regarding the limited scope of users consulted to identify 'user needs' and to develop the Key Disclosure Areas and recommended that further outreach be undertaken, in particular users representing charities and the not-for-profit sector.

(g) Australian respondents from the public sector expressed the view that 'Liquidity and Solvency' may have limited application to the public sector whose main form of funding is through annual appropriations (AR2 and AR7). However, it was acknowledged that the application of materiality principles can be applied to reduce the provision of unnecessary information (AR7).

(h) Some Australian respondents would like the Boards to consider whether an additional KDA relating to accountability/stewardship/transparency is required (AR4 and AR7), but AR4 acknowledged that this would result in over-complication of the RDR framework.

28. Three Australian respondents disagreed with the Key Disclosure Areas. Their concerns are outlined below.

(a) AR8 was of the view that the RDR framework does not allow a user to understand the measurement and judgement around material balances, not just transactions. This respondent was concerned with some of the wording in the second KDA, in particular (i) use of the word 'significant', which is not defined, rather than only 'material', (ii) disclosures based on transactions but not material asset balances, (iii) the broadness of 'other events', and (iv) some of the general and specific requirements.

(b) AR10 recommended a comprehensive study of user identification and user needs be undertaken before finalising the KDAs. The respondent compared the KDAs with the principles for user needs applied by the IASB when developing the IFRS for SMEs Standard, and expressed the view that the disclosures had increased applying the proposed KDAs.

(c) AR12 does not believe that the RDR framework adequately deals with governance and transparency.

NZASB Question 3/AASB Question 3
Do you agree with the proposed RDR decision-making framework and operational guidance as a whole for determining RDR for Tier 2 for-profit entities? If you disagree, please explain why.

29. The AASB also sought comments on whether the disclosures required of not-for-profit entities are appropriate relative to the disclosures required of for-profit entities.

30. Six NZ respondents and 13 Australian respondents answered this question. We have classified the responses as:

	New Zealand		**Australia**	
Agree	(NZR1, NZR2 and NZR6)	3	(AR5, AR6, AR7, AR9, AR11, and AR14)	5
Partially agree	(NZR3, NZR4 and NZR7)	3	(AR2, AR4, AR8 and AR13)	4
Disagree	-	-	(AR3, AR10 and AR12)	4
No response	(NZR5 and NZR8)	2	(AR1)	1

31. Subject to their comments on question 2 (NZR3/AR13, NZR4, AR2, AR7 and AR8), most respondents agree or partially agree with the proposed joint Policy Statement as a whole.

32. Comments from respondents included the following.

(a) The distinction between presentation and disclosure will not always be clear and judgement will sometimes be required. We would encourage the Board to consider the potential impact of the discussion of this matter in the IASB's POD Discussion Paper as far as it relates to the distinction for the purposes for determining RDR (NZR3/AR13).

(b) Guidance should be added to the framework to reinforce that preparers of financial statements must still exercise judgement in determining whether a disclosure without a concession should be made on materiality grounds (NZR4).

(c) Concerns with the treatment of paragraphs containing disclosure objectives. There is a concern that Tier 2 entities may not be able to claim compliance with Tier 2 requirements if the paragraphs containing disclosure objectives are retained but some of the disclosures to meet that objective are identified as concessions (NZR3/AR13). A further concern is the potential for confusion for preparers of financial statements if the paragraph containing a disclosure objective is identified as a concession (that is, a Tier 2 entity is 'exempted' from meeting the objective) but some of the disclosures to meet that objective are required (NZR7).

(d) AR4 acknowledged that profitability and liquidity are important for a not-for-profit entity but not the sole focus because these entities are often mission oriented and the achievement of that mission often comes at the expense of profit. Users have an equal interest in financial as well as non-financial disclosures.

(e) AR14 expressed general support for a joint policy but is concerned about its practical application.

33. The respondents who disagreed with the joint policy as a whole did so for the following reasons.

(a) AR3 supports the use of the IFRS for SMEs Standard as an option to for non-publicly accountable reporting entities (as is allowed by most overseas countries) and the simplified disclosures in AASB 101, 107, 108 and 1054 for non-reporting entities.

(b) AR12 supports the concept of differential reporting but does not believe that RDR is the appropriate approach.

NZASB Question 4/AASB Question 7

Do you agree with the outcome of the application of the proposed RDR decision-making framework and operational guidance to the disclosure requirements in NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities? If you disagree with the outcome, please identify, with reasons:

(a) which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide; and
(b) which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide

34. Seven NZ respondents and 14 Australian respondents answered this question. We have classified the responses as:

	New Zealand		Australia	
Agree	(NZR6 – general support)	1	(AR3)	1
Partially agree	(NZR1, NZR3, NZR4, NZR5 and NZR7)	5	(AR2, AR5, AR8, AR11 and AR13)	5
Disagree	(NZR2)	1	(AR6, AR10, AR12 and AR14)	4
No response	(NZR8)	1		-
Not specified	-	-	(AR1, AR4, AR7 and AR9)	4

35. Respondents had mixed views on the detailed proposals in the EDs. The concerns raised with the individual requirements and concessions will be tabled at a future meeting for consideration.[3]

[3] Agenda item 9.2 contains New Zealand respondents' detailed comments on the application of the framework to the disclosures in NZ IFRS.

36. Comments from respondents included the following.

    (a) Concerns regarding the application of the RDR framework to disclosure paragraphs that contain a disclosure objective (NZR3/AR13, NZR7 and AR7). (See also paragraph 32(c).)

    (b) Inconsistencies in the application of the RDR framework, for example, disclosure of depreciation but not amortisation, disclosures about impairment of a CGU (group of units) when recoverable amount is based on value in use but concessions for the same disclosures when recoverable amount is based on fair value less costs of disposal.

    (c) Concerns about:

        (i) the reintroduction of qualitative and quantitative disclosures about risks arising from financial instruments (NZR1 and AR8) and some of the disclosures about hedging (AR8);

        (ii) the lack of disclosures for transferred financial assets (NZR1); and

        (iii) disclosures reinstated that are not KDAs but are required on the basis that the benefits of providing the disclosures exceed the costs (that is, the presumption that costs exceed benefits is rebutted) (AR8).

37. AR4 provided overall comments on the proposed disclosure requirements and concessions in some of the standards rather than providing comments on the specific proposals.

38. The respondents who disagree believe that the proposed policy has not resulted in a significant enough reduction in disclosure requirements for Tier 2 entities (NZR2, AR6, AR10 and AR12).

NZASB Question 5

Do you agree with approach taken by the NZASB regarding disclosures about accounting policies? If you disagree, please explain why.

39. Six NZ respondents answered this question. We have classified the responses as:

	New Zealand	
Agree	(NZR1, NZR2, NZR3, NZR4, NZR6 and NZR7)	6
No response	(NZR5 and NZR8)	2

40. All six New Zealand respondents agreed with the NZASB's approach regarding disclosures about accounting policies.

41. NZR3 encourages the NZASB to consider, in due course, the implications of the IASB's Principles of Disclosure (POD) project on the disclosure of accounting policies by Tier 2 entities.

NZASB Question 6
Do you agree with approach taken by the NZASB regarding guidance for disclosure requirements? If you disagree, please explain why.

42. Six NZ respondents answered this question. We have classified the responses as:

	New Zealand	
Agree	(NZR1, NZR3, NZR4, NZR6 and NZR7)	5
Disagree	(NZR2)	1
No response	(NZR5 and NZR8)	2

43. The majority of respondents agreed with the NZASB's approach regarding guidance for disclosure requirements.

44. NZR2, who disagrees, is of the view that guidance of a general nature should not be kept.

NZASB Question 7
Do you agree with approach taken by the NZASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why.

45. Six NZ respondents answered this question. We have classified the responses as:

	New Zealand	
Agree	(NZR1, NZR3, NZR4, NZR6 and NZR7)	5
Disagree	(NZR2)	1
No response	(NZR5 and NZR8)	2

46. The majority of respondents agreed with the NZASB's approach regarding cross-references to other standards where those cross-references are general rather than specific.

47. NZR2, who disagrees, is of the view that the disclosures will be required by the standard dealing with the specific type of transaction or event.

> **NZASB Question 8**
>
> Do you agree with the proposal to retain the approach of using an asterisk (*) for disclosures that Tier 2 entities are not required to provide and explaining partial concessions by means of an RDR paragraph? If you disagree, please provide, with reasons, an alternative approach for consideration.

48. Six NZ respondents answered this question. We have classified the responses as:

	New Zealand	
Agree	(NZR1, NZR3, NZR4, NZR6 and NZR7)	5
Partially agree	(NZR2)	1
No response	(NZR5 and NZR8)	2

49. NZR2, who partially agrees, acknowledges that the current approach in New Zealand works well but encourages trans-Tasman harmonisation in this regard.

50. Respondents noted that (a) users of the accounting standards are familiar with this approach, which has been in use for over 20 years (NZR3, NZR4 and NZR7), and (b) the system works well and changes could lead to confusion for preparers (NZR1 and NZR3).

> **NZASB Question 9/AASB Question 10**
>
> Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019, with early application permitted for annual periods beginning on or after 1 January 2018 (with early adoption of the concessions in NZ IAS 40/AASB 140 only when an entity applies NZ IFRS 16/AASB 16)?

51. Six NZ respondents and 13 Australian respondents answered this question. We have classified the responses as:

	New Zealand		Australia	
Agree	(NZR1, NZR2, NZR3, NZR4, NZR6 and NZR7)	6	(AR2, AR4, AR5, AR6, AR7, AR9, AR10, AR11, AR12, AR13 and AR14)	13
No response	(NZR5 and NZR8)	2	(AR1)	1

52. Most respondents agree with the proposed effective date of the Tier 2 disclosure requirements.

53. NZR7 suggests that the NZASB clarify whether entities can early adopt the proposed RDR concessions on a disclosure-by-disclosure basis, a standard-by-standard basis, or as a whole.

NZASB Question 10
Do you have any other comments on the ED?

54. The following matters were raised by New Zealand respondents in addition to the specific matters on which comments were sought. These comments may have been made either in response to question 10 or in the cover letter.

Exemption for intermediate parent entities in NZ IFRS 10 (and NZ IAS 28)

(a) NZR7 raised a concern with the current RDR concession provided in paragraph RDR 4.1 of NZ IFRS 10 *Consolidated Financial Statements*. The constituent is concerned that, in some cases, the concession will mean that the top New Zealand company will not be required to prepare consolidated financial statements. The respondent is of the view that the top company in New Zealand should always be required to prepare consolidated financial statements where such a company has a statutory requirement to prepare general purpose financial statements. (We propose to address this concern as part of the 2017 Omnibus Amendments to NZ IFRS – see agenda item 7).

IFRS for SMEs® Standard

(b) NZR6 (and AR9) notes the reservations stated in the proposals about using the IFRS for SMEs Standard as the basis for RDR going forward. However, the respondent recommends that the Boards reconsider their stance, particularly in light of the adoption and modification of the IFRS for SMEs Standard in developing Financial Reporting Standard 102 in the United Kingdom that is applicable to qualifying SMEs. AR3 also expressed support for using the IFRS for SMEs Standard.

Departing from a rebuttable presumption when considering Key Disclosure Areas (KDAs)

(c) NZR6 (and AR9) notes there are a number of instances where there has been a decision to depart from a KDA on the basis that either costs exceed benefits or vice versa. The respondent has been unable to identify any specific evidence that supports these decisions and suggests that, as the NZASB has an evidence based approach to standard setting, the NZASB provides the evidence that formed the basis for those decisions.

IASB Principles of Disclosure Discussion Paper

(d) NZR6 (and AR9) notes that the IASB has recently issued a consultation paper proposing principles for disclosures. The respondent acknowledges that the RDR project is "self-contained" but suggests that the NZASB consider the IASB's proposed principles of disclosure in finalising its revised RDR framework.

(e) AR8 questions the necessity of progressing this project at this stage given the IASB's POD Discussion Paper. The respondent would prefer that the RDR project take on board the outcomes of the IASB project, which can then be adapted for Tier 2 entities by developing suitable Key Disclosure Principles.

Pilot/field testing the proposals

(f) NZR6 suggests that the NZASB undertake pilot testing of the proposed RDR framework to assist the NZASB in assessing whether the project's objectives are likely to be fulfilled.

(g) AR5 also recommended field testing for several types of entities to confirm whether the disclosures proposed will result in financial statements that provide the right level of information for the intended users.

Overall policy and key disclosure areas

(h) NZR8 is comfortable with the overall policy framework and the key disclosure areas. In particular (a) the disclosures around the solvency and liquidity of the entity, and related party disclosures.

Next steps

55. If the Board agrees to progress this project as recommended below, we propose to work with AASB staff to progress this project as follows.

(a) Table for consideration by the Boards the detailed feedback received that relates to the RDR decision-making framework (that is, the Joint Policy Statement), together with staff comments on that feedback and recommendations for amending the Joint Policy Statement.

(b) Once we have Board agreement on the amended Joint Policy Statement, it would be applied to the disclosures in Australian Accounting Standards/NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities in New Zealand and all Tier 2 entities in Australia. When undertaking this task, feedback received on the detailed proposals would also be taken into account.

56. Board meetings for the remainder of 2017 are scheduled for the following dates:

Month	**NZASB**	**AASB**
August	2nd	15th
September	13th	-
October	-	10th-11th
November	1st	-
December	14th	12th-13th

57. During the development of the EDs, we had a joint sub-committee. It is likely that at some point we will need feedback from a sub-committee when developing Board papers.

Recommendations

58. We recommend that the Board:

    (a) NOTES the high-level summary of feedback received from respondents to the EDs;

    (b) AGREES to progress this project jointly with the AASB;

    (c) AGREES the next steps outlined above; and

    (d) AGREES that no further action is required regarding Questions 5–8, that is, paragraphs that require the disclosure of accounting policies or contain guidance or cross-references will be kept and the current method of identifying RDR will also be kept.

Attachments

Agenda item 9.2:	Responses collated by question (supporting papers)
Agenda item 9.31–9.3.8:	Submissions received (supporting papers)

NZ ACCOUNTING STANDARDS BOARD

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**NZ IFRS 17 *Insurance Contracts***

Action required[1]

1. At the June 2017 meeting, the Board received an education session on IFRS 17 *Insurance Contracts* and considered a comparison of New Zealand insurance GAAP and IFRS 17. The Board agreed that the staff proceed with developing an NZ IFRS based on IFRS 17, without any modifications.

2. The Board is asked to:

   (a) APPROVE for issue NZ IFRS 17 *Insurance Contracts*; and

   (b) APPROVE the draft Certificate Signing Memorandum.

Introduction

3. The IASB issued IFRS 17 in May 2017. The Standard is effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application.

4. On adoption, IFRS 17 supersedes IFRS 4 *Insurance Contracts*.

Reasons for issuing the standard

5. IFRS 4 was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts. Those practices reflected national accounting requirements and variations of those requirements. This diversity in practice made it difficult for users of the financial statements to understand and compare insurers' results. Most stakeholders, including insurers, agreed on the need for a common global insurance accounting standard, even though opinions varied as to what it should be.

6. Long-term and complex insurance risks are difficult to reflect in the measurement of insurance contracts. In addition, insurance contracts are not typically traded in markets and may include

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

a significant investment component, which poses further measurement challenges. Some insurance accounting practices permitted previously under IFRS 4 did not adequately reflect the true underlying financial positions or the financial performance of these insurance contracts.

7. To address these issues, the IASB undertook a project to make insurers' financial statements more useful and insurance accounting practices consistent across jurisdictions.

Main features of the standard

8. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts issued with discretionary participation features.

9. The key principles in the standard require an entity to:

   (a) identify as insurance contracts those contracts that meet the definition of an insurance contract in Appendix A of the standard;

   (b) separate from the insurance contract specified embedded derivatives, distinct investment components and distinct performance obligations;

   (c) divide the contracts into groups it will recognise and measure at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin);

   (d) recognise the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk (unless a group of contracts is or becomes loss-making, in which case the loss is recognised immediately);

   (e) present separately insurance revenue, insurance service expenses and insurance finance income or expenses; and

   (f) disclose information that enables users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

Issues raised by the Board in 2013

10. The main issues raised by the Board in its comment letter on the 2013 ED, and the IASB's response to those issues, are outlined in the draft Certificate Signing Memorandum attached at agenda item 10.3. Those issues are:

   (a) mandatory 'mirroring' (measuring insurance contracts that are contractually linked to the performance of assets on the same basis as those assets); and

   (b) segregating the effects of the underwriting performance from the effects of the changes in the discount by presenting the changes in the discount rates in other comprehensive income.

New Zealand-specific disclosures

11. Appendix C *Life Insurance Entities* and Appendix D *Financial Reporting of Insurance Activities* of NZ IFRS 4 *Insurance Contracts* contain additional New Zealand-specific disclosures about solvency, fiduciary activities, the actuarial calculation and the actuary.

12. At the June meeting the Board agreed:

    (a) in principle to adopt IFRS 17 as an NZ IFRS without any New Zealand-specific disclosure requirements about solvency, fiduciary activities, the actuarial calculation and the actuary; and

    (b) to consider any proposals for New Zealand-specific disclosure requirements as part of a separate project with the Australian Accounting Standards Board (AASB).

RDR concessions and consistency with Australian accounting standards

13. We do not propose RDR concessions for the new disclosure requirements. Our reasons are as follows.

    (a) There are currently no disclosure concessions in NZ IFRS 4, which is superseded by NZ IFRS 17.

    (b) The AASB and the NZASB are in the process of reviewing the RDR decision-making framework and RDR for existing standards. Accordingly, the Boards have decided not to consider RDR for any new pronouncements until that review is finalised.

    (c) AASB staff did not propose RDR concessions for AASB 17 *Insurance Contracts*. The AASB agreed with this recommendation. Therefore, the Tier 1 and Tier 2 for-profit requirements will continue to be aligned with those in Australia.

Due process

14. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken over the course of this project and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's meeting on 16 February 2016.[2]

15. Many respondents commended the IASB for the significant progress it had made in developing the proposals in the 2010 ED. They generally commented that the IASB had responded to the concerns raised on the proposals in the 2010 ED and had largely addressed those concerns satisfactorily.

16. The due process followed by the FRSB for the 2010 ED and the NZASB for the 2013 ED complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

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[2] A summary of the IASB's February 2016 meeting is available at: http://media.ifrs.org/2016/IASB/February/IASB-February-Update_Monthlpry.html#1

17. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the standard is likely to require the disclosure of personal information. In our view, the standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commission is required.

Draft standard and signing memo

18. Attached as agenda item 10.2 is a copy of NZ IFRS 17. A paragraph has been added to limit its application to Tier 1 and Tier 2 for-profit entities only.

19. Attached as agenda item 10.3 is a draft Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Next steps

20. Application of the *Policy Approach to Developing the Suite of PBE Standards* to IFRS 17 will be tabled at a future meeting for the Board's consideration.

Recommendations

21. We recommend that the Board:

    (a) APPROVES for issue NZ IFRS 17 *Insurance Contracts* (agenda item 10.2); and

    (b) APPROVES the Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the interpretation (agenda item 10.3).

Attachments

Agenda item 10.2: Draft NZ IFRS 17 *Insurance Contracts*

Agenda item 10.3: Draft Certificate Signing Memorandum

Agenda Item 10.2

New Zealand Equivalent to International Financial Reporting Standard 17 Insurance Contracts (NZ IFRS 17)

Issued August 2017

This Standard was issued on 10 August 2017 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 7 September 2017.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraphs C1 and C2 of Appendix C.

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

This New Zealand Tier 1 and Tier 2 For-profit Accounting Standard has been issued as a result of a new International Financial Reporting Standard.

NZ IFRS 17 incorporates the equivalent IFRS® Standard as issued by the International Accounting Standards Board (IASB).

Tier 1 for-profit entities that comply with NZ IFRS 17 will simultaneously be in compliance with IFRS 17 *Insurance Contracts*.

Tier 2 for-profit entities must comply with all the provisions of NZ IFRS 17.

This Standard, when applied, will supersede NZ IFRS 4 *Insurance Contracts* as amended in 2016.

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NEW ZEALAND EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARD 17 *INSURANCE CONTRACTS*

New Zealand Equivalent to IFRS 17 *Insurance Contracts* is set out in paragraphs 1–132 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary. The Standard should be read in the context of its objective, the IASB's Basis for Conclusions on IFRS 17 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*. NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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

New Zealand Equivalent to International Financial Reporting Standard 17 *Insurance Contracts*

Objective

1 **NZ IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of *insurance contracts* within the scope of the Standard. The objective of NZ IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.**

2 An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying NZ IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).

Scope

NZ 2.1 This Standard applies to Tier 1 and Tier 2 for-profit entities.

3 An entity shall apply NZ IFRS 17 to:

(a) insurance contracts, including *reinsurance contracts*, it issues;

(b) reinsurance contracts it holds; and

(c) *investment contracts with discretionary participation features* it issues, provided the entity also issues insurance contracts.

4 All references in NZ IFRS 17 to insurance contracts also apply to:

(a) reinsurance contracts held, except:

(i) for references to insurance contracts issued; and

(ii) as described in paragraphs 60–70.

(b) investment contracts with discretionary participation features as set out in paragraph 3(c), except for the reference to insurance contracts in paragraph 3(c) and as described in paragraph 71.

5 All references in NZ IFRS 17 to insurance contracts issued also apply to insurance contracts acquired by the entity in a transfer of insurance contracts or a business combination other than reinsurance contracts held.

6 Appendix A defines an insurance contract and paragraphs B2–B30 of Appendix B provide guidance on the definition of an insurance contract.

7 An entity shall not apply NZ IFRS 17 to:

(a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer (see NZ IFRS 15 *Revenue from Contracts with Customers*).

(b) employers' assets and liabilities from employee benefit plans (see NZ IAS 19 *Employee Benefits* and NZ IFRS 2 *Share-based Payment*) and retirement benefit obligations reported by defined benefit retirement plans (see NZ IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

(c) contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items: see NZ IFRS 15, NZ IAS 38 *Intangible Assets* and NZ IFRS 16 *Leases*).

(d) residual value guarantees provided by a manufacturer, dealer or retailer and a lessee's residual value guarantees when they are embedded in a lease (see NZ IFRS 15 and NZ IFRS 16).

(e) financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. The issuer shall choose to apply either NZ IFRS 17 or NZ IAS 32 *Financial Instruments: Presentation*, NZ IFRS 7 *Financial Instruments: Disclosures* and NZ IFRS 9 *Financial Instruments* to such financial guarantee contracts. The issuer may make that choice contract by contract, but the choice for each contract is irrevocable.

(f) contingent consideration payable or receivable in a business combination (see NZ IFRS 3 *Business Combinations*).

(g) insurance contracts in which the entity is the *policyholder*, unless those contracts are reinsurance contracts held (see paragraph 3(b)).

8 Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. An entity may choose to apply NZ IFRS 15 instead of NZ IFRS 17 to such contracts that it issues if, and only if, specified conditions are met. The entity may make that choice contract by contract, but the choice for each contract is irrevocable. The conditions are:

(a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;

(b) the contract compensates the customer by providing services, rather than by making cash payments to the customer; and

(c) the *insurance risk* transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

Combination of insurance contracts

9 A set or series of insurance contracts with the same or a related counterparty may achieve, or be designed to achieve, an overall commercial effect. In order to report the substance of such contracts, it may be necessary to treat the set or series of contracts as a whole. For example, if the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that no rights or obligations exist.

Separating components from an insurance contract (paragraphs B31–B35)

10 An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an *investment component* or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.

11 An entity shall:

(a) apply NZ IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative.

(b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply NZ IFRS 9 to account for the separated investment component.

12 After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder, applying paragraph 7 of NZ IFRS 15. The entity shall account for such promises applying NZ IFRS 15. In applying paragraph 7 of NZ IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of NZ IFRS 17 and, on initial recognition, shall:

(a) apply NZ IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and

(b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying NZ IFRS 15 so that:

(i) cash outflows that relate directly to each component are attributed to that component; and

(ii) any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

13 After applying paragraphs 11–12, an entity shall apply NZ IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in NZ IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).

Level of aggregation of insurance contracts

14 An entity shall identify *portfolios of insurance contracts*. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.

15 Paragraphs 16–24 apply to insurance contracts issued. The requirements for the level of aggregation of reinsurance contracts held are set out in paragraph 61.

16 An entity shall divide a portfolio of insurance contracts issued into a minimum of:

(a) a group of contracts that are onerous at initial recognition, if any;

(b) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and

(c) a group of the remaining contracts in the portfolio, if any.

17 If an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group applying paragraph 16, it may measure the set of contracts to determine if the contracts are onerous (see paragraph 47) and assess the set of contracts to determine if the contracts have no significant possibility of becoming onerous subsequently (see paragraph 19). If the entity does not have reasonable and supportable information to conclude that a set of contracts will all be in the same group, it shall determine the group to which contracts belong by considering individual contracts.

18 For contracts issued to which an entity applies the premium allocation approach (see paragraphs 53–59), the entity shall assume no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise. An entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances.

19 For contracts issued to which an entity does not apply the premium allocation approach (see paragraphs 53–59), an entity shall assess whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(a) based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous.

(b) using information about estimates provided by the entity's internal reporting. Hence, in assessing whether contracts that are not onerous at initial recognition have no significant possibility of becoming onerous:

(i) an entity shall not disregard information provided by its internal reporting about the effect of changes in assumptions on different contracts on the possibility of their becoming onerous; but

(ii) an entity is not required to gather additional information beyond that provided by the entity's internal reporting about the effect of changes in assumptions on different contracts.

20 If, applying paragraphs 14–19, contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. The entity shall not apply this paragraph by analogy to other items.

21 An entity is permitted to subdivide the groups described in paragraph 16. For example, an entity may choose to divide the portfolios into:

(a) more groups that are not onerous at initial recognition—if the entity's internal reporting provides information that distinguishes:

(i) different levels of profitability; or

(ii) different possibilities of contracts becoming onerous after initial recognition; and

(b) more than one group of contracts that are onerous at initial recognition—if the entity's internal reporting provides information at a more detailed level about the extent to which the contracts are onerous.

22 An entity shall not include contracts issued more than one year apart in the same group. To achieve this the entity shall, if necessary, further divide the groups described in paragraphs 16–21.

23 A *group of insurance contracts* shall comprise a single contract if that is the result of applying paragraphs 14‒22.

24 An entity shall apply the recognition and measurement requirements of NZ IFRS 17 to the groups of contracts issued determined by applying paragraphs 14–23. An entity shall establish the groups at initial recognition, and shall not reassess the composition of the groups subsequently. To measure a group of contracts, an entity may estimate the *fulfilment cash flows* at a higher level of aggregation than the group or portfolio, provided the entity is able to include the appropriate fulfilment cash flows in the measurement of the group, applying paragraphs 32(a), 40(a)(i) and 40(b), by allocating such estimates to groups of contracts.

Recognition

25 An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) the beginning of the *coverage period* of the group of contracts;

(b) the date when the first payment from a policyholder in the group becomes due; and

(c) for a group of onerous contracts, when the group becomes onerous.

26 If there is no contractual due date, the first payment from the policyholder is deemed to be due when it is received. An entity is required to determine whether any contracts form a group of onerous contracts applying paragraph 16 before the earlier of the dates set out in paragraphs 25(a) and 25(b) if facts and circumstances indicate there is such a group.

27 An entity shall recognise an asset or liability for any *insurance acquisition cash flows* relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).

28 In recognising a group of insurance contracts in a reporting period, an entity shall include only contracts issued by the end of the reporting period and shall make estimates for the discount rates at the date of initial recognition (see paragraph B73) and the coverage units provided in the reporting period (see paragraph B119). An entity may issue more contracts in the group after the end of a reporting period, subject to paragraph 22. An entity shall add the contracts to the group in the reporting period in which the contracts are issued. This may result in a change to the determination of the discount rates at the date of initial recognition applying paragraph B73. An entity shall apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

Measurement (paragraphs B36–B119)

29 An entity shall apply paragraphs 30–52 to all groups of insurance contracts within the scope of NZ IFRS 17, with the following exceptions:

(a) for groups of insurance contracts meeting either of the criteria specified in paragraph 53, an entity may simplify the measurement of the group using the premium allocation approach in paragraphs 55‒59.

(b) for groups of reinsurance contracts held, an entity shall apply paragraphs 32–46 as required by paragraphs 63–70. Paragraphs 45 (on *insurance contracts with direct participation features*) and 47‒52 (on onerous contracts) do not apply to groups of reinsurance contracts held.

(c) for groups of investment contracts with discretionary participation features, an entity shall apply paragraphs 32–52 as modified by paragraph 71.

30 When applying NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* to a group of insurance contracts that generate cash flows in a foreign currency, an entity shall treat the group of contracts, including the *contractual service margin*, as a monetary item.

31 In the financial statements of an entity that issues insurance contracts, the fulfilment cash flows shall not reflect the non-performance risk of that entity (non-performance risk is defined in NZ IFRS 13 *Fair Value Measurement*).

Measurement on initial recognition (paragraphs B36–B95)

32 On initial recognition, an entity shall measure a group of insurance contracts at the total of:

(a) the fulfilment cash flows, which comprise:

(i) estimates of future cash flows (paragraphs 33–35);

(ii) an adjustment to reflect the time value of money and the *financial risks* related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows (paragraph 36); and

(iii) a *risk adjustment for non-financial risk* (paragraph 37).

(b) the contractual service margin, measured applying paragraphs 38–39.

Estimates of future cash flows (paragraphs B36–B71)

33 An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:

(a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.

(b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).

(c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).

(d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). A substantive obligation to provide services ends when:

(a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or

(b) both of the following criteria are satisfied:

(i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and

(ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

35 An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.

Discount rates (paragraphs B72–B85)

36 An entity shall adjust the estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows, to the extent that the financial risks are not included in the estimates of cash flows. The discount rates applied to the estimates of the future cash flows described in paragraph 33 shall:

(a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;

(b) be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and

(c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk adjustment for non-financial risk (paragraphs B86–B92)

37 An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

Contractual service margin

38 The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future. An entity shall measure the contractual service margin on initial recognition of a group of insurance contracts at an amount that, unless paragraph 47 (on onerous contracts) applies, results in no income or expenses arising from:

(a) the initial recognition of an amount for the fulfilment cash flows, measured by applying paragraphs 32–37;

(b) the derecognition at the date of initial recognition of any asset or liability recognised for insurance acquisition cash flows applying paragraph 27; and

(c) any cash flows arising from the contracts in the group at that date.

39 For insurance contracts acquired in a transfer of insurance contracts or a business combination, an entity shall apply paragraph 38 in accordance with paragraphs B93–B95.

Subsequent measurement

40 The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

(a) the *liability for remaining coverage* comprising:

(i) the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92;

(ii) the contractual service margin of the group at that date, measured applying paragraphs 43–46; and

(b) the *liability for incurred claims*, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.

41 An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for remaining coverage:

(a) insurance revenue—for the reduction in the liability for remaining coverage because of services provided in the period, measured applying paragraphs B120–B124;

(b) insurance service expenses—for losses on groups of onerous contracts, and reversals of such losses (see paragraphs 47–52); and

(c) insurance finance income or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.

42 **An entity shall recognise income and expenses for the following changes in the carrying amount of the liability for incurred claims:**

(a) insurance service expenses—for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;

(b) insurance service expenses—for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and

(c) insurance finance income or expenses—for the effect of the time value of money and the effect of financial risk as specified in paragraph 87.

Contractual service margin (paragraphs B96—B119)

43 **The contractual service margin at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss because it relates to the future service to be provided under the contracts in the group.**

44 For *insurance contracts without direct participation features*, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates specified in paragraph B72(b);

(c) the changes in fulfilment cash flows relating to future service as specified in paragraphs B96–B100, except to the extent that:

(i) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48(a)); or

(ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period applying paragraph B119.

45 For insurance contracts with direct participation features (see paragraphs B101–B118), the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for the amounts specified in subparagraphs (a)–(e) below. An entity is not required to identify these adjustments separately. Instead, a combined amount may be determined for some, or all, of the adjustments. The adjustments are:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) the entity's share of the change in the fair value of the *underlying items* (see paragraph B104(b)(i)), except to the extent that:

(i) paragraph B115 (on risk mitigation) applies;

(ii) the entity's share of a decrease in the fair value of the underlying items exceeds the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) the entity's share of an increase in the fair value of the underlying items reverses the amount in (ii).

(c) the changes in fulfilment cash flows relating to future service, as specified in paragraphs B101–B118, except to the extent that:

(i) paragraph B115 (on risk mitigation) applies;

(ii) such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss (see paragraph 48); or

(iii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage applying paragraph 50(b).

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period, applying paragraph B119.

46 Some changes in the contractual service margin offset changes in the fulfilment cash flows for the liability for remaining coverage, resulting in no change in the total carrying amount of the liability for remaining coverage. To the extent that changes in the contractual service margin do not offset changes in the fulfilment cash flows for the liability for remaining coverage, an entity shall recognise income and expenses for the changes, applying paragraph 41.

Onerous contracts

47 An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. Applying paragraph 16(a), an entity shall group such contracts separately from contracts that are not onerous. To the extent that paragraph 17 applies, an entity may identify the group of onerous contracts by measuring a set of contracts rather than individual contracts. An entity shall recognise a loss in profit or loss for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero.

48 A group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if the following amounts exceed the carrying amount of the contractual service margin:

(a) unfavourable changes in the fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service; and

(b) for a group of insurance contracts with direct participation features, the entity's share of a decrease in the fair value of the underlying items.

Applying paragraphs 44(c)(i), 45(b)(ii) and 45(c)(ii), an entity shall recognise a loss in profit or loss to the extent of that excess.

49 An entity shall establish (or increase) a loss component of the liability for remaining coverage for an onerous group depicting the losses recognised applying paragraphs 47–48. The loss component determines the amounts that are presented in profit or loss as reversals of losses on onerous groups and are consequently excluded from the determination of insurance revenue.

50 After an entity has recognised a loss on an onerous group of insurance contracts, it shall allocate:

(a) the subsequent changes in fulfilment cash flows of the liability for remaining coverage specified in paragraph 51 on a systematic basis between:

(i) the loss component of the liability for remaining coverage; and

(ii) the liability for remaining coverage, excluding the loss component.

(b) any subsequent decrease in fulfilment cash flows allocated to the group arising from changes in estimates of future cash flows relating to future service and any subsequent increases in the entity's share in the fair value of the underlying items solely to the loss component until that component is reduced to zero. Applying paragraphs 44(c)(ii), 45(b)(iii) and 45(c)(iii), an entity shall adjust the contractual service margin only for the excess of the decrease over the amount allocated to the loss component.

51 The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are:

(a) estimates of the present value of future cash flows for claims and expenses released from the liability for remaining coverage because of incurred insurance service expenses;

(b) changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk; and

(c) insurance finance income or expenses.

52 The systematic allocation required by paragraph 50(a) shall result in the total amounts allocated to the loss component in accordance with paragraphs 48–50 being equal to zero by the end of the coverage period of a group of contracts.

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

(a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or

(b) the coverage period of each contract in the group (including coverage arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

54 The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of contracts.

55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows:

(a) on initial recognition, the carrying amount of the liability is:

(i) the premiums, if any, received at initial recognition;

(ii) minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and

(iii) plus or minus any amount arising from the derecognition at that date of the asset or liability recognised for insurance acquisition cash flows applying paragraph 27.

(b) at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period:

(i) plus the premiums received in the period;

(ii) minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a);

(iii) plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a);

(iv) plus any adjustment to a financing component, applying paragraph 56;

(v) minus the amount recognised as insurance revenue for coverage provided in that period (see paragraph B126); and

(vi) minus any investment component paid or transferred to the liability for incurred claims.

56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the coverage and the related premium due date is no more than a year.

57 If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between:

(a) the carrying amount of the liability for remaining coverage determined applying paragraph 55; and

(b) the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and B36–B92. However, if, in applying paragraph 59(b), the entity does not adjust the liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment.

58 To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage.

59 In applying the premium allocation approach, an entity:

(a) may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.

(b) shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

Reinsurance contracts held

60 The requirements in NZ IFRS 17 are modified for reinsurance contracts held, as set out in paragraphs 61–70.

61 An entity shall divide portfolios of reinsurance contracts held applying paragraphs 14–24, except that the references to onerous contracts in those paragraphs shall be replaced with a reference to contracts on which there is a net gain on initial recognition. For some reinsurance contracts held, applying paragraphs 14–24 will result in a group that comprises a single contract.

Recognition

62 Instead of applying paragraph 25, an entity shall recognise a group of reinsurance contracts held:

(a) if the reinsurance contracts held provide proportionate coverage—at the beginning of the coverage period of the group of reinsurance contracts held or at the initial recognition of any underlying contract, whichever is the later; and

(b) in all other cases—from the beginning of the coverage period of the group of reinsurance contracts held.

Measurement

63 In applying the measurement requirements of paragraphs 32–36 to reinsurance contracts held, to the extent that the underlying contracts are also measured applying those paragraphs, the entity shall use consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the entity shall include in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

64 Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts.

65 The requirements of paragraph 38 that relate to determining the contractual service margin on initial recognition are modified to reflect the fact that for a group of reinsurance contracts held there is no unearned profit but instead a net cost or net gain on purchasing the reinsurance. Hence, on initial recognition:

(a) the entity shall recognise any net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin measured at an amount equal to the sum of the fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless

(b) the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts, in which case, notwithstanding the requirements of paragraph B5, the entity shall recognise such a cost immediately in profit or loss as an expense.

66 Instead of applying paragraph 44, an entity shall measure the contractual service margin at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

(a) the effect of any new contracts added to the group (see paragraph 28);

(b) interest accreted on the carrying amount of the contractual service margin, measured at the discount rates specified in paragraph B72(b);

(c) changes in the fulfilment cash flows to the extent that the change:

(i) relates to future service; unless

(ii) the change results from a change in fulfilment cash flows allocated to a group of underlying insurance contracts that does not adjust the contractual service margin for the group of underlying insurance contracts.

(d) the effect of any currency exchange differences arising on the contractual service margin; and

(e) the amount recognised in profit or loss because of services received in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held, applying paragraph B119.

67 Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not relate to future service and shall not adjust the contractual service margin.

68 Reinsurance contracts held cannot be onerous. Accordingly, the requirements of paragraphs 47–52 do not apply.

Premium allocation approach for reinsurance contracts held

69 An entity may use the premium allocation approach set out in paragraphs 55–56 and 59 (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of a group of reinsurance contracts held, if at the inception of the group:

(a) the entity reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 63–68; or

(b) the coverage period of each contract in the group of reinsurance contracts held (including coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

70 An entity cannot meet the condition in paragraph 69(a) if, at the inception of the group, an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the asset for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

(a) the extent of future cash flows relating to any derivatives embedded in the contracts; and

(b) the length of the coverage period of the group of reinsurance contracts held.

Investment contracts with discretionary participation features

71 An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in NZ IFRS 17 for insurance contracts are modified for investment contracts with discretionary participation features as follows:

(a) the date of initial recognition (see paragraph 25) is the date the entity becomes party to the contract.

(b) the contract boundary (see paragraph 34) is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

(c) the allocation of the contractual service margin (see paragraphs 44(e) and 45(e)) is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Modification and derecognition

Modification of an insurance contract

72 If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying NZ IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:

(a) if the modified terms had been included at contract inception:

(i) the modified contract would have been excluded from the scope of NZ IFRS 17, applying paragraphs 3–8;

(ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which NZ IFRS 17 would have applied;

(iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or

(iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24.

(b) the original contract met the definition of an *insurance contract with direct participation features*, but the modified contract no longer meets that definition, or vice versa; or

(c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.

73 If a contract modification meets none of the conditions in paragraph 72, the entity shall treat changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows by applying paragraphs 40−52.

Derecognition

74 An entity shall derecognise an insurance contract when, and only when:

(a) it is extinguished, ie when the obligation specified in the insurance contract expires or is discharged or cancelled; or

(b) any of the conditions in paragraph 72 are met.

75 When an insurance contract is extinguished, the entity is no longer at risk and is therefore no longer required to transfer any economic resources to satisfy the insurance contract. For example, when an entity buys reinsurance, it shall derecognise the underlying insurance contract(s) when, and only when, the underlying insurance contract(s) is or are extinguished.

76 An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in NZ IFRS 17:

(a) the fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);

(b) the contractual service margin of the group is adjusted for the change in fulfilment cash flows described in (a), to the extent required by paragraphs 44(c) and 45(c), unless paragraph 77 applies; and

(c) the number of coverage units for expected remaining coverage is adjusted to reflect the coverage units derecognised from the group, and the amount of the contractual service margin recognised in profit or loss in the period is based on that adjusted number, applying paragraph B119.

77 When an entity derecognises an insurance contract because it transfers the contract to a third party or derecognises an insurance contract and recognises a new contract applying paragraph 72, the entity shall instead of applying paragraph 76(b):

(a) adjust the contractual service margin of the group from which the contract has been derecognised, to the extent required by paragraphs 44(c) and 45(c), for the difference between (i) and either (ii) for contracts transferred to a third party or (iii) for contracts derecognised applying paragraph 72:

(i) the change in the carrying amount of the group of insurance contracts resulting from the derecognition of the contract, applying paragraph 76(a).

(ii) the premium charged by the third party.

(iii) the premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

(b) measure the new contract recognised applying paragraph 72 assuming that the entity received the premium described in (a)(iii) at the date of the modification.

Presentation in the statement of financial position

78 An entity shall present separately in the statement of financial position the carrying amount of groups of:

(a) insurance contracts issued that are assets;

(b) insurance contracts issued that are liabilities;

(c) reinsurance contracts held that are assets; and

(d) reinsurance contracts held that are liabilities.

79 An entity shall include any assets or liabilities for insurance acquisition cash flows recognised applying paragraph 27 in the carrying amount of the related groups of insurance contracts issued, and any assets or liabilities for cash flows related to groups of reinsurance contracts held (see paragraph 65(a)) in the carrying amount of the groups of reinsurance contracts held.

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

80 Applying paragraphs 41 and 42, an entity shall disaggregate the amounts recognised in the statement(s) of profit or loss and other comprehensive income (hereafter referred to as the statement(s) of financial performance) into:

(a) an insurance service result (paragraphs 83–86), comprising insurance revenue and insurance service expenses; and

(b) insurance finance income or expenses (paragraphs 87–92).

81 An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.

82 An entity shall present income or expenses from reinsurance contracts held separately from the expenses or income from insurance contracts issued.

Insurance service result

83 An entity shall present in profit or loss insurance revenue arising from the groups of insurance contracts issued. Insurance revenue shall depict the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Paragraphs B120–B127 specify how an entity measures insurance revenue.

84 An entity shall present in profit or loss insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in paragraph 103(b).

85 Insurance revenue and insurance service expenses presented in profit or loss shall exclude any investment components. An entity shall not present premium information in profit or loss if that information is inconsistent with paragraph 83.

86 An entity may present the income or expenses from a group of reinsurance contracts held (see paragraphs 60–70), other than insurance finance income or expenses, as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. If an entity presents separately the amounts recovered from the reinsurer and an allocation of the premiums paid, it shall:

(a) treat reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held;

(b) treat amounts from the reinsurer that it expects to receive that are not contingent on claims of the underlying contracts (for example, some types of ceding commissions) as a reduction in the premiums to be paid to the reinsurer; and

(c) not present the allocation of premiums paid as a reduction in revenue.

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

87 Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:

(a) the effect of the time value of money and changes in the time value of money; and

(b) the effect of financial risk and changes in financial risk; but

(c) excluding any such changes for groups of insurance contracts with direct participation features that would adjust the contractual service margin but do not do so when applying paragraphs 45(b)(ii), 45(b)(iii), 45(c)(ii) or 45(c)(iii). These are included in insurance service expenses.

88 Unless paragraph 89 applies, an entity shall make an accounting policy choice between:

(a) including insurance finance income or expenses for the period in profit or loss; or

(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts, applying paragraphs B130–B133.

89 For insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between:

(a) including insurance finance income or expenses for the period in profit or loss; or

(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held, applying paragraphs B134–B136.

90 If an entity chooses the accounting policy set out in paragraph 88(b) or in paragraph 89(b), it shall include in other comprehensive income the difference between the insurance finance income or expenses measured on the basis set out in those paragraphs and the total insurance finance income or expenses for the period.

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

(a) it shall reclassify to profit or loss as a reclassification adjustment (see NZ IAS 1 *Presentation of Financial Statements*) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 88(b).

(b) it shall not reclassify to profit or loss as a reclassification adjustment (see NZ IAS 1) any remaining amounts for the group (or contract) that were previously recognised in other comprehensive income because the entity chose the accounting policy set out in paragraph 89(b).

92 Paragraph 30 requires an entity to treat an insurance contract as a monetary item under NZ IAS 21 for the purpose of translating foreign exchange items into the entity's functional currency. An entity includes

exchange differences on changes in the carrying amount of groups of insurance contracts in the statement of profit or loss, unless they relate to changes in the carrying amount of groups of insurance contracts included in other comprehensive income applying paragraph 90, in which case they shall be included in other comprehensive income.

Disclosure

93 **The objective of the disclosure requirements is for an entity to disclose information in the notes that, together with the information provided in the statement of financial position, statement(s) of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that contracts within the scope of NZ IFRS 17 have on the entity's financial position, financial performance and cash flows. To achieve that objective, an entity shall disclose qualitative and quantitative information about:**

(a) the amounts recognised in its financial statements for contracts within the scope of NZ IFRS 17 (see paragraphs 97–116);

(b) the significant judgements, and changes in those judgements, made when applying NZ IFRS 17 (see paragraphs 117–120); and

(c) the nature and extent of the risks from contracts within the scope of NZ IFRS 17 (see paragraphs 121–132).

94 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 97−132, are not enough to meet the objective in paragraph 93, an entity shall disclose additional information necessary to meet that objective.

95 An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

96 Paragraphs 29–31 of NZ IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:

(a) type of contract (for example, major product lines);

(b) geographical area (for example, country or region); or

(c) reportable segment, as defined in NZ IFRS 8 *Operating Segments*.

Explanation of recognised amounts

97 Of the disclosures required by paragraphs 98–109, only those in paragraphs 98–100 and 102–105 apply to contracts to which the premium allocation approach has been applied. If an entity uses the premium allocation approach, it shall also disclose:

(a) which of the criteria in paragraphs 53 and 69 it has satisfied;

(b) whether it makes an adjustment for the time value of money and the effect of financial risk applying paragraphs 56 and 57(b); and

(c) the method it has chosen to recognise insurance acquisition cash flows applying paragraph 59(a).

98 An entity shall disclose reconciliations that show how the net carrying amounts of contracts within the scope of NZ IFRS 17 changed during the period because of cash flows and income and expenses recognised in the statement(s) of financial performance. Separate reconciliations shall be disclosed for insurance contracts issued and reinsurance contracts held. An entity shall adapt the requirements of paragraphs 100–109 to reflect the features of reinsurance contracts held that differ from insurance contracts issued; for example, the generation of expenses or reduction in expenses rather than revenue.

99 An entity shall provide enough information in the reconciliations to enable users of financial statements to identify changes from cash flows and amounts that are recognised in the statement(s) of financial performance. To comply with this requirement, an entity shall:

(a) disclose, in a table, the reconciliations set out in paragraphs 100–105; and

(b) for each reconciliation, present the net carrying amounts at the beginning and at the end of the period, disaggregated into a total for groups of contracts that are assets and a total for groups of contracts that are liabilities, that equal the amounts presented in the statement of financial position applying paragraph 78.

100 An entity shall disclose reconciliations from the opening to the closing balances separately for each of:

(a) the net liabilities (or assets) for the remaining coverage component, excluding any loss component.

(b) any loss component (see paragraphs 47–52 and 57–58).

(c) the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose separate reconciliations for:

(i) the estimates of the present value of the future cash flows; and

(ii) the risk adjustment for non-financial risk.

101 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of:

(a) the estimates of the present value of the future cash flows;

(b) the risk adjustment for non-financial risk; and

(c) the contractual service margin.

102 The objective of the reconciliations in paragraphs 100–101 is to provide different types of information about the insurance service result.

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

(a) insurance revenue.

(b) insurance service expenses, showing separately:

(i) incurred claims (excluding investment components) and other incurred insurance service expenses;

(ii) amortisation of insurance acquisition cash flows;

(iii) changes that relate to past service, ie changes in fulfilment cash flows relating to the liability for incurred claims; and

(iv) changes that relate to future service, ie losses on onerous groups of contracts and reversals of such losses.

(c) investment components excluded from insurance revenue and insurance service expenses.

104 An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable:

(a) changes that relate to future service, applying paragraphs B96–B118, showing separately:

(i) changes in estimates that adjust the contractual service margin;

(ii) changes in estimates that do not adjust the contractual service margin, ie losses on groups of onerous contracts and reversals of such losses; and

(iii) the effects of contracts initially recognised in the period.

(b) changes that relate to current service, ie:

(i) the amount of the contractual service margin recognised in profit or loss to reflect the transfer of services;

(ii) the change in the risk adjustment for non-financial risk that does not relate to future service or past service; and

(iii) *experience adjustments* (see paragraphs B96(a), B97(c) and B113(a)).

(c) changes that relate to past service, ie changes in fulfilment cash flows relating to incurred claims (see paragraphs B97(b) and B113(a)).

105 To complete the reconciliations in paragraphs 100–101, an entity shall also disclose separately each of the following amounts not related to insurance services provided in the period, if applicable:

(a) cash flows in the period, including:

(i) premiums received for insurance contracts issued (or paid for reinsurance contracts held);

(ii) insurance acquisition cash flows; and

(iii) incurred claims paid and other insurance service expenses paid for insurance contracts issued (or recovered under reinsurance contracts held), excluding insurance acquisition cash flows.

(b) the effect of changes in the risk of non-performance by the issuer of reinsurance contracts held;

(c) insurance finance income or expenses; and

(d) any additional line items that may be necessary to understand the change in the net carrying amount of the insurance contracts.

106 For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognised in the period comprising:

(a) the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing:

(i) the insurance service expenses incurred during the period as specified in paragraph B124(a);

(ii) the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b); and

(iii) the amount of the contractual service margin recognised in profit or loss because of the transfer of services in the period, as specified in paragraph B124(c).

(b) the allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows.

107 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognised in the period, showing their effect at initial recognition on:

(a) the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows;

(b) the estimates of the present value of future cash inflows;

(c) the risk adjustment for non-financial risk; and

(d) the contractual service margin.

108 In the disclosures required by paragraph 107, an entity shall separately disclose amounts resulting from:

(a) contracts acquired from other entities in transfers of insurance contracts or business combinations; and

(b) groups of contracts that are onerous.

109 For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, either quantitatively, in appropriate time bands, or by providing qualitative information. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.

Insurance finance income or expenses

110 An entity shall disclose and explain the total amount of insurance finance income or expenses in the reporting period. In particular, an entity shall explain the relationship between insurance finance income or expenses and the investment return on its assets, to enable users of its financial statements to evaluate the sources of finance income or expenses recognised in profit or loss and other comprehensive income.

111 For contracts with direct participation features, the entity shall describe the composition of the underlying items and disclose their fair value.

112 For contracts with direct participation features, if an entity chooses not to adjust the contractual service margin for some changes in the fulfilment cash flows, applying paragraph B115, it shall disclose the effect of that choice on the adjustment to the contractual service margin in the current period.

113 For contracts with direct participation features, if an entity changes the basis of disaggregation of insurance finance income or expenses between profit or loss and other comprehensive income, applying paragraph B135, it shall disclose, in the period when the change in approach occurred:

(a) the reason why the entity was required to change the basis of disaggregation;

(b) the amount of any adjustment for each financial statement line item affected; and

(c) the carrying amount of the group of insurance contracts to which the change applied at the date of the change.

Transition amounts

114 An entity shall provide disclosures that enable users of financial statements to identify the effect of groups of insurance contracts measured at the transition date applying the modified retrospective approach (see paragraphs C6–C19) or the fair value approach (see paragraphs C20–C24) on the contractual service margin and insurance revenue in subsequent periods. Hence an entity shall disclose the reconciliation of the contractual service margin applying paragraph 101(c), and the amount of insurance revenue applying paragraph 103(a), separately for:

(a) insurance contracts that existed at the transition date to which the entity has applied the modified retrospective approach;

(b) insurance contracts that existed at the transition date to which the entity has applied the fair value approach; and

(c) all other insurance contracts.

115 For all periods in which disclosures are made applying paragraphs 114(a) or 114(b), to enable users of financial statements to understand the nature and significance of the methods used and judgements applied in determining the transition amounts, an entity shall explain how it determined the measurement of insurance contracts at the transition date.

116 An entity that chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income applies paragraphs C18(b), C19(b), C24(b) and C24(c) to determine the cumulative difference between the insurance finance income or expenses that would have been recognised in profit or loss and the total insurance finance income or expenses at the transition date for the groups of insurance contracts to which the disaggregation applies. For all periods in which amounts determined applying these paragraphs exist, the entity shall disclose a reconciliation from the opening to the closing balance of the cumulative amounts included in other comprehensive income for financial assets measured at fair value through other comprehensive income related to the groups of insurance contracts. The reconciliation shall include, for example, gains or losses recognised in other comprehensive income in the period and gains or losses previously recognised in other comprehensive income in previous periods reclassified in the period to profit or loss.

Significant judgements in applying NZ IFRS 17

117 An entity shall disclose the significant judgements and changes in judgements made in applying NZ IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including:

(a) the methods used to measure insurance contracts within the scope of NZ IFRS 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.

(b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.

(c) to the extent not covered in (a), the approach used:

(i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);

(ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;

(iii) to determine discount rates; and

(iv) to determine investment components.

118 If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income,

the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.

119 An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.

120 An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.

Nature and extent of risks that arise from contracts within the scope of NZ IFRS 17

121 An entity shall disclose information that enables users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from contracts within the scope of NZ IFRS 17. Paragraphs 122–132 contain requirements for disclosures that would normally be necessary to meet this requirement.

122 These disclosures focus on the insurance and financial risks that arise from insurance contracts and how they have been managed. Financial risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

123 If the information disclosed about an entity’s exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, the entity shall disclose that fact, the reason why the period-end exposure is not representative, and further information that is representative of its risk exposure during the period.

124 For each type of risk arising from contracts within the scope of NZ IFRS 17, an entity shall disclose:

(a) the exposures to risks and how they arise;

(b) the entity’s objectives, policies and processes for managing the risks and the methods used to measure the risks; and

(c) any changes in (a) or (b) from the previous period.

125 For each type of risk arising from contracts within the scope of NZ IFRS 17, an entity shall disclose:

(a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the entity’s key management personnel.

(b) the disclosures required by paragraphs 127–132, to the extent not provided applying (a) of this paragraph.

126 An entity shall disclose information about the effect of the regulatory frameworks in which it operates; for example, minimum capital requirements or required interest-rate guarantees. If an entity applies paragraph 20 in determining the groups of insurance contracts to which it applies the recognition and measurement requirements of NZ IFRS 17, it shall disclose that fact.

All types of risk—concentrations of risk

127 An entity shall disclose information about concentrations of risk arising from contracts within the scope of NZ IFRS 17, including a description of how the entity determines the concentrations, and a description of the shared characteristic that identifies each concentration (for example, the type of *insured event*, industry, geographical area, or currency). Concentrations of financial risk might arise, for example, from interest-rate guarantees that come into effect at the same level for a large number of contracts. Concentrations of financial risk might also arise from concentrations of non-financial risk; for example, if an entity provides product liability protection to pharmaceutical companies and also holds investments in those companies.

Insurance and market risks—sensitivity analysis

128 An entity shall disclose information about sensitivities to changes in risk exposures arising from contracts within the scope of NZ IFRS 17. To comply with this requirement, an entity shall disclose:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected by changes in risk exposures that were reasonably possible at the end of the reporting period:

(i) for insurance risk—showing the effect for insurance contracts issued, before and after risk mitigation by reinsurance contracts held; and

(ii) for each type of market risk—in a way that explains the relationship between the sensitivities to changes in risk exposures arising from insurance contracts and those arising from financial assets held by the entity.

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis, and the reasons for such changes.

129 If an entity prepares a sensitivity analysis that shows how amounts different from those specified in paragraph 128(a) are affected by changes in risk exposures and uses that sensitivity analysis to manage risks arising from contracts within the scope of NZ IFRS 17, it may use that sensitivity analysis in place of the analysis specified in paragraph 128(a). The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the information provided; and

(b) an explanation of the objective of the method used and of any limitations that may result in the information provided.

Insurance risk—claims development

130 An entity shall disclose actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall start with the period when the earliest material claim(s) arose and for which there is still uncertainty about the amount and timing of the claims payments at the end of the reporting period; but the disclosure is not required to start more than 10 years before the end of the reporting period. The entity is not required to disclose information about the development of claims for which uncertainty about the amount and timing of the claims payments is typically resolved within one year. An entity shall reconcile the disclosure about claims development with the aggregate carrying amount of the groups of insurance contracts, which the entity discloses applying paragraph 100(c).

Credit risk—other information

131 For credit risk that arises from contracts within the scope of NZ IFRS 17, an entity shall disclose:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period, separately for insurance contracts issued and reinsurance contracts held; and

(b) information about the credit quality of reinsurance contracts held that are assets.

Liquidity risk—other information

132 For liquidity risk arising from contracts within the scope of NZ IFRS 17, an entity shall disclose:

(a) a description of how it manages the liquidity risk.

(b) separate maturity analyses for groups of insurance contracts issued that are liabilities and groups of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the groups for each of the first five years after the reporting date and in aggregate beyond the first five years. An entity is not required to include in these analyses liabilities for remaining coverage measured applying paragraphs 55–59. The analyses may take the form of:

(i) an analysis, by estimated timing, of the remaining contractual undiscounted net cash flows; or

(ii) an analysis, by estimated timing, of the estimates of the present value of the future cash flows.

(c) the amounts that are payable on demand, explaining the relationship between such amounts and the carrying amount of the related groups of contracts, if not disclosed applying (b) of this paragraph.

Appendix A
Defined terms

This appendix is an integral part of NZ IFRS 17 Insurance Contracts.

contractual service margin	A component of the carrying amount of the asset or liability for a **group of insurance contracts** representing the unearned profit the entity will recognise as it provides services under the **insurance contracts** in the group.
coverage period	The period during which the entity provides coverage for **insured events**. This period includes the coverage that relates to all premiums within the boundary of the **insurance contract**.
experience adjustment	A difference between: (a) for premium receipts (and any related cash flows such as **insurance acquisition cash flows** and insurance premium taxes)—the estimate at the beginning of the period of the amounts expected in the period and the actual cash flows in the period; or (b) for insurance service expenses (excluding insurance acquisition expenses)—the estimate at the beginning of the period of the amounts expected to be incurred in the period and the actual amounts incurred in the period.
financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency 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.
fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (ie expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils **insurance contracts**, including a **risk adjustment for non-financial risk**.
group of insurance contracts	A set of **insurance contracts** resulting from the division of a **portfolio of insurance contracts** into, at a minimum, contracts written within a period of no longer than one year and that, at initial recognition: (a) are onerous, if any; (b) have no significant possibility of becoming onerous subsequently, if any; or (c) do not fall into either (a) or (b), if any.
insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a **group of insurance contracts** that are directly attributable to the **portfolio of insurance contracts** to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or **groups of insurance contracts** within the portfolio.
insurance contract	A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder**.
insurance contract with direct participation features	An **insurance contract** for which, at inception: (a) the contractual terms specify that the **policyholder** participates in a share of a clearly identified pool of **underlying items**; (b) the entity expects to pay to the **policyholder** an amount equal to a substantial share of the fair value returns on the **underlying items**; and (c) the entity expects a substantial proportion of any change in the amounts to be paid to the **policyholder** to vary with the change in fair value of the **underlying items**.

insurance contract without direct participation features	An **insurance contract** that is not an **insurance contract with direct participation features**.
insurance risk	Risk, other than **financial risk**, transferred from the holder of a contract to the issuer.
insured event	An uncertain future event covered by an **insurance contract** that creates **insurance risk**.
investment component	The amounts that an **insurance contract** requires the entity to repay to a **policyholder** even if an **insured event** does not occur.
investment contract with discretionary participation features	A financial instrument that provides a particular investor with the contractual right to receive, as a supplement to an amount not subject to the discretion of the issuer, additional amounts: (a) that are expected to be a significant portion of the total contractual benefits; (b) the timing or amount of which are contractually at the discretion of the issuer; and (c) that are contractually based on: (i) the returns on a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the entity or fund that issues the contract.
liability for incurred claims	An entity's obligation to investigate and pay valid claims for **insured events** that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.
liability for remaining coverage	An entity's obligation to investigate and pay valid claims under existing **insurance contracts** for **insured events** that have not yet occurred (ie the obligation that relates to the unexpired portion of the **coverage period**).
policyholder	A party that has a right to compensation under an **insurance contract** if an **insured event** occurs.
portfolio of insurance contracts	**Insurance contracts** subject to similar risks and managed together.
reinsurance contract	An **insurance contract** issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more **insurance contracts** issued by that other entity (underlying contracts).
risk adjustment for non-financial risk	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils **insurance contracts**.
underlying items	Items that determine some of the amounts payable to a **policyholder**. **Underlying items** can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity.

Appendix B
Application guidance

This appendix is an integral part of NZ IFRS 17 Insurance Contracts.

B1 This appendix provides guidance on the following:

(a) definition of an insurance contract (see paragraphs B2–B30);

(b) separation of components from an insurance contract (see paragraphs B31–B35);

(c) measurement (see paragraphs B36–B119);

(d) insurance revenue (see paragraphs B120–B127);

(e) insurance finance income or expenses (see paragraphs B128–B136); and

(f) interim financial statements (see paragraph B137).

Definition of an insurance contract (Appendix A)

B2 This section provides guidance on the definition of an insurance contract as specified in Appendix A. It addresses the following:

(a) uncertain future event (see paragraphs B3–B5);

(b) payments in kind (see paragraph B6);

(c) the distinction between insurance risk and other risks (see paragraphs B7–B16);

(d) significant insurance risk (see paragraphs B17–B23);

(e) changes in the level of insurance risk (see paragraphs B24–B25); and

(f) examples of insurance contracts (see paragraphs B26–B30).

Uncertain future event

B3 Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:

(a) the probability of an insured event occurring;

(b) when the insured event will occur; or

(c) how much the entity will need to pay if the insured event occurs.

B4 In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if that loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

B5 Some insurance contracts cover events that have already occurred but the financial effect of which is still uncertain. An example is an insurance contract that provides coverage against an adverse development of an event that has already occurred. In such contracts, the insured event is the determination of the ultimate cost of those claims.

Payments in kind

B6 Some insurance contracts require or permit payments to be made in kind. In such cases, the entity provides goods or services to the policyholder to settle the entity's obligation to compensate the policyholder for insured events. An example is when the entity replaces a stolen article instead of reimbursing the policyholder for the amount of its loss. Another example is when an entity uses its own hospitals and medical staff to provide medical services covered by the insurance contract. Such contracts are insurance contracts, even though the claims are settled in kind. Fixed-fee service contracts that meet the conditions specified in paragraph 8 are also insurance contracts, but applying paragraph 8, an entity may choose to account for them applying either NZ IFRS 17 or NZ IFRS 15 *Revenue from Contracts with Customers*.

The distinction between insurance risk and other risks

B7 The definition of an insurance contract requires that one party accepts significant insurance risk from another party. NZ IFRS 17 defines insurance risk as ‘risk, other than financial risk, transferred from the holder of a contract to the issuer’. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

B8 The definition of financial risk in Appendix A refers to financial and non-financial variables. Examples of non-financial variables not specific to a party to the contract include an index of earthquake losses in a particular region or temperatures in a particular city. Financial risk excludes risk from non-financial variables that are specific to a party to the contract, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the fair value of a non-financial asset is not a financial risk if the fair value reflects changes in the market prices for such assets (ie a financial variable) and the condition of a specific non-financial asset held by a party to a contract (ie a non-financial variable). For example, if a guarantee of the residual value of a specific car in which the policyholder has an insurable interest exposes the guarantor to the risk of changes in the car’s physical condition, that risk is insurance risk, not financial risk.

B9 Some contracts expose the issuer to financial risk in addition to significant insurance risk. For example, many life insurance contracts guarantee a minimum rate of return to policyholders, creating financial risk, and at the same time promise death benefits that may significantly exceed the policyholder’s account balance, creating insurance risk in the form of mortality risk. Such contracts are insurance contracts.

B10 Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided that the payment contingent on the insured event could be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because the payment is triggered by an uncertain future event—the survival of the person who receives the annuity. The link to the price index is a derivative, but it also transfers insurance risk because the number of payments to which the index applies depends on the survival of the annuitant. If the resulting transfer of insurance risk is significant, the derivative meets the definition of an insurance contract, in which case it shall not be separated from the host contract (see paragraph 11(a)).

B11 Insurance risk is the risk the entity accepts from the policyholder. This means the entity must accept, from the policyholder, a risk to which the policyholder was already exposed. Any new risk created by the contract for the entity or the policyholder is not insurance risk.

B12 The definition of an insurance contract refers to an adverse effect on the policyholder. This definition does not limit the payment by the entity to an amount equal to the financial effect of the adverse event. For example, the definition includes ‘new for old’ coverage that pays the policyholder an amount that permits the replacement of a used and damaged asset with a new one. Similarly, the definition does not limit the payment under a life insurance contract to the financial loss suffered by the deceased’s dependants, nor does it exclude contracts that specify the payment of predetermined amounts to quantify the loss caused by death or an accident.

B13 Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying financial or non-financial variable correlated with the cash flows from an asset of the entity, the derivative is not an insurance contract because the payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. The definition of an insurance contract refers to an uncertain future event for which an adverse effect on the policyholder is a contractual precondition for payment. A contractual precondition does not require the entity to investigate whether the event actually caused an adverse effect, but it does permit the entity to deny the payment if it is not satisfied that the event did cause an adverse effect.

B14 Lapse or persistency risk (the risk that the policyholder will cancel the contract earlier or later than the issuer had expected when pricing the contract) is not insurance risk because the resulting variability in the payment to the policyholder is not contingent on an uncertain future event that adversely affects the policyholder. Similarly, expense risk (ie the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in the costs associated with insured events) is not insurance risk because an unexpected increase in such expenses does not adversely affect the policyholder.

B15 Consequently, a contract that exposes the entity to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the entity to significant insurance risk. However, if the entity mitigates its risk by using a second contract to transfer part of the non-insurance risk to another party, the second contract exposes the other party to insurance risk.

B16 An entity can accept significant insurance risk from the policyholder only if the entity is separate from the policyholder. In the case of a mutual entity, the mutual entity accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

Significant insurance risk

B17 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs B7–B16 discuss insurance risk. Paragraphs B18–B23 discuss the assessment of whether the insurance risk is significant.

B18 Insurance risk is significant if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance (ie no discernible effect on the economics of the transaction). If an insured event could mean significant additional amounts would be payable in any scenario that has commercial substance, the condition in the previous sentence can be met even if the insured event is extremely unlikely, or even if the expected (ie probability-weighted) present value of the contingent cash flows is a small proportion of the expected present value of the remaining cash flows from the insurance contract.

B19 In addition, a contract transfers significant insurance risk only if there is a scenario that has commercial substance in which the issuer has a possibility of a loss on a present value basis. However, even if a reinsurance contract does not expose the issuer to the possibility of a significant loss, that contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts.

B20 The additional amounts described in paragraph B18 are determined on a present-value basis. If an insurance contract requires payment when an event with uncertain timing occurs and if the payment is not adjusted for the time value of money, there may be scenarios in which the present value of the payment increases, even if its nominal value is fixed. An example is insurance that provides a fixed death benefit when the policyholder dies, with no expiry date for the cover (often referred to as whole-life insurance for a fixed amount). It is certain that the policyholder will die, but the date of death is uncertain. Payments may be made when an individual policyholder dies earlier than expected. Because those payments are not adjusted for the time value of money, significant insurance risk could exist even if there is no overall loss on the portfolio of contracts. Similarly, contractual terms that delay timely reimbursement to the policyholder can eliminate significant insurance risk. An entity shall use the discount rates required in paragraph 36 to determine the present value of the additional amounts.

B21 The additional amounts described in paragraph B18 refer to the present value of amounts that exceed those that would be payable if no insured event had occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and assessment costs, but exclude:

(a) the loss of the ability to charge the policyholder for future service. For example, in an investment-linked life insurance contract, the death of the policyholder means that the entity can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the entity does not result from insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of a client. Consequently, the potential loss of future investment management fees is not relevant when assessing how much insurance risk is transferred by a contract.

(b) a waiver, on death, of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, their waiver does not compensate the policyholder for a pre-existing risk. Consequently, they are not relevant when assessing how much insurance risk is transferred by a contract.

(c) a payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay CU1 million[1] if an asset suffers physical damage that causes an insignificant economic loss of CU1 to the holder. In this contract, the holder transfers the insignificant risk of losing CU1 to the issuer. At the same time, the contract creates a non-insurance risk that the issuer will need to pay CU999,999 if the specified event occurs. Because there is no scenario in which an insured event causes a significant loss to the holder of the contract, the issuer does not accept significant insurance risk from the holder and this contract is not an insurance contract.

[1] CU denotes currency unit.

(d) possible reinsurance recoveries. The entity accounts for these separately.

B22 An entity shall assess the significance of insurance risk contract by contract. Consequently, the insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts.

B23 It follows from paragraphs B18–B22 that, if a contract pays a death benefit that exceeds the amount payable on survival, the contract is an insurance contract unless the additional death benefit is not significant (judged by reference to the contract itself rather than to an entire portfolio of contracts). As noted in paragraph B21(b), the waiver on death of cancellation or surrender charges is not included in this assessment if that waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life-contingent payments are insignificant.

Changes in the level of insurance risk

B24 For some contracts, the transfer of insurance risk to the issuer occurs after a period of time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the same rates the entity charges other new annuitants at the time the policyholder exercises that option. Such a contract transfers insurance risk to the issuer only after the option is exercised, because the entity remains free to price the annuity on a basis that reflects the insurance risk that will be transferred to the entity at that time. Consequently, the cash flows that would occur on the exercise of the option fall outside the boundary of the contract, and before exercise there are no insurance cash flows within the boundary of the contract. However, if the contract specifies the annuity rates (or a basis other than market rates for setting the annuity rates), the contract transfers insurance risk to the issuer because the issuer is exposed to the risk that the annuity rates will be unfavourable to the issuer when the policyholder exercises the option. In that case, the cash flows that would occur when the option is exercised are within the boundary of the contract.

B25 A contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (ie discharged, cancelled or expired), unless the contract is derecognised applying paragraphs 74–77, because of a contract modification.

Examples of insurance contracts

B26 The following are examples of contracts that are insurance contracts if the transfer of insurance risk is significant:

(a) insurance against theft or damage.

(b) insurance against product liability, professional liability, civil liability or legal expenses.

(c) life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).

(d) life-contingent annuities and pensions, ie contracts that provide compensation for the uncertain future event—the survival of the annuitant or pensioner—to provide the annuitant or pensioner with a level of income that would otherwise be adversely affected by his or her survival. (Employers' liabilities that arise from employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans are outside the scope of NZ IFRS 17, applying paragraph 7(b)).

(e) insurance against disability and medical costs.

(f) surety bonds, fidelity bonds, performance bonds and bid bonds, ie contracts that compensate the holder if another party fails to perform a contractual obligation; for example, an obligation to construct a building.

(g) product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of NZ IFRS 17. However, product warranties issued directly by a manufacturer, dealer or retailer are outside the scope of NZ IFRS 17 applying paragraph 7(a), and are instead within the scope of NZ IFRS 15 or NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(h) title insurance (insurance against the discovery of defects in the title to land or buildings that were not apparent when the insurance contract was issued). In this case, the insured event is the discovery of a defect in the title, not the defect itself.

(i) travel insurance (compensation in cash or in kind to policyholders for losses suffered in advance of, or during, travel).

(j) catastrophe bonds that provide for reduced payments of principal, interest or both, if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk; for example, if the event is a change in an interest rate or a foreign exchange rate).

(k) insurance swaps and other contracts that require a payment depending on changes in climatic, geological or other physical variables that are specific to a party to the contract.

B27 The following are examples of items that are not insurance contracts:

(a) investment contracts that have the legal form of an insurance contract but do not transfer significant insurance risk to the issuer. For example, life insurance contracts in which the entity bears no significant mortality or morbidity risk are not insurance contracts; such contracts are financial instruments or service contracts—see paragraph B28. Investment contracts with discretionary participation features do not meet the definition of an insurance contract; however, they are within the scope of NZ IFRS 17 provided they are issued by an entity that also issues insurance contracts, applying paragraph 3(c).

(b) contracts that have the legal form of insurance, but return all significant insurance risk to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder to the issuer as a direct result of insured losses. For example, some financial reinsurance contracts or some group contracts return all significant insurance risk to the policyholders; such contracts are normally financial instruments or service contracts (see paragraph B28).

(c) self-insurance (ie retaining a risk that could have been covered by insurance). In such situations, there is no insurance contract because there is no agreement with another party. Thus, if an entity issues an insurance contract to its parent, subsidiary or fellow subsidiary, there is no insurance contract in the consolidated financial statements because there is no contract with another party. However, for the individual or separate financial statements of the issuer or holder, there is an insurance contract.

(d) contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, the event to adversely affect the policyholder. However, this does not exclude from the definition of an insurance contract contracts that specify a predetermined payout to quantify the loss caused by a specified event such as a death or an accident (see paragraph B12).

(e) derivatives that expose a party to financial risk but not insurance risk, because the derivatives require that party to make (or give them the right to receive) payment solely based on the changes in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or a credit index or any other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract.

(f) credit-related guarantees that require payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due; such contracts are accounted for applying NZ IFRS 9 *Financial Instruments* (see paragraph B29).

(g) contracts that require a payment that depends on a climatic, geological or any other physical variable not specific to a party to the contract (commonly described as weather derivatives).

(h) contracts that provide for reduced payments of principal, interest or both, that depend on a climatic, geological or any other physical variable, the effect of which is not specific to a party to the contract (commonly referred to as catastrophe bonds).

B28 An entity shall apply other applicable Standards, such as NZ IFRS 9 and NZ IFRS 15, to the contracts described in paragraph B27.

B29 The credit-related guarantees and credit insurance contracts discussed in paragraph B27(f) can have various legal forms, such as that of a guarantee, some types of letters of credit, a credit default contract or an insurance contract. Those contracts are insurance contracts if they require the issuer to make specified payments to reimburse the holder for a loss that the holder incurs because a specified debtor fails to make payment when due to the policyholder applying the original or modified terms of a debt instrument. However, such insurance contracts are excluded from the scope of NZ IFRS 17 unless the issuer has previously asserted explicitly that it regards the contracts as insurance contracts and has used accounting applicable to insurance contracts (see paragraph 7(e)).

B30 Credit-related guarantees and credit insurance contracts that require payment, even if the policyholder has not incurred a loss on the failure of the debtor to make payments when due, are outside the scope of NZ IFRS 17 because they do not transfer significant insurance risk. Such contracts include those that require payment:

(a) regardless of whether the counterparty holds the underlying debt instrument; or

(b) on a change in the credit rating or the credit index, rather than on the failure of a specified debtor to make payments when due.

Separating components from an insurance contract (paragraphs 10–13)

Investment components (paragraph 11(b))

B31 Paragraph 11(b) requires an entity to separate a distinct investment component from the host insurance contract. An investment component is distinct if, and only if, both the following conditions are met:

(a) the investment component and the insurance component are not highly interrelated.

(b) a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties. The entity shall take into account all information reasonably available in making this determination. The entity is not required to undertake an exhaustive search to identify whether an investment component is sold separately.

B32 An investment component and an insurance component are highly interrelated if, and only if:

(a) the entity is unable to measure one component without considering the other. Thus, if the value of one component varies according to the value of the other, an entity shall apply NZ IFRS 17 to account for the combined investment and insurance component; or

(b) the policyholder is unable to benefit from one component unless the other is also present. Thus, if the lapse or maturity of one component in a contract causes the lapse or maturity of the other, the entity shall apply NZ IFRS 17 to account for the combined investment component and insurance component.

Promises to transfer distinct goods or non-insurance services (paragraph 12)

B33 Paragraph 12 requires an entity to separate from an insurance contract a promise to transfer distinct goods or non-insurance services to a policyholder. For the purpose of separation, an entity shall not consider activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the tasks are performed.

B34 A good or non-insurance service promised to a policyholder is distinct if the policyholder can benefit from the good or service either on its own or together with other resources readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the entity or by another entity), or resources that the policyholder has already got (from the entity or from other transactions or events).

B35 A good or non-insurance service that is promised to the policyholder is not distinct if:

(a) the cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and

(b) the entity provides a significant service in integrating the good or non-insurance service with the insurance components.

Measurement (paragraphs 29–71)

Estimates of future cash flows (paragraphs 33–35)

B36 This section addresses:

(a) unbiased use of all reasonable and supportable information available without undue cost or effort (see paragraphs B37–B41);

(b) market variables and non-market variables (see paragraphs B42–B53);

(c) using current estimates (see paragraphs B54–B60); and

(d) cash flows within the contract boundary (see paragraphs B61–B71).

Unbiased use of all reasonable and supportable information available without undue cost or effort (paragraph 33(a))

B37 The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of future conditions (see paragraph B41). Information available from an entity's own information systems is considered to be available without undue cost or effort.

B38 The starting point for an estimate of the cash flows is a range of scenarios that reflects the full range of possible outcomes. Each scenario specifies the amount and timing of the cash flows for a particular outcome, and the estimated probability of that outcome. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. Consequently, the objective is not to develop a most likely outcome, or a more-likely-than-not outcome, for future cash flows.

B39 When considering the full range of possible outcomes, the objective is to incorporate all reasonable and supportable information available without undue cost or effort in an unbiased way, rather than to identify every possible scenario. In practice, developing explicit scenarios is unnecessary if the resulting estimate is consistent with the measurement objective of considering all reasonable and supportable information available without undue cost or effort when determining the mean. For example, if an entity estimates that the probability distribution of outcomes is broadly consistent with a probability distribution that can be described completely with a small number of parameters, it will be sufficient to estimate the smaller number of parameters. Similarly, in some cases, relatively simple modelling may give an answer within an acceptable range of precision, without the need for many detailed simulations. However, in some cases, the cash flows may be driven by complex underlying factors and may respond in a non-linear fashion to changes in economic conditions. This may happen if, for example, the cash flows reflect a series of interrelated options that are implicit or explicit. In such cases, more sophisticated stochastic modelling is likely to be necessary to satisfy the measurement objective.

B40 The scenarios developed shall include unbiased estimates of the probability of catastrophic losses under existing contracts. Those scenarios exclude possible claims under possible future contracts.

B41 An entity shall estimate the probabilities and amounts of future payments under existing contracts on the basis of information obtained including:

(a) information about claims already reported by policyholders.

(b) other information about the known or estimated characteristics of the insurance contracts.

(c) historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted to reflect current conditions, for example, if:

(i) the characteristics of the insured population differ (or will differ, for example, because of adverse selection) from those of the population that has been used as a basis for the historical data;

(ii) there are indications that historical trends will not continue, that new trends will emerge or that economic, demographic and other changes may affect the cash flows that arise from the existing insurance contracts; or

(iii) there have been changes in items such as underwriting procedures and claims management procedures that may affect the relevance of historical data to the insurance contracts.

(d) current price information, if available, for reinsurance contracts and other financial instruments (if any) covering similar risks, such as catastrophe bonds and weather derivatives, and recent market prices for transfers of insurance contracts. This information shall be adjusted to reflect the differences between the cash flows that arise from those reinsurance contracts or other financial instruments, and the cash flows that would arise as the entity fulfils the underlying contracts with the policyholder.

Market variables and non-market variables

B42 NZ IFRS 17 identifies two types of variables:

(a) market variables—variables that can be observed in, or derived directly from, markets (for example, prices of publicly traded securities and interest rates); and

(b) non-market variables—all other variables (for example, the frequency and severity of insurance claims and mortality).

B43 Market variables will generally give rise to financial risk (for example, observable interest rates) and non-market variables will generally give rise to non-financial risk (for example, mortality rates). However, this will not always be the case. For example, there may be assumptions that relate to financial risks for which variables cannot be observed in, or derived directly from, markets (for example, interest rates that cannot be observed in, or derived directly from, markets).

Market variables (paragraph 33(b))

B44 Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall maximise the use of observable inputs and shall not substitute its own estimates for observable market data except as described in paragraph 79 of NZ IFRS 13 *Fair Value Measurement*. Consistent with NZ IFRS 13, if variables need to be derived (for example, because no observable market variables exist) they shall be as consistent as possible with observable market variables.

B45 Market prices blend a range of views about possible future outcomes and also reflect the risk preferences of market participants. Consequently, they are not a single-point forecast of the future outcome. If the actual outcome differs from the previous market price, this does not mean that the market price was 'wrong'.

B46 An important application of market variables is the notion of a replicating asset or a replicating portfolio of assets. A replicating asset is one whose cash flows *exactly* match, in all scenarios, the contractual cash flows of a group of insurance contracts in amount, timing and uncertainty. In some cases, a replicating asset may exist for some of the cash flows that arise from a group of insurance contracts. The fair value of that asset reflects both the expected present value of the cash flows from the asset and the risk associated with those cash flows. If a replicating portfolio of assets exists for some of the cash flows that arise from a group of insurance contracts, the entity can use the fair value of those assets to measure the relevant fulfilment cash flows instead of explicitly estimating the cash flows and discount rate.

B47 NZ IFRS 17 does not require an entity to use a replicating portfolio technique. However, if a replicating asset or portfolio does exist for some of the cash flows that arise from insurance contracts and an entity chooses to use a different technique, the entity shall satisfy itself that a replicating portfolio technique would be unlikely to lead to a materially different measurement of those cash flows.

B48 Techniques other than a replicating portfolio technique, such as stochastic modelling techniques, may be more robust or easier to implement if there are significant interdependencies between cash flows that vary based on returns on assets and other cash flows. Judgement is required to determine the technique that best meets the objective of consistency with observable market variables in specific circumstances. In particular, the technique used must result in the measurement of any options and guarantees included in the insurance contracts being consistent with observable market prices (if any) for such options and guarantees.

Non-market variables

B49 Estimates of non-market variables shall reflect all reasonable and supportable evidence available without undue cost or effort, both external and internal.

B50 Non-market external data (for example, national mortality statistics) may have more or less relevance than internal data (for example, internally developed mortality statistics), depending on the circumstances. For example, an entity that issues life insurance contracts shall not rely solely on national mortality statistics, but shall consider all other reasonable and supportable internal and external sources of information available without undue cost or effort when developing unbiased estimates of probabilities for mortality scenarios for its insurance contracts. In developing those probabilities, an entity shall give more weight to the more persuasive information. For example:

(a) internal mortality statistics may be more persuasive than national mortality data if national data is derived from a large population that is not representative of the insured population. This might be because, for example, the demographic characteristics of the insured population could significantly differ from those of the national population, meaning that an entity would need to place more weight on the internal data and less weight on the national statistics.

(b) conversely, if the internal statistics are derived from a small population with characteristics that are believed to be close to those of the national population, and the national statistics are current, an entity shall place more weight on the national statistics.

B51 Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

B52 In some cases, an entity may conclude that market variables vary independently of non-market variables. If so, the entity shall consider scenarios that reflect the range of outcomes for the non-market variables, with each scenario using the same observed value of the market variable.

B53 In other cases, market variables and non-market variables may be correlated. For example, there may be evidence that lapse rates (a non-market variable) are correlated with interest rates (a market variable). Similarly, there may be evidence that claim levels for house or car insurance are correlated with economic cycles and therefore with interest rates and expense amounts. The entity shall ensure that the probabilities for the scenarios and the risk adjustments for the non-financial risk that relates to the market variables are consistent with the observed market prices that depend on those market variables.

Using current estimates (paragraph 33(c))

B54 In estimating each cash flow scenario and its probability, an entity shall use all reasonable and supportable information available without undue cost or effort. An entity shall review the estimates that it made at the end of the previous reporting period and update them. In doing so, an entity shall consider whether:

(a) the updated estimates faithfully represent the conditions at the end of the reporting period.

(b) the changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, shifting the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all newly available evidence, giving more weight to the more persuasive evidence.

B55 The probability assigned to each scenario shall reflect the conditions at the end of the reporting period. Consequently, applying NZ IAS 10 *Events after the Reporting Period,* an event occurring after the end of the reporting period that resolves an uncertainty that existed at the end of the reporting period does not provide evidence of the conditions that existed at that date. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike during the remaining six months of an insurance contract. After the end of the reporting period but before the financial statements are authorised for issue, a major storm strikes. The fulfilment cash flows under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the cash flows included in the measurement include the 20 per cent probability apparent at the end of the reporting period (with disclosure applying NZ IAS 10 that a non-adjusting event occurred after the end of the reporting period).

B56 Current estimates of expected cash flows are not necessarily identical to the most recent actual experience. For example, suppose that mortality experience in the reporting period was 20 per cent worse than the previous mortality experience and previous expectations of mortality experience. Several factors could have caused the sudden change in experience, including:

(a) lasting changes in mortality;

(b) changes in the characteristics of the insured population (for example, changes in underwriting or distribution, or selective lapses by policyholders in unusually good health);

(c) random fluctuations; or

(d) identifiable non-recurring causes.

B57 An entity shall investigate the reasons for the change in experience and develop new estimates of cash flows and probabilities in the light of the most recent experience, the earlier experience and other information. The result for the example in paragraph B56 would typically be that the expected present value of death benefits changes, but not by as much as 20 per cent. In the example in paragraph B56, if mortality rates continue to be significantly higher than the previous estimates for reasons that are expected to continue, the estimated probability assigned to the high-mortality scenarios will increase.

B58 Estimates of non-market variables shall include information about the current level of insured events and information about trends. For example, mortality rates have consistently declined over long periods in many countries. The determination of the fulfilment cash flows reflects the probabilities that would be assigned to each possible trend scenario, taking account of all reasonable and supportable information available without undue cost or effort.

B59 Similarly, if cash flows allocated to a group of insurance contracts are sensitive to inflation, the determination of the fulfilment cash flows shall reflect current estimates of possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of fulfilment cash flows shall reflect the probabilities for each inflation scenario in a way that is consistent with the probabilities implied by the market interest rates used in estimating the discount rate (see paragraph B51).

B60 When estimating the cash flows, an entity shall take into account current expectations of future events that might affect those cash flows. The entity shall develop cash flow scenarios that reflect those future events, as well as unbiased estimates of the probability of each scenario. However, an entity shall not take into account current expectations of future changes in legislation that would change or discharge the present obligation or create new obligations under the existing insurance contract until the change in legislation is substantively enacted.

Cash flows within the contract boundary (paragraph 34)

B61 Estimates of cash flows in a scenario shall include all cash flows within the boundary of an existing contract and no other cash flows. An entity shall apply paragraph 2 in determining the boundary of an existing contract.

B62 Many insurance contracts have features that enable policyholders to take actions that change the amount, timing, nature or uncertainty of the amounts they will receive. Such features include renewal options, surrender options, conversion options and options to stop paying premiums while still receiving benefits under the contracts. The measurement of a group of insurance contracts shall reflect, on an expected value basis, the entity's current estimates of how the policyholders in the group will exercise the options available, and the risk adjustment for non-financial risk shall reflect the entity's current estimates of how the actual behaviour of the policyholders may differ from the expected behaviour. This requirement to determine the expected value applies regardless of the number of contracts in a group; for example it applies even if the group comprises a single contract. Thus, the measurement of a group of insurance contracts shall not assume a 100 per cent probability that policyholders will:

(a) surrender their contracts, if there is some probability that some of the policyholders will not; or

(b) continue their contracts, if there is some probability that some of the policyholders will not.

B63 When an issuer of an insurance contract is required by the contract to renew or otherwise continue the contract, it shall apply paragraph 34 to assess whether premiums and related cash flows that arise from the renewed contract are within the boundary of the original contract.

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining coverage. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

B65 Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

(a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).

(c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.

(d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).

(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

(f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).

(g) costs the entity will incur in providing contractual benefits paid in kind.

(h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.

(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.

(j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.

(k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.

(m) any other costs specifically chargeable to the policyholder under the terms of the contract.

B66 The following cash flows shall not be included when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:

(a) investment returns. Investments are recognised, measured and presented separately.

(b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.

(c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35).

(d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.

(e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.

(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying NZ IAS 12 *Income Taxes*.

(g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.

(h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).

Contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts

B67 Some insurance contracts affect the cash flows to policyholders of other contracts by requiring:

(a) the policyholder to share with policyholders of other contracts the returns on the same specified pool of underlying items; and

(b) either:

(i) the policyholder to bear a reduction in their share of the returns on the underlying items because of payments to policyholders of other contracts that share in that pool, including payments arising under guarantees made to policyholders of those other contracts; or

(ii) policyholders of other contracts to bear a reduction in their share of returns on the underlying items because of payments to the policyholder, including payments arising from guarantees made to the policyholder.

B68 Sometimes, such contracts will affect the cash flows to policyholders of contracts in other groups. The fulfilment cash flows of each group reflect the extent to which the contracts in the group cause the entity to be affected by expected cash flows, whether to policyholders in that group or to policyholders in another group. Hence the fulfilment cash flows for a group:

(a) include payments arising from the terms of existing contracts to policyholders of contracts in other groups, regardless of whether those payments are expected to be made to current or future policyholders; and

(b) exclude payments to policyholders in the group that, applying (a), have been included in the fulfilment cash flows of another group.

B69 For example, to the extent that payments to policyholders in one group are reduced from a share in the returns on underlying items of CU350 to CU250 because of payments of a guaranteed amount to policyholders in another group, the fulfilment cash flows of the first group would include the payments of CU100 (ie would be CU350) and the fulfilment cash flows of the second group would exclude CU100 of the guaranteed amount.

B70 Different practical approaches can be used to determine the fulfilment cash flows of groups of contracts that affect or are affected by cash flows to policyholders of contracts in other groups. In some cases, an entity might be able to identify the change in the underlying items and resulting change in the cash flows only at a higher level of aggregation than the groups. In such cases, the entity shall allocate the effect of the change in the underlying items to each group on a systematic and rational basis.

B71 After all the coverage has been provided to the contracts in a group, the fulfilment cash flows may still include payments expected to be made to current policyholders in other groups or future policyholders. An entity is not required to continue to allocate such fulfilment cash flows to specific groups but can instead recognise and measure a liability for such fulfilment cash flows arising from all groups.

Discount rates (paragraph 36)

B72 An entity shall use the following discount rates in applying NZ IFRS 17:

(a) to measure the fulfilment cash flows—current discount rates applying paragraph 36;

(b) to determine the interest to accrete on the contractual service margin applying paragraph 44(b) for insurance contracts without direct participation features—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

(c) to measure the changes to the contractual service margin applying paragraph B96(a)–B96(c) for insurance contracts without direct participation features—discount rates applying paragraph 36 determined on initial recognition;

(d) for groups of contracts applying the premium allocation approach that have a significant financing component, to adjust the carrying amount of the liability for remaining coverage applying paragraph 56—discount rates applying paragraph 36 determined on initial recognition;

(e) if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (see paragraph 88), to determine the amount of the insurance finance income or expenses included in profit or loss:

  (i) for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders, applying paragraph B131—discount rates determined at the date of initial recognition of a group of contracts, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items;

  (ii) for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to policyholders, applying paragraph B132(a)(i)—discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; and

  (iii) for groups of contracts applying the premium allocation approach applying paragraphs 59(b) and B133—discount rates determined at the date of the incurred claim, applying paragraph 36 to nominal cash flows that do not vary based on the returns on any underlying items.

B73 To determine the discount rates at the date of initial recognition of a group of contracts described in paragraphs B72(b)–B72(e), an entity may use weighted-average discount rates over the period that contracts in the group are issued, which applying paragraph 22 cannot exceed one year.

B74 Estimates of discount rates shall be consistent with other estimates used to measure insurance contracts to avoid double counting or omissions; for example:

(a) cash flows that do not vary based on the returns on any underlying items shall be discounted at rates that do not reflect any such variability;

(b) cash flows that vary based on the returns on any financial underlying items shall be:

  (i) discounted using rates that reflect that variability; or

  (ii) adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made.

(c) nominal cash flows (ie those that include the effect of inflation) shall be discounted at rates that include the effect of inflation; and

(d) real cash flows (ie those that exclude the effect of inflation) shall be discounted at rates that exclude the effect of inflation.

B75 Paragraph B74(b) requires cash flows that vary based on the returns on underlying items to be discounted using rates that reflect that variability, or to be adjusted for the effect of that variability and discounted at a rate that reflects the adjustment made. The variability is a relevant factor regardless of whether it arises because of contractual terms or because the entity exercises discretion, and regardless of whether the entity holds the underlying items.

B76 Cash flows that vary with returns on underlying items with variable returns, but that are subject to a guarantee of a minimum return, do not vary solely based on the returns on the underlying items, even when the guaranteed amount is lower than the expected return on the underlying items. Hence, an entity shall adjust the rate that reflects the variability of the returns on the underlying items for the effect of the guarantee, even when the guaranteed amount is lower than the expected return on the underlying items.

B77 NZ IFRS 17 does not require an entity to divide estimated cash flows into those that vary based on the returns on underlying items and those that do not. If an entity does not divide the estimated cash flows in this way, the entity shall apply discount rates appropriate for the estimated cash flows as a whole; for example, using stochastic modelling techniques or risk-neutral measurement techniques.

B78 Discount rates shall include only relevant factors, ie factors that arise from the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Such discount rates may not be directly observable in the market. Hence, when observable market rates for an instrument with the same characteristics are not available, or observable market rates for similar instruments are available but do not separately identify the factors that distinguish the instrument from the insurance contracts, an entity shall estimate the appropriate rates. NZ IFRS 17 does not require a particular estimation technique for determining discount rates. In applying an estimation technique, an entity shall:

(a) maximise the use of observable inputs (see paragraph B44) and reflect all reasonable and supportable information on non-market variables available without undue cost or effort, both external and internal (see paragraph B49). In particular, the discount rates used shall not contradict any available and relevant market data, and any non-market variables used shall not contradict observable market variables.

(b) reflect current market conditions from the perspective of a market participant.

(c) exercise judgement to assess the degree of similarity between the features of the insurance contracts being measured and the features of the instrument for which observable market prices are available and adjust those prices to reflect the differences between them.

B79 For cash flows of insurance contracts that do not vary based on the returns on underlying items, the discount rate reflects the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk, adjusted to reflect the liquidity characteristics of the group of insurance contracts. That adjustment shall reflect the difference between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of the assets used to determine the yield curve. Yield curves reflect assets traded in active markets that the holder can typically sell readily at any time without incurring significant costs. In contrast, under some insurance contracts the entity cannot be forced to make payments earlier than the occurrence of insured events, or dates specified in the contracts.

B80 Hence, for cash flows of insurance contracts that do not vary based on the returns on underlying items, an entity may determine discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

B81 Alternatively, an entity may determine the appropriate discount rates for insurance contracts based on a yield curve that reflects the current market rates of return implicit in a fair value measurement of a reference portfolio of assets (a top-down approach). An entity shall adjust that yield curve to eliminate any factors that are not relevant to the insurance contracts, but is not required to adjust the yield curve for differences in liquidity characteristics of the insurance contracts and the reference portfolio.

B82 In estimating the yield curve described in paragraph B81:

(a) if there are observable market prices in active markets for assets in the reference portfolio, an entity shall use those prices (consistent with paragraph 69 of NZ IFRS 13).

(b) if a market is not active, an entity shall adjust observable market prices for similar assets to make them comparable to market prices for the assets being measured (consistent with paragraph 83 of NZ IFRS 13).

(c) if there is no market for assets in the reference portfolio, an entity shall apply an estimation technique. For such assets (consistent with paragraph 89 of NZ IFRS 13) an entity shall:

(i) develop unobservable inputs using the best information available in the circumstances. Such inputs might include the entity's own data and, in the context of NZ IFRS 17, the entity might place more weight on long-term estimates than on short-term fluctuations; and

(ii) adjust those data to reflect all information about market participant assumptions that is reasonably available.

B83 In adjusting the yield curve, an entity shall adjust market rates observed in recent transactions in instruments with similar characteristics for movements in market factors since the transaction date, and shall adjust observed market rates to reflect the degree of dissimilarity between the instrument being measured and the instrument for which transaction prices are observable. For cash flows of insurance contracts that do not vary based on the returns on the assets in the reference portfolio, such adjustments include:

(a) adjusting for differences between the amount, timing and uncertainty of the cash flows of the assets in the portfolio and the amount, timing and uncertainty of the cash flows of the insurance contracts; and

(b) excluding market risk premiums for credit risk, which are relevant only to the assets included in the reference portfolio.

B84 In principle, for cash flows of insurance contracts that do not vary based on the returns of the assets in the reference portfolio, there should be a single illiquid risk-free yield curve that eliminates all uncertainty about the amount and timing of cash flows. However, in practice the top-down approach and the bottom-up approach may result in different yield curves, even in the same currency. This is because of the inherent limitations in estimating the adjustments made under each approach, and the possible lack of an adjustment for different liquidity characteristics in the top-down approach. An entity is not required to reconcile the discount rate determined under its chosen approach with the discount rate that would have been determined under the other approach.

B85 NZ IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying paragraph B81. However, fewer adjustments would be required to eliminate factors that are not relevant to the insurance contracts when the reference portfolio of assets has similar characteristics. For example, if the cash flows from the insurance contracts do not vary based on the returns on underlying items, fewer adjustments would be required if an entity used debt instruments as a starting point rather than equity instruments. For debt instruments, the objective would be to eliminate from the total bond yield the effect of credit risk and other factors that are not relevant to the insurance contracts. One way to estimate the effect of credit risk is to use the market price of a credit derivative as a reference point.

Risk adjustment for non-financial risk (paragraph 37)

B86 The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph B14).

B87 The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:

(a) fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and

(b) fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

For example, the risk adjustment for non-financial risk would measure the compensation the entity would require to make it indifferent between fulfilling a liability that—because of non-financial risk—has a 50 per cent probability of being CU90 and a 50 per cent probability of being CU110, and fulfilling a liability that is fixed at CU100. As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows.

B88 Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:

(a) the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and

(b) both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.

B89 The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as general operational risk.

B90 The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for non-financial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.

B91 NZ IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for non-financial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:

(a) risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;

(b) for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;

(c) risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;

(d) the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and

(e) to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.

B92 An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.

Initial recognition of transfers of insurance contracts and business combinations (paragraph 39)

B93 When an entity acquires insurance contracts issued or reinsurance contracts held in a transfer of insurance contracts that do not form a business or in a business combination, the entity shall apply paragraphs 14–24 to identify the groups of contracts acquired, as if it had entered into the contracts on the date of the transaction.

B94 An entity shall use the consideration received or paid for the contracts as a proxy for the premiums received. The consideration received or paid for the contracts excludes the consideration received or paid for any other assets and liabilities acquired in the same transaction. In a business combination, the consideration received or paid is the fair value of the contracts at that date. In determining that fair value, an entity shall not apply paragraph 47 of NZ IFRS 13 (relating to demand features).

B95 Unless the premium allocation approach for the liability for remaining coverage in paragraphs 55–59 applies, on initial recognition the contractual service margin is calculated applying paragraph 38 for acquired insurance contracts issued and paragraph 65 for acquired reinsurance contracts held using the consideration received or paid for the contracts as a proxy for the premiums received or paid at the date of initial recognition. If acquired insurance contracts issued are onerous, applying paragraph 47, the entity shall recognise the excess of the fulfilment cash flows over the consideration paid or received as part of goodwill or gain on a bargain purchase for contracts acquired in a business combination or as a loss in profit or loss for contracts acquired in a transfer. The entity shall establish a loss component of the liability for remaining coverage for that excess, and apply paragraphs 49–52 to allocate subsequent changes in fulfilment cash flows to that loss component.

Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features (paragraph 44)

B96 For insurance contracts without direct participation features, paragraph 44(c) requires an adjustment to the contractual service margin of a group of insurance contracts for changes in fulfilment cash flows that relate to future service. These changes comprise:

(a) experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified in paragraph B72(c);

(b) changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those described in paragraph B97(a), measured at the discount rates specified in paragraph B72(c);

(c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, measured at the discount rates specified in paragraph B72(c); and

(d) changes in the risk adjustment for non-financial risk that relate to future service.

B97 An entity shall not adjust the contractual service margin for a group of insurance contracts without direct participation features for the following changes in fulfilment cash flows because they do not relate to future service:

(a) the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk (being the effect, if any, on estimated future cash flows and the effect of a change in discount rate);

(b) changes in estimates of fulfilment cash flows in the liability for incurred claims; and

(c) experience adjustments, except those described in paragraph B96(a).

B98 The terms of some insurance contracts without direct participation features give an entity discretion over the cash flows to be paid to policyholders. A change in the discretionary cash flows is regarded as relating to future service, and accordingly adjusts the contractual service margin. To determine how to identify a change in discretionary cash flows, an entity shall specify at inception of the contract the basis on which it expects to determine its commitment under the contract; for example, based on a fixed interest rate, or on returns that vary based on specified asset returns.

B99 An entity shall use that specification to distinguish between the effect of changes in assumptions that relate to financial risk on that commitment (which do not adjust the contractual service margin) and the effect of discretionary changes to that commitment (which adjust the contractual service margin).

B100 If an entity cannot specify at inception of the contract what it regards as its commitment under the contract and what it regards as discretionary, it shall regard its commitment to be the return implicit in the estimate of the fulfilment cash flows at inception of the contract, updated to reflect current assumptions that relate to financial risk.

Changes in the carrying amount of the contractual service margin for insurance contracts with direct participation features (paragraph 45)

B101 Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. Hence, they are defined as insurance contracts for which:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (see paragraphs B105–B106);

(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items (see paragraph B107); and

(c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items (see paragraph B107).

B102 An entity shall assess whether the conditions in paragraph B101 are met using its expectations at inception of the contract and shall not reassess the conditions afterwards, unless the contract is modified, applying paragraph 72.

B103 To the extent that insurance contracts in a group affect the cash flows to policyholders of contracts in other groups (see paragraphs B67–B71), an entity shall assess whether the conditions in paragraph B101 are met by considering the cash flows that the entity expects to pay the policyholders determined applying paragraphs B68–B70.

B104 The conditions in paragraph B101 ensure that insurance contracts with direct participation features are contracts under which the entity's obligation to the policyholder is the net of:

(a) the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and

(b) a variable fee (see paragraphs B110–B118) that the entity will deduct from (a) in exchange for the future service provided by the insurance contract, comprising:

(i) the entity's share of the fair value of the underlying items; less

(ii) fulfilment cash flows that do not vary based on the returns on underlying items.

B105 A share referred to in paragraph B101(a) does not preclude the existence of the entity's discretion to vary the amounts paid to the policyholder. However, the link to the underlying items must be enforceable (see paragraph 2).

B106 The pool of underlying items referred to in paragraph B101(a) can comprise any items, for example a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity, as long as they are clearly identified by the contract. An entity need not hold the identified pool of underlying items. However, a clearly identified pool of underlying items does not exist when:

(a) an entity can change the underlying items that determine the amount of the entity's obligation with retrospective effect; or

(b) there are no underlying items identified, even if the policyholder could be provided with a return that generally reflects the entity's overall performance and expectations, or the performance and expectations of a subset of assets the entity holds. An example of such a return is a crediting rate or dividend payment set at the end of the period to which it relates. In this case, the obligation to the policyholder reflects the crediting rate or dividend amounts the entity has set, and does not reflect identified underlying items.

B107 Paragraph B101(b) requires that the entity expects a substantial share of the fair value returns on the underlying items will be paid to the policyholder and paragraph B101(c) requires that the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. An entity shall:

(a) interpret the term 'substantial' in both paragraphs in the context of the objective of insurance contracts with direct participation features being contracts under which the entity provides investment-related services and is compensated for the services by a fee that is determined by reference to the underlying items; and

(b) assess the variability in the amounts in paragraphs B101(b) and B101(c):

(i) over the duration of the group of insurance contracts; and

(ii) on a present value probability-weighted average basis, not a best or worst outcome basis (see paragraphs B37–B38).

B108 For example, if the entity expects to pay a substantial share of the fair value returns on underlying items, subject to a guarantee of a minimum return, there will be scenarios in which:

(a) the cash flows that the entity expects to pay to the policyholder vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items do not exceed the fair value return on the underlying items; and

(b) the cash flows that the entity expects to pay to the policyholder do not vary with the changes in the fair value of the underlying items because the guaranteed return and other cash flows that do not vary based on the returns on underlying items exceed the fair value return on the underlying items.

The entity's assessment of the variability in paragraph B101(c) for this example will reflect a present value probability-weighted average of all these scenarios.

B109 Reinsurance contracts issued and reinsurance contracts held cannot be insurance contracts with direct participation features for the purposes of NZ IFRS 17.

B110 For insurance contracts with direct participation features, the contractual service margin is adjusted to reflect the variable nature of the fee. Hence, changes in the amounts set out in paragraph B104 are treated as set out in paragraphs B111–B114.

B111 Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items (paragraph B104(a)) do not relate to future service and do not adjust the contractual service margin.

B112 Changes in the entity's share of the fair value of the underlying items (paragraph B104(b)(i)) relate to future service and adjust the contractual service margin, applying paragraph 45(b).

B113 Changes in the fulfilment cash flows that do not vary based on the returns on underlying items (paragraph B104(b)(ii)) comprise:

(a) changes in estimates of the fulfilment cash flows other than those specified in (b). An entity shall apply paragraphs B96–B97, consistent with insurance contracts without direct participation features, to determine to what extent they relate to future service and, applying paragraph 45(c), adjust the contractual service margin. All the adjustments are measured using current discount rates.

(b) the change in the effect of the time value of money and financial risks not arising from the underlying items; for example, the effect of financial guarantees. These relate to future service and, applying paragraph 45(c), adjust the contractual service margin, except to the extent that paragraph B115 applies.

B114 An entity is not required to identify the adjustments to the contractual service margin required by paragraphs B112 and B113 separately. Instead, a combined amount may be determined for some or all of the adjustments.

Risk mitigation

B115 To the extent that an entity meets the conditions in paragraph B116, it may choose not to recognise a change in the contractual service margin to reflect some or all of the changes in the effect of financial risk on the entity's share of the underlying items (see paragraph B112) or the fulfilment cash flows set out in paragraph B113(b).

B116 To apply paragraph B115, an entity must have a previously documented risk-management objective and strategy for using derivatives to mitigate financial risk arising from the insurance contracts and, in applying that objective and strategy:

(a) the entity uses a derivative to mitigate the financial risk arising from the insurance contracts.

(b) an economic offset exists between the insurance contracts and the derivative, ie the values of the insurance contracts and the derivative generally move in opposite directions because they respond in a similar way to the changes in the risk being mitigated. An entity shall not consider accounting measurement differences in assessing the economic offset.

(c) credit risk does not dominate the economic offset.

B117 The entity shall determine the fulfilment cash flows in a group to which paragraph B115 applies in a consistent manner in each reporting period.

B118 If any of the conditions in paragraph B116 ceases to be met, an entity shall:

(a) cease to apply paragraph B115 from that date; and

(b) not make any adjustment for changes previously recognised in profit or loss.

Recognition of the contractual service margin in profit or loss

B119 An amount of the contractual service margin for a group of insurance contracts is recognised in profit or loss in each period to reflect the services provided under the group of insurance contracts in that period (see paragraphs 44(e), 45(e) and 66(e)). The amount is determined by:

(a) identifying the coverage units in the group. The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage duration.

(b) allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.

(c) recognising in profit or loss the amount allocated to coverage units provided in the period.

Insurance revenue (paragraphs 83 and 85)

B120 The total insurance revenue for a group of insurance contracts is the consideration for the contracts, ie the amount of premiums paid to the entity:

(a) adjusted for a financing effect; and

(b) excluding any investment components.

B121 Paragraph 83 requires the amount of insurance revenue recognised in a period to depict the transfer of promised services at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The total consideration for a group of contracts covers the following amounts:

(a) amounts related to the provision of services, comprising:

(i) insurance service expenses, excluding any amounts allocated to the loss component of the liability for remaining coverage;

(ii) the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage; and

(iii) the contractual service margin.

(b) amounts related to insurance acquisition cash flows.

B122 Insurance revenue for a period relating to the amounts described in paragraph B121(a) is determined as set out in paragraphs B123–B124. Insurance revenue for a period relating to the amounts described in paragraph B121(b) is determined as set out in paragraph B125.

B123 Applying NZ IFRS 15, when an entity provides services, it derecognises the performance obligation for those services and recognises revenue. Consistently, applying NZ IFRS 17, when an entity provides services in a period, it reduces the liability for remaining coverage for the services provided and recognises insurance revenue. The reduction in the liability for remaining coverage that gives rise to insurance revenue excludes changes in the liability that do not relate to services expected to be covered by the consideration received by the entity. Those changes are:

(a) changes that do not relate to services provided in the period, for example:

(i) changes resulting from cash inflows from premiums received;

(ii) changes that relate to investment components in the period;

(iii) changes that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i));

(iv) insurance finance income or expenses;

(v) insurance acquisition cash flows (see paragraph B125); and

(vi) derecognition of liabilities transferred to a third party.

(b) changes that relate to services, but for which the entity does not expect consideration, ie increases and decreases in the loss component of the liability for remaining coverage (see paragraphs 47–52).

B124 Consequently, insurance revenue for the period can also be analysed as the total of the changes in the liability for remaining coverage in the period that relates to services for which the entity expects to receive consideration. Those changes are:

(a) insurance service expenses incurred in the period (measured at the amounts expected at the beginning of the period), excluding:

(i) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(a);

(ii) repayments of investment components;

(iii) amounts that relate to transaction-based taxes collected on behalf of third parties (such as premium taxes, value added taxes and goods and services taxes) (see paragraph B65(i)); and

(iv) insurance acquisition expenses (see paragraph B125).

(b) the change in the risk adjustment for non-financial risk, excluding:

(i) changes included in insurance finance income or expenses applying paragraph 87;

(ii) changes that adjust the contractual service margin because they relate to future service applying paragraphs 44(c) and 45(c); and

(iii) amounts allocated to the loss component of the liability for remaining coverage applying paragraph 51(b).

(c) the amount of the contractual service margin recognised in profit or loss in the period, applying paragraphs 44(e) and 45(e).

B125 An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

B126 When an entity applies the premium allocation approach in paragraphs 55–58, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable, applying paragraph 56) allocated to the period. The entity shall allocate the expected premium receipts to each period of coverage:

(a) on the basis of the passage of time; but

(b) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses.

B127 An entity shall change the basis of allocation between paragraphs B126(a) and B126(b) as necessary if facts and circumstances change.

Insurance finance income or expenses (paragraphs 87–92)

B128 Paragraph 87 requires an entity to include in insurance finance income or expenses the effect of changes in assumptions that relate to financial risk. For the purposes of NZ IFRS 17:

(a) assumptions about inflation based on an index of prices or rates or on prices of assets with inflation-linked returns are assumptions that relate to financial risk; and

(b) assumptions about inflation based on an entity's expectation of specific price changes are not assumptions that relate to financial risk.

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

B130 If paragraph 88(b) applies, an entity shall include in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of insurance contracts. In this context, a systematic allocation is an allocation of the total expected finance income or expenses of a group of insurance contracts over the duration of the group that:

(a) is based on characteristics of the contracts, without reference to factors that do not affect the cash flows expected to arise under the contracts. For example, the allocation of the finance income or expenses shall not be based on expected recognised returns on assets if those expected recognised returns do not affect the cash flows of the contracts in the group.

(b) results in the amounts recognised in other comprehensive income over the duration of the group of contracts totalling zero. The cumulative amount recognised in other comprehensive income at any date is the difference between the carrying amount of the group of contracts and the amount that the group would be measured at when applying the systematic allocation.

B131 For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rates specified in paragraph B72(e)(i).

B132 For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders:

(a) a systematic allocation for the finance income or expenses arising from the estimates of future cash flows can be determined in one of the following ways:

(i) using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate; or

(ii) for contracts that use a crediting rate to determine amounts due to the policyholders—using an allocation that is based on the amounts credited in the period and expected to be credited in future periods.

(b) a systematic allocation for the finance income or expenses arising from the risk adjustment for non-financial risk, if separately disaggregated from other changes in the risk adjustment for non-financial risk applying paragraph 81, is determined using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

(c) a systematic allocation for the finance income or expenses arising from the contractual service margin is determined:

(i) for insurance contracts that do not have direct participation features, using the discount rates specified in paragraph B72(b); and

(ii) for insurance contracts with direct participation features, using an allocation consistent with that used for the allocation for the finance income or expenses arising from the future cash flows.

B133 In applying the premium allocation approach to insurance contracts described in paragraphs 53–59, an entity may be required, or may choose, to discount the liability for incurred claims. In such cases, it may choose to disaggregate the insurance finance income or expenses applying paragraph 88(b). If the entity makes this choice, it shall determine the insurance finance income or expenses in profit or loss using the discount rate specified in paragraph B72(e)(iii).

B134 Paragraph 89 applies if an entity, either by choice or because it is required to, holds the underlying items for insurance contracts with direct participation features. If an entity chooses to disaggregate insurance finance income or expenses applying paragraph 89(b), it shall include in profit or loss expenses or income that exactly match the income or expenses included in profit or loss for the underlying items, resulting in the net of the two separately presented items being nil.

B135 An entity may qualify for the accounting policy choice in paragraph 89 in some periods but not in others because of a change in whether it holds the underlying items. If such a change occurs, the accounting policy choice available to the entity changes from that set out in paragraph 88 to that set out in paragraph 89, or vice versa. Hence, an entity might change its accounting policy between that set out in paragraph 88(b) and that set out in paragraph 89(b). In making such a change an entity shall:

(a) include the accumulated amount previously included in other comprehensive income by the date of the change as a reclassification adjustment in profit or loss in the period of change and in future periods, as follows:

(i) if the entity had previously applied paragraph 88(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 88(b) based on the assumptions that applied immediately before the change; and

(ii) if the entity had previously applied paragraph 89(b)—the entity shall include in profit or loss the accumulated amount included in other comprehensive income before the change as if the entity were continuing the approach in paragraph 89(b) based on the assumptions that applied immediately before the change.

(b) not restate prior period comparative information.

B136 When applying paragraph B135(a), an entity shall not recalculate the accumulated amount previously included in other comprehensive income as if the new disaggregation had always applied; and the assumptions used for the reclassification in future periods shall not be updated after the date of the change.

Interim financial statements

B137 Notwithstanding the requirement in NZ IAS 34 *Interim Financial Reporting* that the frequency of an entity's reporting shall not affect the measurement of its annual results, an entity shall not change the treatment of accounting estimates made in previous interim financial statements when applying NZ IFRS 17 in subsequent interim financial statements or in the annual reporting period.

Appendix C
Effective date and transition

This appendix is an integral part of NZ IFRS 17 Insurance Contracts.

Effective date

C1 An entity shall apply NZ IFRS 17 for annual reporting periods beginning on or after 1 January 2021. If an entity applies NZ IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application of NZ IFRS 17.

C2 For the purposes of the transition requirements in paragraphs C1 and C3–C33:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies NZ IFRS 17; and

(b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application.

Transition

C3 An entity shall apply NZ IFRS 17 retrospectively unless impracticable, except that:

(a) an entity is not required to present the quantitative information required by paragraph 28(f) of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) an entity shall not apply the option in paragraph B115 for periods before the date of initial application of NZ IFRS 17.

C4 To apply NZ IFRS 17 retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure each group of insurance contracts as if NZ IFRS 17 had always applied;

(b) derecognise any existing balances that would not exist had NZ IFRS 17 always applied; and

(c) recognise any resulting net difference in equity.

C5 If, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the following approaches instead of applying paragraph C4(a):

(a) the modified retrospective approach in paragraphs C6–C19, subject to paragraph C6(a); or

(b) the fair value approach in paragraphs C20–C24.

Modified retrospective approach

C6 The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. Accordingly, in applying this approach, an entity shall:

(a) use reasonable and supportable information. If the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it shall apply the fair value approach.

(b) maximise the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

C7 Paragraphs C9–C19 set out permitted modifications to retrospective application in the following areas:

(a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;

(b) amounts related to the contractual service margin or loss component for insurance contracts without direct participation features;

(c) amounts related to the contractual service margin or loss component for insurance contracts with direct participation features; and

(d) insurance finance income or expenses.

C8 To achieve the objective of the modified retrospective approach, an entity is permitted to use each modification in paragraphs C9–C19 only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

Assessments at inception or initial recognition

C9 To the extent permitted by paragraph C8, an entity shall determine the following matters using information available at the transition date:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

C10 To the extent permitted by paragraph C8, an entity shall not apply paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.

Determining the contractual service margin or loss component for groups of insurance contracts without direct participation features

C11 To the extent permitted by paragraph C8, for contracts without direct participation features, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage (see paragraphs 49–52) at the transition date by applying paragraphs C12–C16.

C12 To the extent permitted by paragraph C8, an entity shall estimate the future cash flows at the date of initial recognition of a group of insurance contracts as the amount of the future cash flows at the transition date (or earlier date, if the future cash flows at that earlier date can be determined retrospectively, applying paragraph C4(a)), adjusted by the cash flows that are known to have occurred between the date of initial recognition of a group of insurance contracts and the transition date (or earlier date). The cash flows that are known to have occurred include cash flows resulting from contracts that ceased to exist before the transition date.

C13 To the extent permitted by paragraph C8, an entity shall determine the discount rates that applied at the date of initial recognition of a group of insurance contracts (or subsequently):

(a) using an observable yield curve that, for at least three years immediately before the transition date, approximates the yield curve estimated applying paragraphs 36 and B72–B85, if such an observable yield curve exists.

(b) if the observable yield curve in paragraph (a) does not exist, estimate the discount rates that applied at the date of initial recognition (or subsequently) by determining an average spread between an observable yield curve and the yield curve estimated applying paragraphs 36 and B72–B85, and applying that spread to that observable yield curve. That spread shall be an average over at least three years immediately before the transition date.

C14 To the extent permitted by paragraph C8, an entity shall determine the risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts (or subsequently) by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. The expected release of risk shall be determined by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

C15 If applying paragraphs C12–C14 results in a contractual service margin at the date of initial recognition, to determine the contractual service margin at the date of transition an entity shall:

(a) if the entity applies C13 to estimate the discount rates that apply on initial recognition, use those rates to accrete interest on the contractual service margin; and

(b) to the extent permitted by paragraph C8, determine the amount of the contractual service margin recognised in profit or loss because of the transfer of services before the transition date, by comparing the remaining coverage units at that date with the coverage units provided under the group of contracts before the transition date (see paragraph B119).

C16 If applying paragraphs C12–C14 results in a loss component of the liability for remaining coverage at the date of initial recognition, an entity shall determine any amounts allocated to the loss component before the transition date applying paragraphs C12–C14 and using a systematic basis of allocation.

Determining the contractual service margin or loss component for groups of insurance contracts with direct participation features

C17 To the extent permitted by paragraph C8, for contracts with direct participation features an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as:

(a) the total fair value of the underlying items at that date; minus

(b) the fulfilment cash flows at that date; plus or minus

(c) an adjustment for:

(i) amounts charged by the entity to the policyholders (including amounts deducted from the underlying items) before that date.

(ii) amounts paid before that date that would not have varied based on the underlying items.

(iii) the change in the risk adjustment for non-financial risk caused by the release from risk before that date. The entity shall estimate this amount by reference to the release of risk for similar insurance contracts that the entity issues at the transition date.

(d) if (a)–(c) result in a contractual service margin—minus the amount of the contractual service margin that relates to services provided before that date. The total of (a)–(c) is a proxy for the total contractual service margin for all services to be provided under the group of contracts, ie before any amounts that would have been recognised in profit or loss for services provided. The entity shall estimate the amounts that would have been recognised in profit or loss for services provided by comparing the remaining coverage units at the transition date with the coverage units provided under the group of contracts before the transition date; or

(e) if (a)–(c) result in a loss component—adjust the loss component to nil and increase the liability for remaining coverage excluding the loss component by the same amount.

Insurance finance income or expenses

C18 For groups of insurance contracts that, applying paragraph C10, include contracts issued more than one year apart:

(a) an entity is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income applying paragraphs 88(b) or 89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity is permitted to determine that cumulative difference either by applying paragraph C19(b) or:

(i) as nil, unless (ii) applies; and

(ii) for insurance contracts with direct participation features to which paragraph B134 applies, as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

C19 For groups of insurance contracts that do not include contracts issued more than one year apart:

(a) if an entity applies paragraph C13 to estimate the discount rates that applied at initial recognition (or subsequently), it shall also determine the discount rates specified in paragraphs B72(b)–B72(e) applying paragraph C13; and

(b) if an entity chooses to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income, applying paragraphs 88(b) or

89(b), the entity needs to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to apply paragraph 91(a) in future periods. The entity shall determine that cumulative difference:

(i) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B131—if the entity applies paragraph C13 to estimate the discount rates at initial recognition—using the discount rates that applied at the date of initial recognition, also applying paragraph C13;

(ii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B132—on the basis that the assumptions that relate to financial risk that applied at the date of initial recognition are those that apply on the transition date, ie as nil;

(iii) for insurance contracts for which an entity will apply the methods of systematic allocation set out in paragraph B133—if the entity applies paragraph C13 to estimate the discount rates at initial recognition (or subsequently)—using the discount rates that applied at the date of the incurred claim, also applying paragraph C13; and

(iv) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income on the underlying items.

Fair value approach

C20 To apply the fair value approach, an entity shall determine the contractual service margin or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining that fair value, an entity shall not apply paragraph 47 of NZ IFRS 13 *Fair Value Measurement* (relating to demand features).

C21 In applying the fair value approach, an entity may apply paragraph C22 to determine:

(a) how to identify groups of insurance contracts, applying paragraphs 14–24;

(b) whether an insurance contract meets the definition of an insurance contract with direct participation features, applying paragraphs B101–B109; and

(c) how to identify discretionary cash flows for insurance contracts without direct participation features, applying paragraphs B98–B100.

C22 An entity may choose to determine the matters in paragraph C21 using:

(a) reasonable and supportable information for what the entity would have determined given the terms of the contract and the market conditions at the date of inception or initial recognition, as appropriate; or

(b) reasonable and supportable information available at the transition date.

C23 In applying the fair value approach, an entity is not required to apply paragraph 22, and may include in a group contracts issued more than one year apart. An entity shall only divide groups into those including only contracts issued within a year (or less) if it has reasonable and supportable information to make the division. Whether or not an entity applies paragraph 22, it is permitted to determine the discount rates at the date of initial recognition of a group specified in paragraphs B72(b)–B72(e)(ii) and the discount rates at the date of the incurred claim specified in paragraph B72(e)(iii) at the transition date instead of at the date of initial recognition or incurred claim.

C24 In applying the fair value approach, if an entity chooses to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income, it is permitted to determine the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date:

(a) retrospectively—but only if it has reasonable and supportable information to do so; or

(b) as nil—unless (c) applies; and

(c) for insurance contracts with direct participation features to which paragraph B134 applies—as equal to the cumulative amount recognised in other comprehensive income from the underlying items.

Comparative information

C25 Notwithstanding the reference to the annual reporting period immediately preceding the date of initial application in paragraph C2(b), an entity may also present adjusted comparative information applying NZ IFRS 17 for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to 'the beginning of the annual reporting period immediately preceding the date of initial application' in paragraph C2(b) shall be read as 'the beginning of the earliest adjusted comparative period presented'.

C26 An entity is not required to provide the disclosures specified in paragraphs 93–132 for any period presented before the beginning of the annual reporting period immediately preceding the date of initial application.

C27 If an entity presents unadjusted comparative information and disclosures for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

C28 An entity need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies NZ IFRS 17. However, if an entity does not disclose that information, it shall disclose that fact.

Redesignation of financial assets

C29 At the date of initial application of NZ IFRS 17, an entity that had applied NZ IFRS 9 to annual reporting periods before the initial application of NZ IFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of NZ IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of NZ IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of NZ IFRS 17.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of NZ IFRS 9 is no longer met because of the application of NZ IFRS 17.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of NZ IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of NZ IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of NZ IFRS 9.

C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of NZ IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in NZ IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of NZ IFRS 17.

C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of NZ IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

(a) the previous carrying amount of those financial assets; and

(b) the carrying amount of those financial assets at the date of initial application.

C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

(a) if paragraph C29(a) applies—its basis for determining eligible financial assets;

(b) if any of paragraphs C29(a)–C29(e) apply:

(i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of NZ IFRS 17; and

(ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.

(c) if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of NZ IFRS 9 that are no longer so designated.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying NZ IFRS 17;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of NZ IFRS 9; and

(c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of NZ IFRS 9.

Withdrawal of other Standards

C34 NZ IFRS 17 supersedes NZ IFRS 4 *Insurance Contracts*, as amended in 2016.

Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Standards that are a consequence of the issuance of NZ IFRS 17 Insurance Contracts. *An entity shall apply these amendments when it applies NZ IFRS 17.*

An entity is not permitted to apply NZ IFRS 17 before applying NZ IFRS 9 Financial Instruments *and NZ IFRS 15* Revenue from Contracts with Customers *(see paragraph C1). Consequently, unless otherwise stated, the amendments in this appendix are presented based on the text of Standards that are effective on 1 January 2017 as amended by NZ IFRS 9 and NZ IFRS 15.*

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

Paragraph 39AE is added.

Effective date

…

39AE NZ IFRS 17 *Insurance Contracts*, issued in August 2017, amended paragraphs B1 and D1, deleted the heading before paragraph D4 and paragraph D4, and after paragraph B12 added a heading and paragraph B13. An entity shall apply those amendments when it applies NZ IFRS 17.

In Appendix B, paragraph B1 is amended. New text is underlined and deleted text is struck through. After paragraph B12, a heading and paragraph B13 are added.

Appendix B
Exceptions to the retrospective application of other NZ IFRSs

…

B1 An entity shall apply the following exceptions:

(a) …

(f) embedded derivatives (paragraph B9); ~~and~~

(g) government loans (paragraphs B10–B12)~~.~~<u>; and</u>

<u>(h) insurance contracts (paragraph B13).</u>

…

Insurance contracts

B13 An entity shall apply the transition provisions in paragraphs C1–C24 and C28 in Appendix C of NZ IFRS 17 to contracts within the scope of NZ IFRS 17. The references in those paragraphs in NZ IFRS 17 to the transition date shall be read as the date of transition to NZ IFRS.

In Appendix D, paragraph D1 is amended and paragraph D4 and its related heading are deleted. New text is underlined and deleted text is struck through.

Appendix D
Exemptions from other NZ IFRSs

…

D1 An entity may elect to use one or more of the following exemptions:

(a) …

(b) [deleted]~~insurance contracts (paragraph D4);~~

(c) …

~~Insurance contracts~~

D4 [Deleted]~~A first time adopter may apply the transitional provisions in NZ IFRS 4 *Insurance Contracts*. NZ IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first time adopter.~~

NZ IFRS 3 *Business Combinations*

Paragraphs 17, 20, 21 and 35 are amended. New text is underlined and deleted text is struck through. After paragraph 31, a heading and paragraph 31A are added. Paragraph 64N is added.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

…

17 This NZ IFRS provides ~~two~~an exception~~s~~ to the principle in paragraph 15:

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with NZ IAS 17 *Leases*.~~; and~~

(b) [deleted]~~classification of a contract as an insurance contract in accordance with NZ IFRS 4 *Insurance Contracts*.~~

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

…

Measurement principle

…

20 Paragraphs 24~~–31~~31A specify the types of identifiable assets and liabilities that include items for which this NZ IFRS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

21 This NZ IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22–~~31~~31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–~~31~~31A, which will result in some items being:

…

Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of NZ IFRS 17 *Insurance Contracts* acquired in a business combination as a liability or asset in accordance with paragraphs 39 and B93–B95 of NZ IFRS 17, at the acquisition date.

…

Bargain purchases

…

35 A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22~~–31~~31A may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

...

Effective date

…

64N NZ IFRS 17, issued in August 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. An entity shall apply those amendments when it applies NZ IFRS 17.

In Appendix B, paragraph B63 is amended. New text is underlined and deleted text is struck through.

Other NZ IFRSs that provide guidance on subsequent measurement and accounting (application of paragraph 54)

B63 Examples of other NZ IFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) …

(b) [deleted]~~NZ IFRS 4 *Insurance Contracts* provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.~~

(c) …

NZ IFRS 3 *Business Combinations* (as amended by NZ IFRS 16)

Paragraphs 17, 20, 21 and 35 are amended. New text is underlined and deleted text is struck through. After paragraph 31, a heading and paragraph 31A are added. Paragraph 64N is added.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

…

17 This NZ IFRS provides ~~two~~an exception~~s~~ to the principle in paragraph 15:

(a) classification of a lease contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with NZ IFRS 16 *Leases*.~~; and~~

(b) [deleted]~~classification of a contract as an insurance contract in accordance with NZ IFRS 4 *Insurance Contracts*.~~

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

…

Measurement principle

…

20 Paragraphs 24~~–31~~31A specify the types of identifiable assets and liabilities that include items for which this NZ IFRS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

21 This NZ IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22–~~31~~31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22–~~31~~31A, which will result in some items being:

…

Insurance contracts

31A The acquirer shall measure a group of contracts within the scope of NZ IFRS 17 *Insurance Contracts* acquired in a business combination as a liability or asset in accordance with paragraphs 39 and B93–B95 of NZ IFRS 17, at the acquisition date.

…

Bargain purchases

…

35 A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 22~~–31~~31A may also result in recognising a gain (or change the amount of a recognised gain) on a bargain purchase.

…

Effective date

…

64N NZ IFRS 17, issued in August 2017, amended paragraphs 17, 20, 21, 35 and B63, and after paragraph 31 added a heading and paragraph 31A. An entity shall apply those amendments when it applies NZ IFRS 17.

In Appendix B, paragraph B63 is amended. New text is underlined and deleted text is struck through.

Other NZ IFRSs that provide guidance on subsequent measurement and accounting (application of paragraph 54)

B63 Examples of other NZ IFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) …

(b) [deleted]~~NZ IFRS 4 *Insurance Contracts* provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.~~

(c) …

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

Paragraph 5 is amended. New text is underlined and deleted text is struck through. Paragraph 44M is added.

Scope

…

5 The measurement provisions of this Standard [footnote omitted] do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

(a) …

(f) ~~contractual rights under insurance contracts as defined in NZ IFRS 4~~groups of contracts within the scope of NZ IFRS 17 *Insurance Contracts*.

...

Effective date

…

44M NZ IFRS 17, issued in August 2017, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 3, 8 and 29 are amended. Paragraph 30 is deleted. New text is underlined and deleted text is struck through. Paragraph 44DD is added.

Scope

…

3 This Standard shall be applied by all entities to all types of financial instruments, except:

(a) …

(d) ~~insurance~~ contracts ~~as defined in NZ IFRS 4~~within the scope of NZ IFRS 17 *Insurance Contracts*. However, this Standard applies to:

(i) derivatives that are embedded in ~~insurance~~ contracts within the scope of NZ IFRS 17, if NZ IFRS 9 requires the entity to account for them separately~~.~~; and

(ii) investment components that are separated from contracts within the scope of NZ IFRS 17, if NZ IFRS 17 requires such separation.

Moreover, an issuer shall apply this Standard to *financial guarantee contracts* if the issuer applies NZ IFRS 9 in recognising and measuring the contracts, but shall apply ~~NZ IFRS 4~~NZ IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of NZ IFRS 4~~7(e) of NZ IFRS 17, to apply ~~NZ IFRS 4~~NZ IFRS 17 in recognising and measuring them.

(e) …

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, 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 or subsequently in accordance with paragraph 6.7.1 of NZ IFRS 9; (ii) those measured as such in accordance with the election in paragraph 3.3.5 of NZ IFRS 9; (iii) those measured as such in accordance with the election in paragraph 33A of NZ IAS 32 and (~~ii~~iv) those mandatorily measured at fair value through profit or loss in accordance with NZ IFRS 9.

(b) …

Fair value

...

29 Disclosures of fair value are not required:

(a) …

(c) [deleted]~~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 [Deleted]~~In the case described in paragraph 29(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 contracts and their fair value, including:~~

~~(a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;~~

~~*(b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;~~

~~*(c) information about the market for the instruments;~~

~~*(d) information about whether and how the entity intends to dispose of the financial instruments; and~~

~~*(e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.~~

...

Effective date and transition

…

44DD NZ IFRS 17, issued in August 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IFRS 7 *Financial Instruments: Disclosures* (as amended by NZ IFRS 16)

Paragraphs 3, 8 and 29 are amended. Paragraph 30 is deleted. New text is underlined and deleted text is struck through. Paragraph 44DD is added.

Scope

…

3 This Standard shall be applied by all entities to all types of financial instruments, except:

(a) …

(d) ~~insurance~~ contracts ~~as defined in NZ IFRS 4~~within the scope of NZ IFRS 17 *Insurance Contracts*. However, this Standard applies to:

(i) derivatives that are embedded in ~~insurance~~ contracts within the scope of NZ IFRS 17, if NZ IFRS 9 requires the entity to account for them separately~~.~~; and

(ii) investment components that are separated from contracts within the scope of NZ IFRS 17, if NZ IFRS 17 requires such separation.

Moreover, an issuer shall apply this Standard to *financial guarantee contracts* if the issuer applies NZ IFRS 9 in recognising and measuring the contracts, but shall apply ~~NZ IFRS 4~~NZ IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of NZ IFRS 4~~7(e) of NZ IFRS 17, to apply ~~NZ IFRS 4~~NZ IFRS 17 in recognising and measuring them.

(e) …

Categories of financial assets and financial liabilities

8 The carrying amounts of each of the following categories, as specified in NZ IFRS 9, 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 or subsequently in accordance with paragraph 6.7.1 of NZ IFRS 9; (ii) those measured as such in accordance with the election in paragraph 3.3.5 of NZ IFRS 9; (iii) those measured as such in accordance with the election in paragraph 33A of NZ IAS 32 and (~~ii~~iv) those mandatorily measured at fair value through profit or loss in accordance with NZ IFRS 9.

(b) …

Fair value

…

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; or

(b) [deleted]

(c) [deleted]~~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; or~~

(d) for lease liabilities.

30 [Deleted]~~In the case described in paragraph 29(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 contracts and their fair value, including:~~

~~(a)~~ ~~the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;~~

~~*(b)~~ ~~a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;~~

~~*(c)~~ ~~information about the market for the instruments;~~

~~*(d)~~ ~~information about whether and how the entity intends to dispose of the financial instruments; and~~

~~*(e)~~ ~~if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.~~

...

Effective date and transition

…

44DD NZ IFRS 17, issued in August 2017, amended paragraphs 3, 8 and 29 and deleted paragraph 30. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IFRS 9 *Financial Instruments*

Paragraph 2.1 is amended. New text is underlined and deleted text is struck through. Paragraphs 3.3.5 and 7.1.6 are added.

Chapter 2 Scope

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

(a) ...

(e) rights and obligations arising under ~~(i) an insurance~~ <u>a</u> contract ~~as defined in NZ IFRS 4~~ <u>within the scope of NZ IFRS 17</u> *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract~~, or (ii) a contract that is within the scope of NZ IFRS 4 because it contains a discretionary participation feature~~. However, this Standard applies to <u>(i)</u> a derivative that is embedded in a contract within the scope of ~~NZ IFRS 4~~NZ <u>IFRS 17,</u> if the derivative is not itself a contract within the scope of ~~NZ IFRS~~ 4NZ <u>IFRS 17; and (ii) an investment component that is separated from a contract within the scope of NZ IFRS 17, if NZ IFRS 17 requires such separation</u>. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or ~~NZ IFRS~~ 4NZ <u>IFRS 17</u> to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

...

3.3 Derecognition of financial liabilities

…

3.3.5 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's financial liability (for example, a corporate bond issued). Despite the other requirements in this Standard for the derecognition of financial liabilities, an entity may elect not to derecognise its financial liability that is included in such a fund or is an underlying item when, and only when, the entity repurchases its financial liability for such purposes. Instead, the entity may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if the instrument were a financial asset, and measure it at fair value through profit or loss in accordance with this Standard. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See NZ IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

7.1 Effective date

…

7.1.6 NZ IFRS 17, issued in August 2017, amended paragraphs 2.1, B2.1, B2.4, B2.5 and B4.1.30, and added paragraph 3.3.5. An entity shall apply those amendments when it applies NZ IFRS 17.

In Appendix B, paragraphs B2.1, B2.4, B2.5 and B4.1.30 are amended. New text is underlined and deleted text is struck through.

Scope (Chapter 2)

B2.1 Some contracts require a payment based on climatic, geological or other physical variables. (Those based on climatic variables are sometimes referred to as 'weather derivatives'.) If those contracts are not within the scope of ~~NZ IFRS~~ 4NZ IFRS 17 *Insurance Contracts*, they are within the scope of this Standard.

…

B2.4 This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2.1(e) excludes because they arise under contracts within the scope of ~~NZ IFRS~~ 4NZ IFRS 17.

B2.5 Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2.1(e)):

(a) Although a financial guarantee contract meets the definition of an insurance contract in ~~NZ IFRS~~ 4NZ IFRS 17 (see paragraph 7(e) of NZ IFRS 17) if the risk transferred is significant, the issuer applies this Standard. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or ~~NZ IFRS~~ 4NZ IFRS 17 to such financial guarantee contracts. ...

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in this Standard, and are not insurance contracts as defined in ~~NZ IFRS~~ 4NZ IFRS 17. Such guarantees are derivatives and the issuer applies this Standard to them.

(c) …

Designation eliminates or significantly reduces an accounting mismatch

…

B4.1.30 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 4.1.5 or 4.2.2(a):

(a) an entity has ~~liabilities under insurance~~ contracts within the scope of NZ IFRS 17 (the measurement of which~~whose measurement~~ incorporates current information ~~(as permitted by~~

~~paragraph 24 of NZ IFRS 4)~~ and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.

(b) ...

NZ IFRS 15 *Revenue from Contracts with Customers*

Paragraph 5 is amended. New text is underlined and deleted text is struck through.

Scope

5 An entity shall apply this Standard to all contracts with customers, except the following:

(a) …

(b) ~~insurance~~ contracts within the scope of ~~NZ IFRS 4~~NZ IFRS 17 *Insurance Contracts*~~;~~. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of NZ IFRS 17.

(c) …

In Appendix C, paragraph C1C is added.

Effective date

…

C1C NZ IFRS 17, issued in August 2017, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 54 and 82 are amended. New text is underlined and deleted text is struck through.
Paragraph 139R is added.

Definitions

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) …

(g) …; ~~and~~

(h) … ~~.~~;

(i) insurance finance income and expenses from contracts issued within the scope of NZ IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of NZ IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of NZ IFRS 17; and

(j) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of NZ IFRS 17.

...

Information to be presented in the statement of financial position

54 **The statement of financial position shall include line items that present the following amounts:**

(a) ...

(da) groups of contracts within the scope of NZ IFRS 17 that are assets, disaggregated as required by paragraph 78 of NZ IFRS 17;

(e) …

(ma) groups of contracts within the scope of NZ IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of NZ IFRS 17;

(n) ...

Information to be presented in the profit or loss section or the statement of profit or loss

82 **In addition to items required by other NZ IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:**

(a) revenue, presenting separately:

(i) interest revenue calculated using the effective interest method; and

(ii) insurance revenue (see NZ IFRS 17);

(aa) ...

(ab) insurance service expenses from contracts issued within the scope of NZ IFRS 17 (see NZ IFRS 17);

(ac) income or expenses from reinsurance contracts held (see NZ IFRS 17);

(b) ...

(bb) insurance finance income or expenses from contracts issued within the scope of NZ IFRS 17 (see NZ IFRS 17);

(bc) finance income or expenses from reinsurance contracts held (see NZ IFRS 17);

(c) ...

Transition and effective date

…

139R NZ IFRS 17, issued in August 2017, amended paragraphs 7, 54 and 82. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IAS 7 *Statement of Cash Flows*

Paragraph 14 is amended. New text is underlined and deleted text is struck through. Paragraph 61 is added.

Operating activities

...

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

(a) …

(e) [deleted]~~cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;~~

(f) …

Effective date

…

61 NZ IFRS 17 *Insurance Contracts*, issued in August 2017, amended paragraph 14. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 16 *Property, Plant and Equipment*

Paragraphs 29A, 29B and 81M are added.

Measurement after recognition

…

29A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue groups of insurance contracts with direct participation features and hold the underlying items. Some such funds or underlying items include owner-occupied property. The entity applies NZ IAS 16 to owner-occupied properties that are included in such a fund or are underlying items. Despite paragraph 29, the entity may elect to measure such properties using the fair value model in accordance with NZ IAS 40. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See NZ IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard).

29B An entity shall treat owner-occupied property measured using the investment property fair value model applying paragraph 29A as a separate class of property, plant and equipment.

...

Effective date

…

81M NZ IFRS 17, issued in August 2017, added paragraphs 29A and 29B. An entity shall apply those amendments when it applies NZ IFRS 17.

NZ IAS 19 *Employee Benefits*

The footnote to paragraph 8 is amended. New text is underlined and deleted text is struck through.
Paragraph 178 is added.

A qualifying insurance policy is not necessarily an insurance contract, as defined in ~~NZ IFRS 4~~ NZ IFRS 17 *Insurance Contracts*.

...

Transition and effective date

…

178 NZ IFRS 17, issued in August 2017, amended the footnote to paragraph 8. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 28 *Investments in Associates and Joint Ventures*

Paragraph 18 is amended. New text is underlined and deleted text is struck through. Paragraph 45F is added.

Exemptions from applying the equity method

…

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with NZ IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See NZ IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

…

45F NZ IFRS 17, issued in August 2017, amended paragraph 18. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 28 *Investments in Associates and Joint Ventures* (as amended by Annual Improvements to NZ IFRSs 2014–2016 Cycle)

Paragraph 18 is amended. New text is underlined and deleted text is struck through. Paragraph 45F is added.

Exemptions from applying the equity method

…

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with NZ IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See NZ IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

…

45F NZ IFRS 17, issued in August 2017, amended paragraph 18. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 32 *Financial Instruments: Presentation*

Paragraph 4 is amended. New text is underlined and deleted text is struck through. Paragraphs 33A and 97T are added.

Scope

4 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **...**

(d) **~~insurance~~ contracts ~~as defined in NZ IFRS 4~~within the scope of NZ IFRS 17 *Insurance Contracts*. However, this Standard applies to:**

(i) **derivatives that are embedded in ~~insurance~~ contracts within the scope of NZ IFRS 17, if NZ IFRS 9 requires the entity to account for them separately~~.~~; and**

(ii) **investment components that are separated from contracts within the scope of NZ IFRS 17, if NZ IFRS 17 requires such separation.**

Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies NZ IFRS 9 in recognising and measuring the contracts, but shall apply ~~NZ IFRS 4~~ NZ IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d) of NZ IFRS 4~~7(e) of NZ IFRS 17, to apply ~~NZ IFRS 4~~ NZ IFRS 17 in recognising and measuring them.

(e) [deleted]**~~financial instruments that are within the scope of NZ IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see NZ IFRS 9).~~**

(f) **...**

Treasury shares (see also paragraph AG36)

…

33A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's treasury shares. Despite paragraph 33, an entity may elect not to deduct from equity a treasury share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through profit or loss in accordance with NZ IFRS 9. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See NZ IFRS 17 for terms used in this paragraph that are defined in that Standard.)

...

Effective date and transition

…

97T NZ IFRS 17, issued in August 2017, amended paragraphs 4 and AG8, and added paragraph 33A. An entity shall apply those amendments when it applies NZ IFRS 17.

In the Application Guidance, paragraph AG8 is amended. New text is underlined and deleted text is struck through.

Financial assets and financial liabilities

…

AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be ~~insurance~~ contracts within the scope of ~~NZ IFRS 4~~ NZ <u>IFRS 17</u>.

NZ IAS 36 *Impairment of Assets*

Paragraph 2 is amended. New text is underlined and deleted text is struck through. Paragraph 140N is added.

Scope

2 This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) ...

(h) ~~deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance~~ contracts within the scope of ~~NZ IFRS 4~~ NZ <u>IFRS 17</u> *Insurance Contracts* <u>that are assets</u>; and

(i) …

Transition provisions and effective date

…

140N NZ IFRS 17, issued in August 2017, amended paragraph 2. An entity shall apply that amendment when it applies NZ IFRS 17.

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

Paragraph 5 is amended. New text is underlined and deleted text is struck through. Paragraph 103 is added.

Scope

...

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

(a) ...

(e) insurance contracts and other contracts within the scope of ~~(see NZ IFRS 4~~ NZ IFRS 17 *Insurance Contracts*~~)~~. ~~However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of NZ IFRS 4~~;

(f) ...

Effective date

...

103 NZ IFRS 17, issued in August 2017, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 38 *Intangible Assets*

Paragraph 3 is amended. New text is underlined and deleted text is struck through. Paragraph 130M is added.

Scope

…

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

(a) …

(g) ~~deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance~~ contracts within the scope of ~~NZ IFRS 4~~ NZ IFRS 17 *Insurance Contracts*. ~~NZ IFRS 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.~~

(h) ...

Transitional provisions and effective date

…

130M NZ IFRS 17, issued in August 2017, amended paragraph 3. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ IAS 40 *Investment Property*

Paragraph 32B is amended. New text is underlined and deleted text is struck through. Paragraph 85H is added.

Accounting policy

…

32B Some~~ insurers and other~~ entities operate, either internally or externally, an investment~~an internal property~~ fund that provides investors with benefits determined by units in the fund. ~~issues notional units, with some units held by investors in linked contracts and others held by the entity~~Similarly, some entities issue insurance contracts with direct participation features, for which the underlying items include investment property. For the purposes of paragraphs 32A–32B only, insurance contracts include investment contracts with discretionary participation features. Paragraph 32A does not permit an entity to measure ~~the~~ property held by the fund (or property that is an underlying item) partly at cost and partly at fair value. (See NZ IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

...

Effective date

…

85H NZ IFRS 17, issued in August 2017, amended paragraph 32B. An entity shall apply that amendment when it applies NZ IFRS 17.

NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

The references paragraph is amended. New text is underlined and deleted text is struck through.

References

...

- NZ ~~IFRS 4~~NZ IFRS 17 *Insurance Contracts*

...

Paragraph 7 is amended. New text is underlined and deleted text is struck through.

Consensus

…

7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under NZ IAS 37, ~~NZ IFRS 4 or~~ NZ IFRS 9 or NZ IFRS 17, depending on the terms.

The effective date paragraph is amended. New text is underlined.

Effective date

…

NZ IFRS 17, issued in August 2017, amended paragraph 7. An entity shall apply that amendment when it applies NZ IFRS 17.

XRB A1 Application of the *Accounting Standards Framework*

APPENDIX B

TIER 1 FOR-PROFIT ACCOUNTING REQUIREMENTS AND TIER 2 FOR-PROFIT ACCOUNTING REQUIREMENTS TO BE APPLIED BY FOR-PROFIT ENTITIES

...

This appendix lists the Accounting Standards and Authoritative Notice that contain the Tier 1 For-profit Accounting Requirements for Tier 1 For-profit entities and the Tier 2 For-profit Accounting Requirements for Tier 2 For-profit entities.

Accounting Standards

NZ IFRS 1	…
NZ IFRS 4	*Insurance Contracts* (superseded by NZ IFRS 17 *Insurance Contracts)*
NZ IFRS 5	…
NZ IFRS 16	*Leases*
NZ IFRS 17	*Insurance Contracts*
NZ IAS 1	*Presentation of Financial Statements (revised 2007)*
NZ IAS 2	…

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRS 17 *Insurance Contracts*

This table lists the pronouncements establishing and substantially amending NZ IFRS 17.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IFRS 17 *Insurance Contracts*	Aug 2017	Early application permitted as long as NZ IFRS 9 and NZ IFRS 15 have been applied on or before the date of initial application of NZ IFRS 17	1 Jan 2021

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	2 August 2017
To:	Graeme R Mitchell, Chairman XRB Board
From:	Kimberley Crook, Chair NZASB
Subject:	**NZ IFRS 17 *Insurance Contracts***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue NZ IFRS 17 *Insurance Contracts* (NZ IFRS 17).

2. NZ IFRS 17 replaces NZ IFRS 4 *Insurance Contracts*. NZ IFRS 4 was issued in November 2004 and is based on IFRS 4 *Insurance Contracts*, which was issued by the International Accounting Standards Board (IASB) in 2004.

3. IFRS 4 was an interim standard[2] that allowed entities to use a wide variety of accounting practices, reflecting national accounting requirements and variations of those requirements. The development and issuance of IFRS 4 was Phase I of the IASB's two phase insurance contracts project.

4. In addition to incorporating the requirements of IFRS 4, NZ IFRS 4 includes two New Zealand specific appendices[3]. These appendices carried forward the more detailed accounting requirements for insurance contracts which formed part of NZ GAAP at that time, pending the completion of Phase II of the IASB's project.

5. Phase II of the IASB's insurance contracts project aimed to develop a single, principle-based standard to account for all types of insurance contracts, including reinsurance contracts, that an insurer holds and culminated with the issuance of IFRS 17 *Insurance Contracts*.

6. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts issued with discretionary participation features.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

[2] The IASB issued IFRS 4 because it saw an urgent need for improved disclosures for insurance contracts, and some improvements to recognition and measurement practices, in time for the adoption of IFRS Standards by listed companies throughout Europe and elsewhere in 2005.

[3] Appendix C *Life Insurance Entities* and Appendix D *Financial Reporting of Insurance Activities*

Due process followed in developing NZ IFRS 17 *Insurance Contracts*

7. Phase II has been a lengthy project with the due process steps including a discussion paper, and two exposure drafts. The due process steps were as follows:

   (a) Discussion Paper *Preliminary Views on Insurance Contracts* (the DP) was issued in May 2007, with a due date for comments of 16 November 2007. The IASB received 158 comment letters on the DP, including one from the Financial Reporting Standards Board (FRSB) and three from other New Zealand constituents.

   (b) Exposure Draft ED/2010/8 *Insurance Contracts* (the 2010 ED) was published in July 2010 with a due date for comments of 30 November 2010. The IASB received 253 comment letters on the 2010 ED, including a joint one from the FRSB and the Australian Accounting Standards Board (AASB) and six from other New Zealand constituents.

   (c) Exposure Draft ED/2013/7 *Insurance Contracts* (the 2013 ED) was published in June 2013 with a due date for comments of 25 November 2013. The IASB received 194 comment letters on the 2013 ED, including one from the NZASB and one from another New Zealand constituent.

8. The IASB also sought feedback from constituents in a variety of ways. It held discussion forums in consultation with national standard setters, had discussions with constituents, conducted field testing, undertook field work, held a round table and consulted with the IASB Insurance Working Group.

9. The IASB issued IFRS 17 *Insurance Contracts* on 13 May 2017. The standard applies for annual periods beginning on or after 1 January 2021. Earlier application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application.

10. Prior to issuing IFRS 17, the IASB reviewed the due process steps that it had taken over the course of this project and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's meeting on 16 February 2016.[4]

11. The New Zealand standard setting bodies, being first the FRSB and then the NZASB, sought feedback from New Zealand constituents on all of the due process documents issued by the IASB.

12. The due process followed by the FRSB for the DP, the 2010 ED, and the NZASB for the 2013 ED complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

---

[4] A summary of the IASB's February 2016 meeting is available at: http://media.ifrs.org/2016/IASB/February/IASB-February-Update_Monthlpry.html#1

Major issues raised by New Zealand constituents

13. The major issues raised by the New Zealand respondents to the 2013 ED and the subsequent action by the IASB was as follows:

    (a) Neither of the New Zealand respondents supported mandatory 'mirroring' (that is, measuring insurance contracts that are contractually linked to the performance of assets on the same basis as those assets), which could result in inconsistent measurement of similar insurance liabilities.

    The IASB decided to remove the mirroring approach and require two approaches for measuring insurance liabilities: the fulfilment cash flows approach, that can be applied to all insurance contracts, and the simpler premium allocation approach, that is permitted to be applied to contracts that meet certain criteria.

    (b) The NZASB supported the IASB's proposals to present in the statement(s) of profit or loss revenue and expenses, excluding any investment components, for all insurance contracts issued by the entity. The other New Zealand respondent disagreed with these proposals. This respondent had concerns around the calculations of revenue and expense and the interaction with the movement in the insurance contract liability for the period.

    The IASB decided to keep these proposals. This means (i) that an entity should present insurance contract revenue and expense in the statement(s) of profit or loss, and (ii) that the investment component of the contract is excluded from the insurance contract revenue and expense. An entity is also required to present in the statement(s) or profit or loss insurance finance income or expenses. This comprises the change in the carrying amount of insurance contracts arising from the effect of, and changes in, (i) the time value of money, and (ii) financial risk.

    (c) Both New Zealand respondents disagreed with the proposals to segregate the effects of the changes in the discount rates in other comprehensive income.

    The IASB decided to permit an entity to recognise, on a portfolio-by-portfolio basis, changes in insurance liabilities due to the impact of changes in discount rates either in profit or loss or in other comprehensive income.

Consistency with XRB Financial Reporting Strategy

14. NZ IFRS 17 is identical to the standard issued by the IASB except for a paragraph added to limit its application to Tier 1 and Tier 2 for-profit entities.

15. The issue of the standard is consistent with all three elements of Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia (the AASB approved AASB 17 *Insurance Contracts* in July 2017), and is consistent with the accounting standards framework.

16. The standard does not contain any Reduced Disclosure Regime (RDR) concessions, which is consistent with the fact that there are no concessions in NZ IFRS 4. The matter of RDR

concessions will be considered further in conjunction with the AASB as part of our normal process for considering RDR concessions for new standards.

17. The NZASB agreed to consider any New Zealand-specific disclosure requirements as part of a separate project with the AASB.[5]

18. The NZASB has approved NZ IFRS 17 because the NZASB considers that there is no reason not to maintain alignment between International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards in accordance with the XRB's financial reporting strategy.

Other matters

19. There are no other matters relating to the issue of this standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

20. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachment

NZ IFRS 17 *Insurance Contracts*

Kimberley Crook
Chair NZASB

[5] Appendix C and Appendix D of NZ IFRS 4 contain additional New Zealand-specific disclosures about solvency, fiduciary activities, the actuarial calculation and the actuary.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Judith Pinny
Subject:	**NZ IFRIC 23 *Uncertainty over Income Tax Treatments***

Action required[1]

1. The Board is asked to:

   (a) APPROVE for issue NZ IFRIC 23 *Uncertainty over Income Tax Treatments*;

   (b) APPROVE the Certificate Signing Memorandum; and

   (c) CONSIDER the application of the *Policy Approach to the Development of PBE Standards* to NZ IFRIC 23.

Background

2. The International Accounting Standards Board (IASB) issued the draft interpretation, DI/2015/1 *Uncertainty over Income Tax Treatments* (DI/2015/1), in October 2015.

3. The NZASB issued DI/2015/1 for comment in New Zealand around the same time. Comments were due to the NZASB on 14 December 2015 and to the IASB on 19 January 2016.

4. The IASB received 61 comment letters from its world-wide constituents. It did not receive comments from any New Zealand constituents, including the NZASB. The NZASB received one comment letter which queried the need for the interpretation and expressed concerns about some aspects of the draft interpretation.

5. The IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* in June 2017. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

Reasons for issuing the interpretation

6. The IASB issued the interpretation in response to a query received by the IFRS Interpretations Committee (the Committee). The Committee received a question asking when it is appropriate for entities to recognise a current tax asset if tax laws require entities to make payments in respect of a disputed tax treatment when the entity intends to appeal a tax ruling. The Committee noted that IAS 12 *Income Taxes* includes requirements on recognition and

1 This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

measurement of tax assets and liabilities, but does not specify how to reflect uncertainty. The Committee observed that entities apply diverse reporting methods when the application of tax law is uncertain. The Committee therefore decided to complement the requirements in IAS 12 by addressing how an entity deals with uncertainty over income tax treatments.

Key issues

7. The interpretation provides guidance on how an entity deals with certain issues when there is uncertainty over income tax treatments. The interpretation addresses:

   (a) whether an entity considers uncertain tax treatments separately;

   (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

   (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

   (d) how an entity considers changes in facts and circumstances.

RDR concessions and consistency with Australian accounting standards

8. The interpretation introduces new disclosure requirements (see paragraphs A4 and A5 shown below).

   A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:

   (a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of NZ IAS 1 *Presentation of Financial Statements*; and

   (b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125–129 of NZ IAS 1.

   A5 If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of IAS 12.

9. We do not propose RDR concessions for these disclosure requirements. Our reasons are as follows.

   (a) There are currently no RDR concessions for the paragraphs referred to in NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 12 *Income Taxes*.

   (b) The Australian Accounting Standards Board (AASB) staff do not propose RDR concessions for these disclosure requirements. If the AASB agrees with this recommendation the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia. The AASB will consider the adoption of IFRIC 23 in the near future.

Due process

10. Following its consideration of comments from constituents, the Committee reviewed the due process steps that it had taken since the publication of DI/2015/1 and concluded that the applicable due process steps had been completed. This review of due process occurred at the Committee's meeting on 8 November 2016.[2]

11. Overall, respondents supported the proposals in the draft Interpretation and no substantial issues were identified. The Committee decided to make a number of clarifications to the proposals in the draft Interpretation—in its view the clarifications were consistent with the proposals set out in the draft interpretation and did not include substantial changes.

12. Although the NZASB received one comment letter which queried the need for the interpretation and expressed some concerns that the interpretation could lead to preparers taking an excessively conservative approach in the assumptions and judgements made, that respondent did not comment directly to the Committee and other international respondents did not identify similar concerns.

13. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

14. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the interpretation is likely to require the disclosure of personal information. In our view the interpretation does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft interpretation and signing memo

15. Attached as agenda item 11.2 is a copy of NZ IFRIC 23. A paragraph has been added to limit application to Tier 1 and Tier 2 for-profit entities only.

16. Attached as agenda item 11.3 is a draft Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board.

PBE Policy Approach

17. Agenda item 11.4 sets out the application of the *Policy Approach to Developing the Suite of PBE Standards* to NZ IFRIC 23. Agenda item 11.4 recommends that the Board agrees to incorporate NZ IFRIC 23 in PBE Standards.

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[2] A summary of the IFRIC's November 2016 meeting is available at: https://s3.amazonaws.com/ifrswebcontent/2016/IFRIC/November/IFRIC-Update-November-2016.html#A

Recommendations

18. We recommend that the Board:

    (a) APPROVES for issue NZ IFRIC 23 *Uncertainty over Income Tax Treatments* (agenda item 11.2); and

    (b) APPROVES the Certificate Signing Memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the interpretation (agenda item 11.3); and

    (c) CONSIDERS the application of the *Policy Approach to the Development of PBE Standards* to NZ IFRIC 23 (agenda item 11.4).

Attachments

Agenda item 11.2:	Draft NZ IFRIC 23 *Uncertainty over Income Tax Treatments*
Agenda item 11.3:	Draft Certificate Signing Memorandum
Agenda item 11.4:	Application of PBE Policy Approach to NZ IFRIC 23
Agenda item 11.5:	PBE Policy Approach (supporting papers)
Agenda item 2.3.1	Comment letter on DI/2015/1[3]

[3] This comment letter was also tabled at the NZASB's February 2016 meeting.

NZ ACCOUNTING STANDARDS BOARD

New Zealand Equivalent to IFRIC Interpretation 23

Uncertainty over Income Tax Treatments (NZ IFRIC 23)

Issued August 2017

This Interpretation was issued on 10 August 2017 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 1993.

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

This Interpretation is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 7 September 2017.

Reporting entities that are subject to this Interpretation are required to apply it in accordance with the effective date, which is set out in paragraph B1 of Appendix B.

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

This Interpretation has been issued as a result of a new IFRIC® Interpretation issued by the International Accounting Standards Board (IASB).

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CONTENTS

NEW ZEALAND EQUIVALENT TO IFRIC INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS* (NZ IFRIC 23)

New Zealand Equivalent to IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (NZ IFRIC 23) is set out in paragraphs 1–14 and Appendices A, B and C. NZ IFRIC 23 is accompanied by Illustrative Examples and a Basis for Conclusions.

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

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ IFRIC 23.

NZ IFRIC Interpretation 23
Uncertainty over Income Tax Treatments

References

- NZ IAS 1 *Presentation of Financial Statements*
- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 10 *Events after the Reporting Period*
- NZ IAS 12 *Income Taxes*

Background

1 NZ IAS 12 *Income Taxes* specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in NZ IAS 12 based on applicable tax laws.

2 It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability.

3 In this Interpretation:

(a) 'tax treatments' refers to the treatments used by an entity or that it plans to use in its income tax filings.

(b) 'taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court.

(c) an 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, an entity's decision not to submit any income tax filing in a tax jurisdiction, or not to include particular income in taxable profit, is an uncertain tax treatment if its acceptability is uncertain under tax law.

Scope

NZ 3.1 This Interpretation applies to Tier 1 and Tier 2 for-profit entities.

4 This Interpretation clarifies how to apply the recognition and measurement requirements in NZ IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in NZ IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

Issues

5 When there is uncertainty over income tax treatments, this Interpretation addresses:

(a) whether an entity considers uncertain tax treatments separately;

(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

(d) how an entity considers changes in facts and circumstances.

Consensus

Whether an entity considers uncertain tax treatments separately

6 An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. In determining the approach that better predicts the resolution of the uncertainty, an entity might consider, for example, (a) how it prepares its income tax filings and supports tax treatments; or (b) how the entity expects the taxation authority to make its examination and resolve issues that might arise from that examination.

7 If, applying paragraph 6, an entity considers more than one uncertain tax treatment together, the entity shall read references to an 'uncertain tax treatment' in this Interpretation as referring to the group of uncertain tax treatments considered together.

Examination by taxation authorities

8 In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

9 An entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.

10 If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

11 If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. An entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

(a) the most likely amount—the single most likely amount in a range of possible outcomes. The most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value.

(b) the expected value—the sum of the probability-weighted amounts in a range of possible outcomes. The expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.

12 If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), an entity shall make consistent judgements and estimates for both current tax and deferred tax.

Changes in facts and circumstances

13 An entity shall reassess a judgement or estimate required by this Interpretation if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate. For example, a change in facts and circumstances might change an entity's conclusions about the acceptability of a tax treatment or the entity's estimate of the effect of uncertainty, or both. Paragraphs A1–A3 set out guidance on changes in facts and circumstances.

14 An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity shall apply NZ IAS 10 *Events after the Reporting Period* to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

Appendix A
Application Guidance

This appendix is an integral part of NZ IFRIC 23 and has the same authority as the other parts of NZ IFRIC 23.

Changes in facts and circumstances (paragraph 13)

A1 In applying paragraph 13 of this Interpretation, an entity shall assess the relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. For example, a particular event might result in the reassessment of a judgement or estimate made for one tax treatment but not another, if those tax treatments are subject to different tax laws.

A2 Examples of changes in facts and circumstances or new information that, depending on the circumstances, can result in the reassessment of a judgement or estimate required by this Interpretation include, but are not limited to, the following:

(a) examinations or actions by a taxation authority. For example:

(i) agreement or disagreement by the taxation authority with the tax treatment or a similar tax treatment used by the entity;

(ii) information that the taxation authority has agreed or disagreed with a similar tax treatment used by another entity; and

(iii) information about the amount received or paid to settle a similar tax treatment.

(b) changes in rules established by a taxation authority.

(c) the expiry of a taxation authority's right to examine or re-examine a tax treatment.

A3 The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by this Interpretation.

Disclosure

A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:

(a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of NZ IAS 1 *Presentation of Financial Statements*; and

(b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125–129 of NZ IAS 1.

A5 If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of NZ IAS 12.

Appendix B
Effective date and transition

This appendix is an integral part of NZ IFRIC 23 and has the same authority as the other parts of NZ IFRIC 23.

Effective date

B1 An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

Transition

B2 On initial application, an entity shall apply this Interpretation either:

(a) retrospectively applying NZ IAS 8, if that is possible without the use of hindsight; or

(b) retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this Interpretation.

Appendix C

An entity shall apply the amendment in this Appendix when it applies NZ IFRIC 23.

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

Paragraph 39AF is added.

39AF NZ IFRIC 23 *Uncertainty over Income Tax Treatments* added paragraph E8. An entity shall apply that amendment when it applies NZ IFRIC 23.

In Appendix E, paragraph E8 and related heading are added.

Uncertainty over income tax treatments

E8 A first-time adopter whose date of transition to NZ IFRS is before 1 July 2017 may elect not to reflect the application of NZ IFRIC 23 *Uncertainty over Income Tax Treatments* in comparative information in its first NZ IFRS financial statements. An entity that makes that election shall recognise the cumulative effect of applying NZ IFRIC 23 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of its first NZ IFRS reporting period.

Amendment to XRB A1 Application of the *Accounting Standards Framework*

In Appendix B, a reference to NZ IFRIC 23 is added.

APPENDIX B

TIER 1 FOR-PROFIT ACCOUNTING REQUIREMENTS AND TIER 2 FOR-PROFIT ACCOUNTING REQUIREMENTS TO BE APPLIED BY FOR-PROFIT ENTITIES

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This appendix lists the Accounting Standards and Authoritative Notice that contain the Tier 1 For-profit Accounting Requirements for Tier 1 For-profit entities and the Tier 2 For-profit Accounting Requirements for Tier 2 For-profit entities.

Accounting Standards

…

NZ IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
NZ IFRIC 23	*Uncertainty over Income Tax Treatments*
NZ SIC-7	*Introduction of the Euro*

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 23 *Uncertainty over Income Tax Treatments*

This table lists the pronouncements establishing and substantially amending NZ IFRIC 23.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IFRIC 23 *Uncertainty over Income Tax Treatments*	Aug 2017	Early application permitted	1 Jan 2019

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	2 August 2017
To:	Graeme Mitchell, External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	**NZ IFRIC 23 *Uncertainty over Income Tax Treatments***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue NZ IFRIC 23 *Uncertainty over Income Tax Treatments*.

2. The International Accounting Standards Board (IASB) issued the interpretation in response to a query received by the IFRS Interpretations Committee (the Committee). The Committee received a question asking when it is appropriate for entities to recognise a current tax asset if tax laws require entities to make payments in respect of a disputed tax treatment when the entity intends to appeal a tax ruling. The Committee therefore decided to complement the requirements in IAS 12 *Income Taxes* by addressing how an entity deals with uncertainty over income tax treatments.

Due process

3. The IASB issued Draft IFRIC Interpretation: DI/2015/1 *Uncertainty over Income Tax Treatments* (DI/2015/1) in October 2015.

4. The NZASB issued DI/2015/1 for comment in New Zealand around the same time. Comments were due to the NZASB on 14 December 2015 and to the IASB on 19 January 2016.

5. The IASB received 61 comment letters from its world-wide constituents. It did not receive comments from any New Zealand constituents, including the NZASB. Although the NZASB received one comment letter which queried the need for the interpretation and expressed some concerns that the interpretation could lead to preparers taking an excessively conservative approach in the assumptions and judgements made, that respondent did not comment directly to the Committee and other international respondents did not identify similar concerns.

6. Following its consideration of comments from constituents, the Committee reviewed the due process steps that it had taken since the publication of DI/2015/1 and concluded that the

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

applicable due process steps had been completed. This review of due process occurred at the Committee's meeting on 8 November 2016.[2]

7. Overall, respondents supported the proposals in the draft Interpretation and no substantial issues were identified. The Committee decided to make a number of clarifications to the proposals in the draft interpretation—in its view the clarifications were consistent with the proposals set out in the draft Interpretation and did not include substantial changes.

8. The IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* in June 2017. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

9. The NZASB has approved NZ IFRIC 23. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

10. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the interpretation is likely to require the disclosure of personal information. In the NZASB's view the interpretation does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

11. NZ IFRIC 23 is identical to IFRIC 23 except for a scope paragraph limiting its application to Tier 1 and Tier 2 for-profit entities. There are no RDR concessions for the disclosure requirements in the interpretation. This is consistent with the fact that there are no disclosure requirements for the related paragraphs in other standards.

12. The Australian Accounting Standards Board (AASB) is expected to adopt the interpretation in the near future.

13. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

14. The issue of NZ IFRIC 23 is consistent with all three elements of the Financial Reporting Strategy: it adopts the international interpretation, retains a harmonised position with Australia and is consistent with the Accounting Standards Framework.

Other matters

15. There are no other matters relating to the issue of NZ IFRIC 23 that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

16. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

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[2] A summary of the IFRIC's November 2016 meeting is available at: https://s3.amazonaws.com/ifrswebcontent/2016/IFRIC/November/IFRIC-Update-November-2016.html#A

Attachment

NZ IFRIC 23 *Uncertainty over Income Tax Treatments*

Kimberley Crook
Chair NZASB

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	21 July 2017
To:	NZASB Members
From:	Judith Pinny
Subject:	**PBE Policy Approach: NZ IFRIC 23 *Uncertainty over Income Tax Treatments***

Action required[1]

1. The Board is asked to:

   (a) CONSIDER whether NZ IFRIC 23 *Uncertainty over Income Tax Treatments* should be incorporated in PBE Standards; and

   (b) AGREE to propose to incorporate NZ IFRIC 23 in PBE IAS 12 *Income Taxes*.

Background

2. The Board regularly considers whether new or amending IFRS Standards should be incorporated into PBE Standards. These decisions are guided by the *Policy Approach to the Development of PBE Standards* (PBE Policy Approach), a copy of which is included in the supporting papers (see agenda item 11.5).

3. The Board is being asked to approve NZ IFRIC 23 at this meeting (see agenda items 11.1 to 11.3). The Board now needs to consider whether this Interpretation should be incorporated into PBE Standards, and if so, when.

Application of the PBE Policy Approach

4. The PBE Policy Approach contains a number of triggers for considering whether to change PBE Standards. In this case the IASB has issued a new interpretation. Although this is a new pronouncement, NZ IFRIC 23 complements the requirements in NZ IAS 12 *Income Taxes* by addressing how an entity deals with uncertainty over income tax treatments. For the purpose of applying the PBE Policy Approach we have treated this as an amendment to an IFRS Standard and applied section 4.2.3 (paragraphs 35 to 38) of the PBE Policy Approach. This section of the PBE Policy Approach is not particularly helpful in cases like this where the IPSASB does not have an equivalent standard and is unlikely to develop one.

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5. In considering the application of the development principle and section 4.2.3 of the PBE Policy Approach to NZ IFRIC 23 we have noted the following points.

   (a) The IASB issued the interpretation in response to a request for clarification and because it had observed diversity in practice. Although few PBEs pay income tax, those that do could encounter the issues addressed by NZ IFRIC 23. The interpretation could therefore reduce diversity. This could be seen as contributing to higher quality reporting by PBEs and minimising mixed group issues. We are not aware how frequently PBEs encounter such issues, nor of the extent of diversity in practice.

   (b) The interpretation could be incorporated within PBE Standards (as an appendix to PBE IAS 12)[2] without affecting the coherence of the suite of PBE Standards.

   (c) Although the guidance in NZ IFRIC 23 could be seen as a minor amendment (which would not necessarily warrant a change to PBE Standards), the Board has previously indicated its preference for keeping PBE IAS 12 aligned with NZ IAS 12 *Income Taxes*.[3]

Recommendation

6. We recommend that the Board AGREES to propose the incorporation of NZ IFRIC 23 into PBE IAS 12.

Next steps

7. If the Board decides to propose the incorporation of NZ IFRIC 23 into PBE IAS 12 we would propose to include these amendments in a PBE Omnibus Exposure Draft later this year.

8. We do not propose to wait for the next IPSASB Annual Improvements Project as this has been deferred (with an exposure draft currently scheduled for June 2018 and a final amending standard scheduled for December 2018).

[2] There are no separate interpretations in PBE Standards. Interpretations are incorporated into the relevant PBE Standard as an appendix to the standard.

[3] In March 2016, the Board agreed to incorporate the amendments set out in *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12) into PBE IAS 12.